

Pennsylvania Public Library Accounting Manual

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**COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF EDUCATION**

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The following Chapter Appendices are independent Microsoft Excel files located outside of this manual.

- Chapter #3 – Example #1 – Cash Receipts Journal
- Chapter #3 – Example #2 – Cash Disbursement Journal
- Chapter #3 – Example #3 – Accounts Receivable Journal
- Chapter #3 – Example #4 – Accounts Payable Journal
- Chapter #3 – Example #5 – Payroll Journal
- Chapter #3 – Example #6 – General Journal Template
- Chapter #3 – Example #7 – Bank Reconciliation Template
- Chapter #3 – Example #8 – Chart of Accounts Mapping
- Chapter #4 – Example #1 – Financial Statements
- Chapter #4 – Example #2 – AP Aging Report
- Chapter #5 – Example #1 – Earnings Record
- Chapter #6 – Example #1 – Template - Budget
- Chapter #6 – Example #2 – Budget – Monthly Breakdown

CHAPTER 1 – INTRODUCTION

100 Introduction

100.1

This manual is intended to be of primary benefit to small, nonprofit libraries¹ that do not have full-time bookkeepers or accountants. For this reason, the manual's main focus is to illustrate basic accounting principles in layman's terms and to provide instructions for accessing resources online. However, larger libraries may also benefit from the accounting policies, procedures, and processing methods discussed in this manual.

100.2

This accounting manual replaces the *Pennsylvania Public Library Accounting Manual* dated September 2010.

100.3

Libraries will be able to use this manual as a teaching and implementation aid. Additionally, the manual will enable uniform financial accounting by all public libraries within Pennsylvania. All sections of this manual should be carefully studied and understood prior to implementing any systems described.

101 Statement of Purpose

101.1

The purpose of this manual is to provide guidance to Board of Directors/Trustees (Board) and library staff who do not have an accounting background in establishing accounting practices and instituting appropriate internal controls that facilitate:

1. Compliance with requirements of external entities (Commonwealth, municipal, and federal requirements); and
2. Compliance with and development of internal guidelines (Board and management).

101.2

This manual will also serve as a reference tool and link to key guidance when accounting-related questions arise.

101.3

This manual will help public libraries:

1. Establish a system of recording financial transactions;
2. Produce accurate, consistent, and understandable financial reports;
3. Provide reasonable assurance as to the financial integrity of library operations via the establishment of a system of internal controls;
4. Complete the Pennsylvania Department of Education (PDE) Office of Commonwealth Libraries' (OCL) and public library's public annual report;
5. Keep audit costs to a minimum;

¹ Small, nonprofit libraries are defined as those that receive \$50,000 or less in annual funding from the Commonwealth of Pennsylvania.

6. Comply with various local, state, and federal tax requirements;
7. Understand payroll tax requirements;
8. Consider the purchase of accounting software; and
9. Answer commonly asked questions.

101.4

This manual can be utilized by the library Board and staff as follows:

1. Improving decision-making capabilities regarding the operations of the library based on adequate and accurate financial information;
2. Establishing policies and procedures regarding recording and reporting financial information;
3. Establishing policies and procedures related to safekeeping of library resources; and
4. Providing a simplified guide based on library best practices for the individuals who are responsible for the recording and processing of financial data.

CHAPTER 2 – OVERVIEW OF ACCOUNTING OPERATIONS & ORGANIZATION OF PENNSYLVANIA PUBLIC LIBRARIES

200 Organization of Public Libraries

200.1

Public libraries in Pennsylvania may be organized in any one of the following forms:

1. Nonprofit entity;
2. Government entity; and
3. Combination of a nonprofit and a governmental entity

The organization form of a public library is important since different accounting principles apply depending on the type of the organization.

200.2

Nonprofit libraries are entities that are usually exempt from federal and state income taxes since they are operated exclusively for educational purposes and no part of their earnings are used to benefit any private shareholders or individuals. They may be subject to income tax on income that is derived from activities not related to their exempt purpose (see Chapter 8). Nonprofit libraries follow accounting principles specific to nonprofit entities (see Chapter 4).

200.3

Government libraries are owned and operated by city, borough, township, or county governments or other political subdivisions. A majority of the funding for a governmental library is provided from public funds. Governmental libraries are not required to pay taxes. Additionally, governmental libraries follow accounting principles specific to governmental entities. This manual does not cover governmental accounting. For government libraries, the applicable municipality is responsible for accounting and any questions or concerns should be directed to the municipality

200.4

A library that is a combination of governmental and nonprofit type entities should follow the accounting principles applicable to the form of organization that most closely resembles the library. For example, if the library has most of the characteristics of a governmental entity, then the accounting principles applicable to governmental libraries should be followed.

200.5

Library Board members or personnel who have questions regarding how to determine the entity type of the library should discuss how to determine this with their District Library Consultant or legal counsel.

201 Overview of Accounting Manual Topics

201.1

Accurate accounting and financial reporting are achieved when responsible personnel are aware of and know where to reference the accounting principles specific to their industry. In addition, adequate internal controls should be in place to safeguard assets, promote operation efficiencies, enable adherence to prescribed accounting policies, and confirm the accuracy and reliability of accounting data.

201.2

It is the objective of this manual to provide the responsible personnel of Pennsylvania public libraries with the information and guidance to reference materials they need to create and maintain an accounting environment that is accurate and reliable.

201.3

Chapter 3 – Overview of General Accounting Principles and *Chapter 4 – Accounting for Nonprofit Libraries* provides readers with a simplified how-to approach to basic accounting principles and processes in easy to understand terminology. It answers the questions of “Why?” by describing the function and purpose of accounting; “What?” by providing information on the basic books of entry, the general ledger, and the chart of accounts; and “How?” including a basic overview of how items are recorded.

201.4

Payroll and related taxes and employee benefits are a complex area of accounting. *Chapter 5 – Payroll* provides best practices, guidance for preparing payroll internally, and selecting and utilizing an external payroll provider.

201.5

Budgets are essential to the planning and oversight of a library. *Chapter 6 – Budgeting* provides readers with an understanding of the importance of a budget, its uses, and steps to take in preparing an accurate and meaningful budget.

201.6

Chapter 7 – Automated Tools provides information on automated tools, and necessary considerations for purchasing accounting software.

201.7

Although libraries are generally exempt from tax, there are certain instances where a nonprofit organization is subject to tax on unrelated business income. *Chapter 8 – Tax Considerations* reviews the implications of unrelated activities and when a library may be required to pay these taxes.

201.8

Chapter 9 – Internal Controls discusses the importance of adequate controls, what types of controls should be implemented, and provides sample checklists to reference.

201.9

Chapter 10 – Audit Considerations discusses when reviews and audits are necessary, audit requirements, and how a library can prepare and reduce costs.

201.10

Chapter 11 – Frequently Asked Questions provides guidance on some specific accounting questions that libraries encounter.

201.11

Chapter 12 – Nonprofit fundraising provides guidance on fundraising as it relates to accounting and audits.

201.12

Following the chapters providing specific detail relating to accounting and operations, there are a series of Appendices sections (Appendix A – C) that provide sample audits, financial reviews, QuickBooks set-up information, and internal control questionnaires.

The Microsoft Excel files that are referenced as chapter examples are located outside of the manual as independent files on the PDE OCL website.

CHAPTER 3 – OVERVIEW OF GENERAL ACCOUNTING PRINCIPLES

300 Chapter Objective/Summary

300.1

The purpose of this chapter is to provide the reader with a simplified, how-to approach to accounting principles and preparation of financial reports. A brief outline of the chapter follows:

- 301. Purpose of Accounting
- 302. Significant Terms and Concepts
- 303. Function of Accounting
- 304. Basis of Accounting
- 305. Accounting Records
- 306. Double-Entry Accounting
- 307. Journal Entries
- 308. Maintaining a General Ledger
- 309. The chart of accounts
- 310. Electronic vs. Manual Accounting Systems
- 311 Accounting Policies

300.2

This manual is not designed as an accounting course; it is intended to serve as a high-level, how-to guide for library personnel without an accounting background. Further training or study is needed to fully understand the accounting concepts/terms presented and more complicated accounting principles.

301 Purpose of Accounting

301.1

There are two primary purposes for maintaining accounting records:

1. To fairly and accurately represent the financial position and results of the library's operations; and
2. To document the library's compliance with the laws and regulations of the federal, state, and local governments.

Contributors, trustees, Board members, employees, creditors, and government entities all rely on the library's accounting records to help with decisions that impact a library's future and objectives.

302 Significant Accounting Terms and Concepts

302.1

It is important to understand commonly used terminology and accounting terms to help apply accounting principles.

Resources providing definitions of commonly used terms include:

1. [NYS Society of CPAs](#)² for a glossary of accounting terms; and
2. [Accounting for Management](#)³ for accounting terms.

It is recommended you consult these resources when you encounter a term with which you are not familiar.

Some of the most common terms are:

1. **Account Payable** – Amount owed to a creditor for a delivered good or completed service.
2. **Accounting Equation** – The following formula is the heart of double-entry accounting:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

As a result, an increase in assets must be accompanied by an equal increase in liabilities and/or capital. The Statement of Financial Position (i.e. Balance Sheet) illustrates the accounting equation. For example, if a printer is purchased, and not paid for up front with cash, you have the printer in your possession and must record it as an asset. However, you are still liable to pay for the printer, so until you pay the vendor, there must be a liability for the cost of the printer on the Balance Sheet.

3. **Accrual** – The recognition of an expense or revenue that has occurred but has not yet been recorded.
4. **Accrual Accounting** – The attempt to record the financial effects of transactions and other events in the periods in which those transactions or events occur rather than only in the periods in which cash is received or paid by the library, using the techniques developed by accountants to apply the matching principle.
5. **Asset** – An economic resource that is expected to be of benefit in the future (e.g. cash, inventory). Probable future economic benefits obtained as a result of past transactions or event. Anything of value to which the firm has a legal claim.
6. **Balance Sheet (Statement of Financial Position)** – A report that details the various assets and liabilities of a library at a point of time (e.g. end of year). The Balance Sheet must always balance (e.g. assets equal liabilities plus equity).
7. **Debit/Credit** – Debit always refers to the left side of a journal entry and credit always refers to the right side of a journal entry.
8. **Designated Fund** – Used to account for funds that are designated or restricted to the use specified by the donor – usually for a particular purpose or project.
9. **Endowment** – Is any asset donated to and for the perpetual benefit of a nonprofit institution. The donation is usually made with the requirement that the principal remain intact and money earned from investing the principal be used for a specific purpose.

² "Accounting Terminology Guide - Over 1,000 Accounting and Finance Terms," New York State Society of CPA's, accessed July 19, 2018. <https://www.nysscpa.org/professional-resources/accounting-terminology-guide#sthash.NyHnOeEH.dpbs>.

³ "Accounting Equation," Financial Accountancy, accessed July 19, 2018. <http://www.financialaccountancy.org/bookkeeping-and-accounting/accounting-equation/>.

10. **Equity or Fund Balance** – The net assets of the library after all creditors have been paid off (e.g. assets – liabilities = equity).
11. **Expense** – Items the library pays for (e.g. office supplies, electricity etc.).
12. **Financial Statements** – Presentation of financial data, including Statement of Financial Position (i.e. Balance Sheet/Statement of Financial Position, income statement, statement of cash flows, and any other supporting statements that are intended to communicate an organization's financial position at a point of time (e.g. end of year).
13. **General Fund** – Used to account for all assets and liabilities of the library except those particularly assigned for other purposes in another more specialized fund. It is the primary operating fund for the library.
14. **Income Statement (Statement of Revenue and Expense)** – A report summarizing the effect of revenues and expenses over a period of time.
15. **Journal Entry** – Method for recording transactions. Journal entries always have two sides (debit and credit).
16. **Liability** – Amount owed to third parties, including suppliers, banks, tax authorities, and employees.
17. **Loss** – Excess of expenditures over revenue for a reporting period (e.g. revenues – expenses when expenses are greater than revenues).
18. **Profit** – The excess of revenues over cost for a reporting period (e.g. revenues – expenses when expenses are lower than revenues).
19. **Revenue** – Sales and other earnings (e.g. fundraising and interest).
20. **Statement of Cash Flows** – Under the accrual basis of accounting, revenue, and expenses are not always recognized when cash is received or paid. The statement of cash flow provides a report of the sources and uses of cash. Essentially, the cash flow statement shows readers where cash came from and where cash went.
21. **Statement of Financial Position (Balance Sheet)** – A report that details the various assets and liabilities of a library at a point of time (e.g. end of year). The Balance Sheet must always balance (e.g. assets equal liabilities plus equity).
22. **Subsidiary Ledger** – A ledger where supporting accounts are kept in addition to the general ledger (e.g. accounts payable journal).
23. **Transaction** – A recording of the movement of economic resources (e.g. when a library purchases supplies, money is transferred out of the cash account and the new economic resource is received (e.g. supplies) and recorded in the appropriate account).

303 Function of Accounting

303.1

There are four main steps in the accounting function:

1. Obtain financial information;
2. Record financial information;
3. Analyze financial information; and
4. Present financial information

303.2

Obtain Financial Information:

The first of the four main functions of an accounting system is obtaining financial information. The information is generally obtained from transactions and the documentation that supports those transactions. For example, revenue from fines would be obtained from the system where fines are entered as paid (e.g. cash register or manual records). These transactions are usually supported by an invoice or receipt. Expenses would be obtained from invoices provided by vendors and are entered as expense in the accounts payable module. Payroll expense information would be obtained from the payroll system/records or third-party payroll provider. Financial information includes revenue received by the library and expenses paid by the library.

303.3

Record Financial Information:

Once financial information is obtained, that information must be recorded and preserved for future reference. Financial information is commonly recorded in the general ledger via journal entries in accounting software (e.g. QuickBooks, Sage, and others). If your library does not have financial software, entries will need to be recorded in a manual general ledger. It is recommended that you maintain manual general ledgers in spreadsheet software such as Microsoft Excel or Google sheets to aid summarization of totals and other calculations.

303.4

Analyze Financial Information:

An organization's accounting function is not only responsible for obtaining and recording financial data but also for interpreting that data and presenting the data to others in a format that can be understood. This information is useful to decision makers. For instance, a library may notice that it is incurring a significant cost for electricity. The Library Director and Board may decide to explore ways to reduce electricity costs for the coming year.

Refer to [Propel Nonprofits](#)⁴ for a Statement of Financial Position (i.e. Balance Sheet) template.

Refer to [Propel Nonprofits](#)⁵ for resources on analyzing financial information. This tool provides the description and calculation of fourteen ratios including a mix of Statement of Financial Position (i.e. Balance Sheet) and income statement ratios.

303.5

Present Financial Information:

The accounting function is to present financial information in a consistent format. This presentation enables interested parties to make effective and knowledgeable decisions regarding the library even if they have no other contact with the library's operations or employees. When similar presentation formats are used universally by all statewide libraries, comparisons are simplified. Comparisons of similar-sized libraries can be used to help Library Boards identify strengths and areas that need improvement.

⁴ "Balance Sheet Cheat Sheet," Propel Non-Profits, accessed July 19, 2018.
<https://www.propelnonprofits.org/resources/balance-sheet-cheat-sheet/>.

⁵ "Analyzing Financial Information Using Ratios," Propel Non-Profits, accessed July 19, 2018.
<https://www.propelnonprofits.org/resources/analyzing-financial-information-using-ratios/>.

304 Basis of Accounting

The three most common methods of accounting are:

1. Accrual basis;
2. Modified accrual basis; and
3. Cash basis.

Smaller libraries typically use cash basis or modified accrual basis accounting.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred or provided. "Earning" a revenue means that an entity is entitled to the revenue and has performed all necessary services/products associated with the revenue.

The cash basis functions similar to a checkbook. Revenues are recorded when cash deposits are made and expenses/expenditures are recorded when cash is paid. This is generally the simplest method and requires fewer journal entries. However, since it does not recognize revenue and expenses based upon when they are earned or incurred, it might not accurately depict the amount of resources the library has on hand. For example, the cash purchase of an expensive computer or software will all be charged in the year of purchase, even though it will last a few years. It is important to note that the cash basis is considered a comprehensive basis of accounting but it is not a generally accepted accounting principle (GAAP). Libraries should consult with the readers of their financial statements to determine if this method is acceptable.

The modified accrual basis of accounting is a combination of the accrual basis and the cash basis. Under the modified accrual method, revenues are generally not recorded until received and expenditures generally are recorded when a liability is incurred. As a result, generally, the recording of revenues follows the cash basis and the recording of expenditures follows the accrual basis.

For more information, refer to accrual vs. cash on [Federation of American Scientists](#).⁶

305 Accounting Records

305.1

This section summarizes how to establish and maintain accounting records to provide an accurate accounting of the financial position and operating results of a public library. Depending on the need to report financial information for a branch or location, accounting records should be kept separate if the need exists to separate two library entities for financial reporting purposes.

This section includes detailed descriptions of the most common ledgers. However, this section is not intended to be an all-inclusive listing of accounting documentation.

⁶ "Double entry system of accounting," Accounting for Management, accessed July 19, 2018. <https://www.accountingformanagement.org/double-entry-system-of-accounting/>.

The most common accounting records include:

1. Cash receipts journal;
2. Cash disbursements journal;
3. Accounts receivable journal;
4. Accounts payable journal;
5. Payroll journal;
6. General journal; and
7. General ledger.

A brief summary of the functions of each of the accounting records is included below.

305.2

A cash receipts journal is used to record all receipts of cash (e.g. fundraising, fines, fees for services, etc.). Each entry should be supported by a remittance advice, receipt, copy of check, or other appropriate supporting documentation. It is important to note the corresponding general ledger account on the cash receipt. All entries should include the following information:

1. The general ledger account code or name;
2. The date the cash was received;
3. The reason the payer paid the cash;
4. A description of the person/organization giving/paying the cash;
5. The amount of cash received; and
6. Identification of the individual recording the entry.

Refer to Chapter # 3 - Example # 1 - Cash Receipts Journal for a Microsoft Excel template.

305.3

A cash disbursement journal is used to record all disbursements of cash (e.g. recurring and one-time expenses). Entries should be supported by an invoice and evidence of receipt of the goods or services. The following information should be recorded for each transaction:

1. The general ledger account code or name;
2. The date of the disbursement;
3. A description of the expense;
4. The name of the payee;
5. The check number;
6. The amount disbursed; and
7. Identification of the individual recording the entry.

Refer to Chapter # 3 - Example # 2 - Cash Disbursement Journal for a Microsoft Excel template.

305.4

An accounts receivable journal is similar to a cash receipts journal, but it is used to record revenue that the library has not yet collected. All entries should include the following information:

1. The general ledger account code or name;

2. Date of the receivable;
3. The reason/description for the receivable;
4. A description of the person/organization for whom the receivable is recorded;
5. The invoice number;
6. The amount of cash expected;
7. Due date of the receivable; and
8. Identification of the individual recording the entry.

Refer to Chapter # 3 - Example # 3 - Accounts Receivable Journal for a Microsoft Excel template.

305.5

An accounts payable journal is similar to a cash disbursement journal, but is used to record accounts payable (e.g. cash that has not yet been paid). The following information should be recorded for each transaction:

1. The general ledger account code or name;
2. The date of the payable;
3. A description of the payable;
4. The name of the payee;
5. The check number;
6. The amount disbursed;
7. Identification of the individual recording the entry; and
8. Due date of the payable.

Refer to Chapter # 3 - Example # 4 - Accounts Payable Journal for a Microsoft Excel template.

305.6

A payroll journal is used to record payroll details. The following information should be recorded for each transaction:

1. The payroll date;
2. The employee's ID;
3. The employee's name;
4. Hourly wage rate.
5. Hours worked (for hourly employees);
6. Gross pay;
7. Deductions; and
8. Net pay.

Totals for a payroll period are posted to accounts, such as salary expense, federal income tax withheld, and cash. To differentiate between salary payroll journal entries and hourly payroll journal entries, there should be a "salary expense" account used to record salary payroll journal entries, and a "wage expense" account used to record hourly payroll journal entries.

Refer to Chapter # 3 - Example # 5 - Payroll Journal for a Microsoft Excel template.

305.7

A general journal serves as a “catch-all” and is used to record those transactions that do not fit into a more specific subsidiary ledger/journal. Examples of items recorded in a general journal include:

1. Changes to or corrections of transactions recorded at an earlier time;
2. The opening of the accounts at the beginning of the year;
3. The closing of accounts at the end of the year;
4. The recording of depreciation expense;
5. The recording of prepaid expenses;
6. The recording of accrual transactions; and
7. Any other transaction that does not relate to a subsidiary journal maintained by the library.

The following data should be included in general journal entries:

1. An entry number so the entry can be identified;
2. The date of the entry;
3. The account numbers or names affected by the entry;
4. An explanation of the entry;
5. The entry itself (dollar amounts), debits, and credits should equal; and
6. Identification of the individual recording the entry and date it was entered.

Refer to Chapter # 3 - Example # 6 - General Journal Template for a Microsoft Excel template.

Refer to Section 307 for more examples of general journal entries.

305.8

A general ledger is used to record the summarization of all transactions in subsidiary journals and the general journal. If the library uses an automated accounting system, postings from the subsidiary ledgers will automatically flow to the general ledger. The general ledger should include all accounts the library uses (chart of accounts).

306 Double-Entry Accounting

For more information on double-entry accounting and debits and credits, refer to [Accounting for Management](#).⁷ This information will help you to understand the basics of double-entry journal entries.

The double entry accounting method requires at least two entries (debit and credit) to be made for each transaction. One entry shows the change in an asset or liability (e.g. cash) and the other entry shows which revenue, expense, or other account caused the change. You must determine the type of accounts affected to determine whether a debit is a decrease or increase to the account. When making double entries it is vital to verify they all balance (e.g. debits should equal credits). If the entry does not balance, an error was made in recording (e.g. a

⁷ "Double entry system of accounting," Accounting for Management, accessed July 19, 2018. <https://www.accountingformanagement.org/double-entry-system-of-accounting/>.

credit was accidentally recorded as a debit). Accounting software programs can verify entries balance.

307 Journal Entries

Journal entries are used to record transactions that do not appear in a subsidiary journal.

There are three types of journal entries:

1. Standard journal entries;
2. Reversing journal entries; and
3. Nonstandard journal entries.

Refer to [Accounting for Management](#)⁸ for additional information.

307.1

Standard journal entries are recurring entries that are prepared at regular intervals (e.g. monthly). In an accounting system, these transactions can be set up as a standard entry and the posting will be automatic.

307.2

Reversing journal entries are entries that reverse certain standard journal entries recorded in the prior period if the entry will be recorded again through the cash receipts or cash disbursements journal in the following period. This prevents the recording of a transaction twice.

For more information on reversing journal entries and a sample journal entry refer to [Reversing Entries](#).⁹

307.3

Nonstandard journal entries are utilized when recording transactions that generally are not recurring in nature. In other words, they are utilized to record infrequent transactions, to make corrections to amounts previously recorded, and to reclassify amounts previously recorded to a different account.

Opening and closing entries are specialized nonstandard entries. An opening entry establishes the beginning Balance Sheet (i.e. Statement of Financial Position) accounts in the general ledger at the beginning of an accounting period (e.g. 01/01/XX). A closing entry zeroes all revenue and expense accounts and records the difference as an increase or decrease to the equity of the library at the end of an accounting period (e.g. 12/31/XX). In accounting software, opening and closing entries are generally performed by the software.

⁸ "General journal," Accounting for Management, accessed July 19, 2018.
<https://www.accountingformanagement.org/general-journal/>.

⁹ "Reversing entries," NetMBA Business Knowledge Center, accessed, July 23, 2018.
<http://www.netmba.com/accounting/fin/process/reversing/>.

308 Maintaining a General Ledger

308.1

When maintaining the general ledger, an entry must be made to open the books at the beginning of the year. This is completed by entering the balances in the cash and other asset accounts, the liability accounts, and the fund balance accounts. Other accounts (e.g. expenses) will not have balances at the beginning of the year. If you utilize an accounting system, these balances will automatically roll forward into the next operating period. No entry will be required; however, it is beneficial to manually verify that the beginning balances match the prior year's ending balances.

308.2

At least monthly, staff should verify that debits in the general ledger equal credits. When using an accounting software, run a trial balance (i.e. Statement of Financial Position) report and verify that the sum of debits equals the sum of credits. If they do not equal, review the entries to determine where the error was made and correct it. If you do not use an accounting software, credit and debit balances in the general ledger will need to be manually totaled.

308.3

The accuracy of the balances in certain accounts should be verified via reconciliation. For example, the balance in your operating cash account should be reconciled to the corresponding bank statement as of the same date. The balances in receivables and payables should agree with the balances in their respective subsidiary journals. In addition, on a monthly basis the general ledger should be reconciled to the subsidiary ledgers. This will assure that the accurate amount from the subsidiary ledger was posted to the general ledger.

Refer to Chapter # 3 Example # 7 - Bank Reconciliation Template for a Microsoft Excel template.

309 Chart of Accounts

309.1

A chart of accounts is a listing of all the accounts used by a library to record financial information in its general ledger. It provides the foundation for arranging financial data into a useful, organized format.

309.2

When establishing new accounts, it is important to include them in the proper account type so that they will be classified properly in your accounting system. For example, if a new account is set up for contribution income (revenue) but inadvertently coded as a bank account (asset) in the system, the financial statements will not be accurate.

Refer to Chapter # 3 - Example # 8 - Chart of Accounts Mapping for an example of chart of accounts (COA) from a cash-basis library that corresponds to the annual report accounts. The example includes multiple tabs. The COA for Income and Expenses provides the account mapping to type of account, parent account, and financial statements. The QB Example Nonprofit COA tab provides the nonprofit COA provided with QuickBooks. The QB Import Template tab provides the library COA in the Microsoft Excel format that can be used to import the COA into QuickBooks.

309.3

General ledger accounts fall into the following account types:

1. Assets (cash, inventory);
2. Liabilities (accounts payable, payroll liabilities);
3. Equities (fund/net asset balances);
4. Revenues (local grant money, merchandise sold); and
5. Expenses (books, office supplies, building maintenance).

310 Electronic vs. Manual Accounting Systems

310.1

Libraries should seriously consider the advantages of electronic or automated accounting software. Electronic accounting systems offer a great deal of time savings and increase security through the use of passwords. Furthermore, electronic accounting software enhances the accuracy and efficiency of accounting by taking out human error and automating menial tasks, such as mathematical calculations and account grouping. The benefits are further discussed in Chapter 7.

311 Accounting Policies

311.1

Before applying for federal grants (e.g. Library Services and Technology Act or LSTA grant), grant applicants must comply with federal Uniform Administrative Requirements for grants (2 CFR §200.300 - §200.345). This means that libraries must have:

1. Conflict of interest policy;*
2. Procurement and bid procedures or policy;*
3. Travel policy;*
4. Cash management procedures; and
5. Compensation and fringe benefit policy

*Samples are available at: [Office of Commonwealth Libraries](#)¹⁰

Other financial policies/procedures to consider:

1. Board/staff financial accountability [responsibilities and limitations on authority];
2. Gift acceptance policy;
3. Investment policy; and
4. Insurance and bonding.**

**Bonding requirements are found in the PA Public Library Code:

¹⁰ "Adopt Policies and Procedures," State Library of Pennsylvania, accessed July 25, 2018. <https://www.statelibrary.pa.gov/Libraries/Subsidies-and-Grants/LSTA/Pages/Adopt-Policies-and-Procedures.aspx>.

[PA bonding requirements](#)¹¹ -- *The Treasurer of the Board shall obtain a bond in an amount to be determined by the Board to provide satisfactory surety to the municipality.*

¹¹ "Title 24 Section 9318 Local Library Governance," Pennsylvania General Assembly, accessed July 25, 2018.
<http://www.legis.state.pa.us/cfdocs/legis/LI/consCheck.cfm?txtType=HTM&ttl=24&div=0&chpt=93&sctn=18&subsctn=0>.

CHAPTER 4 – ACCOUNTING FOR NONPROFIT LIBRARIES

400 Chapter Objective/Summary

400.1

This chapter is designed to provide a simplified guide for nonprofit libraries on significant accounting areas that nonprofit entities must understand to operate effectively and comply with government and other regulations.

400.2

The discussion in this chapter includes three methods of accounting: generally accepted accounting principles (GAAP), modified cash basis, and cash basis. Modified cash basis and cash basis are considered an Other Comprehensive Basis of Accounting (OCBOA)

400.3

This chapter is broken down into the following major topic sections:

- 401 – Definition/Overview of Nonprofit Organizations
- 402 – Accounting Standards and Governing Hierarchy
- 403 – Financial Reporting Requirements
- 404 – Accounting for Revenue and Related Assets and Liabilities
- 405 – Accounting for Expenses
- 406 – Accounting and Recording Accounts Payable and Accrued Expenses
- 407 – Accounting for Fixed Assets
- 408 – Accounting for Collections
- 409 – Library Books and Audio/Visual
- 410 – Depreciation
- 411 – Accounting for Investments
- 412 – Accounting for Debt

401 Definition/Overview of Nonprofit Organizations

401.1

Accounting for a nonprofit organization has some differences from other entities. The nonprofit environment is unique and it must be understood to properly perform the accounting function. Certain accounting rules relating specifically to nonprofit organizations (e.g. contributions, restricted v. unrestricted net assets) make the accounting process complicated.

401.2

Because there are such a variety of activities and purposes among nonprofit organizations, it is difficult to find one clear-cut definition for “nonprofit organization.” One common element is all nonprofit organizations are qualified as tax-exempt organizations under Section 501 of the Internal Revenue Code (501(c)(3)).

Friends of the Library organizations should have their own 501(c)(3) exemption status. Being an independent 501(c)(3) organization benefits the library when they are applying for grants. Any library that seeks grant funding will find themselves in a much more competitive position for those grants if they can show that they receive tangible support from the very people who use

and benefit from the library. If the expense of obtaining a 501(c)(3) exemption is too great, Friends groups should consider joining the [Pennsylvania Citizens for Better Libraries](#)¹² as an affiliate member. Refer to the [ALA Website](#)¹³ for more information on setting up your organization.

Other distinguishing characteristics of nonprofit organizations are:

1. A lack of profit motive exists in providing services or goods;
2. Activities relate to religious, charitable, scientific, literary, or educational purposes;
3. Resources are donated by parties not expecting any economic benefit in return; and
4. There is an absence of defined ownership interests that can be sold, transferred, redeemed, or liquidated in some cases.

401.3

Although nonprofit organizations have characteristics that distinguish them from their for-profit counterparts, they also have some similarities. For example, nonprofit and for-profit entities both may:

1. Have similar operating problems, such as obtaining and managing the labor, materials, and facilities required to perform their activities;
2. Incur obligations to vendors, creditors, and employees;
3. Be subject to taxation (non-profits are subject to federal and state taxes on unrelated business income, refer to Section 802);
4. Be subject to federal, state, and local regulations, such as state charity reporting requirements; and
5. Require sufficient financial resources to continue providing satisfactory levels of goods or services.

401.4

Pennsylvania public libraries are generally considered tax-exempt organizations. To verify whether your library or Friends of the Library meet requirements of a nonprofit organization, review your organization's documents:

1. Charter;
2. Bylaws;
3. IRS determination letter; and
4. How the majority of revenues are generated.

¹² "Pennsylvania Citizens for Better Libraries," accessed August 22, 2018. <https://pcbipa.org/>.

¹³ "Libraries Need Friends: A Toolkit to Create Friends Groups or to Revitalize the One You Have," ALA, accessed July 24, 2018. <http://www.ala.org/united/sites/ala.org.united/files/content/friends/libraries-need-friends.pdf>.

402 Accounting Standards and Governing Hierarchy

402.1

Before the library starts recording business transactions for a period, you must determine whether to use cash-basis or accrual accounting. Once the library selects a method, you should consistently use the selected method unless there is a significant reason to change methods. The determination of when a transaction is recorded, the amount to record, and any other information that must be presented in the financial statements is determined based on the accounting method that the library follows (cash or accrual).

Many small organizations use cash-basis accounting because it is easier to understand, less time consuming, and less costly. But as the library develops, you might find it beneficial to switch to accrual accounting in order to more accurately track revenues and expenses.

Generally Accepted Accounting Principles (GAAP) are a collection of guidelines and practices developed by [Financial Accounting Standards Board \(FASB\)](#)¹⁴ and are commonly used within the United States for accrual accounting. Refer to Section 304 for additional information on the different accounting methods.

An organization currently using GAAP might consider cash-basis sufficient for the organization and want to switch methods. When considering a change in accounting methods it is important to verify that readers of the financial statements (e.g. Board, lenders) approve of the change. In addition, you should consider the one-time increased time/costs in converting.

402.2

FASB Accounting Standards Codification (Codification) is the only authoritative source of U.S. GAAP for nonprofits. Per section 402.4, FASB codification does not apply to cash-basis or modified cash-basis accounting. The Codification is effective for financial periods ending after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. All other accounting literature (e.g. FASB Concepts Statements, AICPA Issues Papers, Accounting textbooks) not included in the Codification may be used for reference but are considered non-authoritative.

FASB ASC 958 (Topic 958 “Not-for-Profit Entities”) relates specifically to nonprofits. In addition, libraries must follow all FASB guidelines that do not specifically exempt nonprofits. Per the AICPA, the FASB codification does not apply to cash-basis or modified cash-basis accounting. Refer to the [AICPA Website](#)¹⁵ for a statement about reporting standards for special purpose frameworks such as the cash basis of accounting. The standard was updated in August 2016 through Accounting Standards Update 2016-14 Release: August 18, 2016. The new update affects essentially all nonprofits, including charities, foundations, private colleges and universities, nongovernmental health care providers, religious organizations, etc.

The new requirements require nonprofits to:

1. Present on the face of the financial statement position amounts for two classes of net assets at the end of the period. Replaces the existing three classes of net assets

¹⁴ FASB Financial Accounting Standards Board, accessed July 25, 2018. <https://fasb.org/home>.

¹⁵ "Common Questions About Special Purpose Frameworks," AICPA, accessed July 24, 2018. <https://www.aicpa.org/interestareas/centerforplainenglishaccounting/resources/2017/special-purpose-frameworks.html>.

(unrestricted, temporary restricted, and permanent restricted) with the following two classes:

- a. Net assets **with** donor restrictions; and
 - b. Net assets **without** donor restrictions.
2. Present on the face of the statement of activities the amounts of the changes in each of the two classes of net assets (without donor restrictions and with donor restrictions), rather than the three classes (unrestricted, temporary restricted, and permanent restricted);
 3. Continue to present on the face of the statement of cash flows the net amount for operating cash flows using the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method;
 4. Provide the following enhanced disclosure about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
 - b. Composition of net assets with donor restriction at the end of the period and how the restrictions affect the use of resources.
 - c. Qualitative information that communicates how a nonprofit manages its liquid resources available to meet cash needs for general expenditures within one year of the Statement of Financial Position (i.e. Balance Sheet) date.
 - d. Quantitative information, either on the face of the Statement of Financial Position (i.e. Balance Sheet) or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a nonprofit's financial assets at the Balance Sheet date to meet cash needs for general expenditures within one year of the Statement of Financial Position (i.e. Balance Sheet) date. Availability of a financial asset may be affected by (1) its nature; (2) external limits imposed by donors, grantors, laws, and contracts with others; and (3) internal limits imposed by governing board decisions.
 - e. Amounts of expenses by both their natural classification and their functional classification that is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to financial statements.
 - f. Method(s) used to allocate costs among program and support functions.
 - g. Underwater endowment funds, which include required disclosures of (1) a nonprofit's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds; (2) the aggregate fair value of such funds; (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained; and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.
 5. Report investment return net of external or direct internal investment expenses and no longer require disclosure of those netted expenses.
 6. In the absence of explicit donor stipulations, use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor

restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (Thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

402.3

Accounting standards are subject to change and the library should monitor updates and assess their impact on the library's accounting and financial reporting. New authoritative U.S. GAAP is communicated via FASB's Accounting Standards Update (ASU). As the FASB issues new guidance, both the current paragraphs and the new guidance will be featured in the Codification until the new guidance is effective for all entities. Please monitor the recent activity and news section of [FASB](#)¹⁶ for updates.

402.4

There is no authoritative guidance for the preparation of financial statements on a cash-basis or modified cash-basis. However, If GAAP sets forth requirements that apply to the presentation of financial statements, OCBOA financial statements should either comply with those requirements or provide information that communicates the substance of those requirements. Accordingly, an organization would be required to follow the presentation requirements of FASB ASC 958 or provide information (e.g. notes in the financial statements) that communicates the substance of those requirements.

Under cash-basis or modified cash-basis accounting, it is important to record a journal entry whenever cash is received or paid. The entry will debit or credit cash and the associated expense or revenue general ledger account.

403 Financial Reporting Requirements

403.1

Financial statements are the end product of the accounting function. It is important to verify the form of the financial statements and accuracy of the content. An organization's financial statements are often used to communicate the organization's activities, operations, and programs to decision makers, lenders, government agencies, the general public, and others outside the organization. Financial statement information needs to be well-organized, timely, and relevant to provide value to readers.

403.2

The purpose of this section is to provide a general overview of the required financial statements a library must present, their general format, and the required disclosures that must be included in the financial statements.

403.3

The general objectives of financial statements are to:

1. Communicate the ways resources have been used to meet the library's objectives;
2. Identify a library's principal programs and their costs;
3. Disclose the degree of control exercised by donors and funding sources over the use of resources; and

¹⁶ FASB Financial Accounting Standards Board, accessed July 25, 2018. <https://fasb.org/home>.

4. Help the user evaluate the library's ability to carry out its fiscal objectives.

403.4

To meet the above objectives, the financial statements should provide information about:

1. The amount and nature of an organization's assets, liabilities, and net assets;
2. Transactions and other events and circumstances that affect net assets;
3. The amount and kinds of inflows and outflows of economic resources during a period and the relationship between the inflows and outflows;
4. An organization's revenues, expenses, borrowing, repayment of borrowing, and other factors that may affect its liquidity; and
5. The service efforts of an organization.

403.5

Financial statements should be prepared according to the organization's accounting method (GAAP or OCBOA). We will discuss presentation under GAAP and the cash basis.

403.6

GAAP guidelines mandate the following statements for libraries:

1. Statement of Financial Position (i.e. Balance Sheet);
2. Statement of Activities (i.e. Income Statement);
3. Statement of Cash Flow; and
4. Notes to the Financial Statements.

403.7

The Statement of Financial Position is commonly referred to as the Balance Sheet in for-profit entities. This statement provides information about the library's assets, liabilities, and net assets. It is a snapshot of the financial position at a point of time (e.g. year-end or month-end). It groups and lists all the assets/resources a library has, everything a library owes, and what is left when what is owed is subtracted from what a library has. The following formula derived from the statement should always balance:

$$\text{Assets} = \text{Liabilities} + \text{Net Assets}$$

403.8

The Statement of Financial Position should follow a standard format. The title should be first, followed by the assets, liabilities, and net assets. The statement should reflect that the total liabilities plus net assets are equal to the total assets of the organization. A description of each element follows:

1. **Title** – The title should include the name of the library, the name of the financial statement, and the date of the financial statement.
2. **Assets** – Assets are listed in order according to their liquidity. Liquidity is an assets nearness and ease of being converted to cash. Therefore, cash is always listed first and fixed assets are normally the last asset listed. Assets are generally classified as current or non-current. Current assets are those that are likely to be converted into cash within one accounting cycle (typically one year). Non-current assets are those assets that are

not likely to be converted to cash within one accounting cycle. In some instances, a current asset, such as cash, may be restricted for long-term purposes. In such instances, the restricted cash should be reported as non-current.

3. **Liabilities** – Liabilities are listed according to the closeness of their maturity (e.g. which one will need to be paid first).
4. **Net Assets** – Net assets represent the excess of a library's assets over its liabilities. The net assets section of a nonprofit's Statement of Financial Position presents their net assets on the statement according of their restriction (without donor restriction, with donor restrictions). If the donor does not specify a restriction on his or her contribution, the amount received by the nonprofit is recorded as an asset and as a contribution revenue. Unrestricted contribution revenues are reported on the Statement of Activities and the assets are reported on the Statement of Financial of Position. If a nonprofit receives a contribution that has a donor-imposed restriction, the amount is usually recorded as donor restricted contribution revenue on the Statement of Activity.

Refer to Chapter # 4 Example # 1 - Financial Statements "Financial Position" Tab for an example of a Statement of Financial Position.

It is generally beneficial to include all financial statements in one Microsoft Excel document. This makes cross-referencing easy (e.g. verifying that the cash balance on the Statement of Financial Position matches the ending cash on the Statement of Cash Flow). Please note this is a sample and the line items your library needs to use may differ based on your chart of accounts. Accounting software generally includes templates to prepare similar reports.

403.9

The Statement of Activity (or Statement of Financial Activities) shows the financial activity for the library over a period of time (e.g. year-to-date). It is also commonly referred to as an Income Statement or Profit & Loss statement. This statement reports the revenues and expense amount according to the two classifications of net assets: without donor restrictions and with donor restrictions The Statement of Activity (or Statement of Financial Activities) generally includes the following:

1. **Title** – The title should include the name of the library, the name of the financial statement, and the period of the financial statement.
2. **Revenue/Income** – Shows the inflows of cash and other economic resources that result from providing services and grants. Revenue is reported as increases in net assets without donor restrictions.
3. **Expenses** – Outflows of cash and other resources that result from delivering a service. Expenses should be reported on a functional basis (e.g. program services, supporting services, etc.). Expenses are always reported as decreases in net assets without donor restrictions even if they are incurred to satisfy a donor's restriction.
4. **Change in net assets (without donor restrictions/with donor restrictions)** – The balance after total expenses are subtracted from total income.

Refer to Chapter # 4 Example # 1 - Financial Statements "Stmt Activities" Tab for an example of a Statement of Financial Activities.

403.10

As noted above, GAAP requires that the expenses of a nonprofit be reported by functional expense classification. The two broad functional classes are:

1. **Program services** – The amount directly incurred by the nonprofit in carrying out its programs. It includes direct costs associated with the exempt purpose of an organization (e.g. books). Donors want to see that a nonprofit is using its resources to further the mission and provide programs for the community it supports.
2. **Supporting services** – Reported in two subgroups: management and general, and fundraising and development. Management and general expenses are other costs of doing business that do not directly benefit the donor or community. This includes expenses like accounting and audit costs, employee training, administrative time for employees to keep necessary records, any supplies needed to complete these tasks, and software needed to track donors or certain program items. Fundraising costs are the costs related with the events to raise funds for their program. The donors want to know how much of their contributions are being used towards programs.

To aid in the preparation of the Statement of Financial Position (i.e. Balance Sheet), the library should maintain a mapping of the chart of accounts to the Statement of Financial Position (i.e. Balance Sheet) line items. If any new items are added to the chart of accounts, it is important to update the mapping.

Refer to Chapter # 4 - Example # 1 - Financial Statements for a Microsoft Excel template for an example of the Statement of Activity in the “Stmt Activities” tab.

403.11

The Statement of Cash Flows provides information about the sources and uses of cash. This statement helps illustrate when and how the library received and used cash, since this information is not easily available on the other statements when the accrual method is used. The Statement of Cash Flow has four main sections:

1. **Cash Flows from Operating Activities** – Reports cash paid or received through the normal operations of the library. Cash provided by and used for unrestricted contributions, salaries, utilities, grants, and other revenues and expenses that occur in the normal operation of the library are included in this section. Deferrals, depreciation, and other activities that do not have cash payment or receipt are not included.
2. **Cash Flows from Investing Activities** – Reports cash paid or received from the sale of investments and capital assets. Cash transactions resulting from the purchase or sale of a building or other fixed assets are included in this section.
3. **Cash Flows from Financing Activities** – Reports payments to debt principal (interest is considered an operating activity) and new borrowings. Contributions restricted for long-term use are also included in this section.
4. **Net Increase/Decrease in Cash** – Is the total of cash used and provided during the year. This amount, plus the beginning cash balance, will result in an ending cash balance which should correspond to the amount of cash listed on the Statement of Financial Position.

There are two formats for presenting the Statement of Cash Flows:

1. **Direct Method** – This method begins with cash receipts from operating activities and deducts cash payments for operating costs and expenses. The same presentation is followed for investing and financing activities, if applicable, resulting in total cash used (negative) or provided (positive) during the year.
2. **Indirect Method** – This method starts with the change in net assets and adjusts for:
 - a. Non-cash items related to investing or financing activities (e.g. depreciation, gains or losses on investments, gains or losses on sale of fixed assets); and
 - b. Changes during the period in operating assets and liabilities (e.g. payables and inventory).

Both the direct and indirect methods are permitted under FASB. The new rules continue to allow nonprofits the freedom to choose to present operating cash flows using either the direct or indirect method. However, the new rules eliminate the requirement to present or disclose the indirect method in the notes if the direct method is presented on the Statement of Cash Flows.

Refer to the third and fourth tabs in Chapter # 4 - Example # 1 - Financial Statements Microsoft Excel template for an example of the Statement of Cash Flow in the “Cash Flow” and “Cash Flow Cont” tabs.

403.12

The Statement of Functional Expenses presents detailed expenses by their functional and natural classifications. The total(s) of this statement should correspond to functional expenses in the Statement of Activities.

Refer to the “Stmt Func Exp” tab in Chapter # 4 - Example # 1 - Financial Statements for a Microsoft Excel template for an example of Statement of Functional Expenses.

403.13

GAAP requires that accounting policies and other disclosures related to the financial statements be included in the notes section of the financial statements. Notes provide more detailed information about the library’s financial position and clarify and expand on the amounts in the financial statements. The library’s notes should include the following:

1. Specific disclosures that are required under GAAP; and
2. Disclosures not specifically required but that are considered necessary to keep the financial statements from being misleading.

Required disclosures will vary depending on the types of elements present in the library’s financial statements. Common required disclosures include:

1. **Inventory** – The basis for stating inventory and method of determining cost;
2. **Property and Equipment Capitalization** – The policy for capitalizing long-lived assets;
3. **Depreciation** – The method used to compute depreciation and the major classes of depreciable assets;
4. **Cash Equivalents** – The policy used to determine which short-term investments are treated as cash equivalents;

5. **Promises to Give** – The basis for accounting for promises to contribute;
6. **Investments** – The basis for determining the fair value of investments under FASB ASC 820. Refer to Section 411 for additional information;
7. **Contributions** – The policy for recording restricted contributions when those restrictions are met during the period, placing time restrictions on gifts of long-lived assets;
8. **Collection Items** – Whether the library recognizes and capitalizes contributions of collection items; and
9. **Advertising** – The policy for reporting advertising (e.g. whether costs are expensed as incurred or when the advertising first takes place).

Other disclosures might be required if the information is not adequately presented on the face of the financial statements or additional explanation is necessary. Common other disclosures include:

1. **Investment** – The carrying amount by type of investment and the amount of realized and unrealized gains or losses included in the financial statements;
2. **Property and Equipment** – Depreciation expense for the period, the balances of major classes of assets, the amount of accumulated depreciation;
3. **Promises to Give** – A schedule of the promises (i.e. pledges) and any allowance for uncollectible promises;
4. **Restricted Assets** – The type and amount of assets with donor restrictions, as well as the nature of the restrictions;
5. **Long-term Debt** – Terms of any debt agreements including the timing of payments, amount of required payment, interest rate, collateral pledged, and a maturity schedule should be presented;
6. **Donated Services** – Policies regarding the recording of donated services and the amount recognized as revenue for the period, and the fair value of donated services that are not recognized during the period;
7. **Net Assets** – Nature and amount of with donor restrictions (permanently or temporarily restricted) net assets; and
8. **Functional Expense Allocations** – Methods used in making functional expense allocations.

Not all disclosures will apply to every library. The library must determine if each of the above disclosures are required and if any disclosures that are not listed are required. Your accountant should be able to provide a disclosure checklist to help verify that all the necessary disclosures are included.

Refer to the sample audit reports in Appendix A at the end of the manual for other examples of disclosures.

403.14

As mentioned in Section 402.4, OCBOA financial statements should either comply with GAAP requirements or provide information that communicates the substance of those requirements. The notes of OCBOA financial statements should mention what accounting method the library uses. Financial statements prepared on cash-basis do not require a Statement of Cash Flows, since the financial statements reflect how cash has been received and used throughout the

year. OCBOA financial statements should have a Statement of Financial Position, Statement of Activities, Statement of Functional Expenses, and Notes.

404 Accounting for Revenue and Related Assets and Liabilities

404.1

Nonprofit organizations generally have two types of revenue:

1. Contributions; and
2. Exchange contributions or transactions.

404.2

Contributions will generally be the primary source for most libraries. A contribution is a transfer of assets that is unconditional, voluntary, and non-reciprocal. Contributions may be cash, property, securities, supplies, services, or a promise-to-give (i.e. pledge) in the future. Contributions made by a donor without conditions attached are referred to as without donor restrictions. Contributions with donor-imposed restrictions are referred to as with donor restrictions.

404.3

The library should record all donations of goods and services at fair value. Fair value can be determined by a number of methods, one of the most common methods is to use market transaction data relating to identical or similar goods or services. For further instructions visit [ASC 820](#).¹⁷ Only donated services that would normally be purchased and require specialized skills need to be recorded. For example, a lawyer's donation of legal time and advice should be recorded, but a student's time donated to shelve books would not be recorded. In addition, if an item is received at a below-market rate (e.g. a lawyer gives a significant discount for services; a landlord gives a significant discount for rent), the library should record the difference between the price paid and fair value as a contribution.

404.4

Libraries must note the differences between a "promise-to-give" and an "intention-to-give." A promise-to-give represents a contractual obligation to contribute at a future date while an intention-to-give simply represents an interest in contributing to the library at a future date. If a promise-to-give extends over more than one year, the promise should be recorded at present value and separated into both current and non-current portions for libraries using the accrual method. Intentions-to-give are not recorded under GAAP or OCBOA. Refer to [FASB ASC 958 605 30](#)¹⁸ for additional information on contribution recognition and measurement.

404.5

An exchange transaction is essentially the purchase of goods or services from another entity. This is most likely to occur with grants. Government grants are sometimes considered exchange transactions since the government is purchasing some type of goods or services for either a particular population or public good. Another example of an exchange transaction is if the library offers community workshops (e.g. internet or Microsoft Office courses, programs, etc.) to the

¹⁷ "Accounting Standards Update No. 2011-04," FASB, accessed July 19, 2018. <https://asc.fasb.org/imageRoot/00/7534500.pdf>.

¹⁸ "ASU 2013-06," Financial Accounting Foundation, accessed July 24, 2018. <https://www.fasb.org/resources/ccurl/90/645/ASU%202013-06.pdf>.

general public for an established fee. Questions to consider when determining if a transfer of asset is a contribution or exchange transaction include:

1. **Intent of the library when requesting the asset** – Did the library request a donation or did the library acknowledge (e.g. written confirmation or note) that it requested assets (e.g. money, property etc.) in exchange for goods or services? This is an exchange transaction.
2. **Intent of the asset's purpose** – Is the grantor under the impression that it is donating assets to support the library (i.e. contribution) or does it expect to receive goods or services in return (i.e. exchange)?
3. **Delivery method** – Does the library (contribution) or grantor (exchange) determine when and how the assets are delivered?
4. **Payment method** – Is payment to subsidize the library's organization costs or the costs of a good or service the library provides? This is a contribution.
5. **Delivery of assets** – Will the library deliver assets to the grantor or a different person or entity in exchange for the goods or services? This is an exchange transaction.

404.6

Some transfers have characteristics of both a contribution and an exchange transaction. When this situation occurs, the library must consider the value of the good or service provided in return for the contribution. The donor defines the value of the contribution and the library defines the value of the exchange transaction. Any method the library uses in good faith to value the exchange transaction is acceptable. For example, sometimes a library will give a token gift to donors that contribute a minimum amount. If the gift is nominal in value (e.g. t-shirt with the library's logo), the transaction is recorded fully as a contribution. If the gift is greater than nominal value, the value of the gift is recorded as an exchange transaction with the excess recorded as a contribution. For additional examples of exchange value, refer to [Charitable Contributions](#).¹⁹

Contributions must be classified as with donor restrictions and without donor restrictions. Below is a description of the various categories:

1. **Without donor restrictions** – Contributions that are received without any stipulation of when or how it should be used. The library may use these donations for whatever purpose it chooses.

¹⁹ "Charitable Contributions - Quid Pro Quo Contributions," IRS, accessed July 19, 2018. <https://www.irs.gov/charities-non-profits/charitable-organizations/charitable-contributions-quid-pro-quo-contributions>.

2. With donor restrictions:

- a. **Donor-Imposed Restrictions** – Requirements specifying a particular use of a contribution that is more specific than general operations. Restrictions are classified as temporary or permanent.
 - Requirements on when and/or how the asset can be used. The asset may be restricted for a certain purpose (e.g. purchasing new children’s books), for a certain time period (e.g. the following fiscal year), or both. Contributions with temporary restrictions that are met during the same reporting period they were received should be reported as unrestricted contributions.
 - Generally do not allow the library to use the actual asset that was donated. For example, a donor may contribute \$100,000 to the library and require the money be invested and that only the interest on the money be used for library operations.
- b. **Donor-Imposed Conditions** – Specify a future or uncertain event whose occurrence or failure to occur releases the donation from the obligation. For example, a donor may pledge to donate \$10,000 if the library raises \$10,000 in matching funds in a specific time period.

404.8

Contributions without donor restrictions should be recognized as revenue during the period they are received. Contributions with restrictions should not be recorded until the restrictions have been substantially met or the restrictions have been waived by the donor. Contributions received in advance of restrictions being met should be recorded as Refundable Advances (e.g. a liability) under GAAP. Once the restrictions have been met, it can be transferred from Refundable Advances to Revenue.

Contributions with differing restrictions should be presented separately in the financial statements. As a result, it is beneficial to record these items in separate general ledger accounts.

404.9

Below are some example journal entries for recording donations.

The receipt of a \$5,000 donation with no restrictions would be recorded as of the receipt date in the following accounts:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	110	Cash	\$5,000	
	116	Donations		\$5,000

The receipt of a \$5,000 donation with the restriction that funds must be used to renovate the children’s section of the library would be recorded as of the receipt date in the following accounts:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash	\$5,000	
	116.B	Donations – With donor restrictions		\$5,000

Be sure to track within a journal entry note or the general ledger that the donor restriction is for the renovation of the children’s section of the library.

The above contribution will remain “restricted” until it is used toward the renovation. Upon incurring costs for the renovations, the donation will be released from restriction and transferred to an unrestricted donation account through the following journal entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	116.B	Donations – With donor restrictions	\$5,000	
	116	Donations		\$5,000

Please note that if only \$3,000 worth of expenses have been incurred for the renovation during the period the amount for the above entry would be \$3,000. If assets without donor restrictions and with donor restrictions are both available for the same purpose, the asset with donor restrictions will fund the first portion, with any excess being funded out of assets without donor restrictions.

404.10

If a contribution is received with the condition that the library must obtain \$10,000 in matching funds within 180 days of the contribution and no other restrictions, the following initial entry is required for libraries using the accrual method of accounting (Note: if the contribution is received in the form of a promise, no entry is required.):

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash	\$10,000	
	130	Refundable Advances		\$10,000

If the library receives the matching donations within the 180 days, the library would record the following entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	130	Refundable Advances	\$10,000	
	116	Donations		\$10,000

If the library does not receive the matching donations within the 180 days, the library must return the money and reverse the above entry as follows:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	116	Donations	\$10,000	
	130	Refundable Advances		\$10,000

404.11

Revenue should be recorded for exchange transactions when the following conditions have been met:

1. Amounts are realized or realizable (i.e. they are converted or convertible into cash); and
2. Amounts are earned (i.e. any activities prerequisite to obtaining benefits have been completed).

Therefore, libraries should not recognize revenue until the good or service is provided to the purchaser and goods or services are billable. This does not necessarily correspond to when cash is received by the library. Revenues from exchange transactions are likely to fall into one of the following categories:

1. Special events (e.g. fundraising dinners, benefit concerts, theater parties, sports events);
2. Fees for the performance of services (e.g. library meeting room rentals/overdue fees);
3. Sales of publications or other items;
4. Third-party reimbursements; and
5. Income (gains/losses) from investment.

404.12

Agency transactions are similar to deferred revenue and refundable advances in that they represent money or assets that the library has received, but for which the library is not the rightful owner. For example, a library might sponsor a fundraiser to benefit a local school. Participants of the fundraisers obtain sponsorship money from people in the community based on the number of books they read in one month. After the month is completed, the participants will collect the money and give it to the library. The library should record this money as a liability since they are simply acting as an agent for the school and do not have a legal right to the money. The following journal entry should be recorded when the money is received:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash	\$1,000	
	140	Payable to XYZ school		\$1,000

The library should keep this entry in its records until it delivers the money to the local school. Once the money has been transferred to the school, the above entry should be reversed.

405 Accounting for Expenses

405.1

Expenses are recorded when incurred under GAAP. Any expense incurred but unpaid would represent accounts payable or accrued expenses (refer to Section 406).

405.2

Libraries may classify and organize their expenses in two ways:

1. **Natural** – Identifies expenses by the type (e.g. payroll, supplies, rent, postage, etc.); and
2. **Functional** – Categorizes expenses according to the purpose for which they are incurred. Generally, there are two broad classifications of functional expenses:
 - a. Program services; and
 - b. Supporting services.

Libraries must separate natural expenses into each function. For example, part of the rent and supplies expenses would be classified to each program area based on the amount of the facilities and personnel time dedicated to each.

Program services are costs associated with the primary purpose of the library. The level to which programs are broken down will be dependent on the size of the library and the extent of

services offered. Small libraries might only have one program service (e.g. library services). Larger libraries might find it beneficial to separate these costs between children services, adult services, and any other functional breakdowns deemed beneficial.

Supporting services are costs associated with library operation that cannot be identified with the primary purpose of the library. Service expenses are generally classified into one of the following categories:

1. **Management and General** – Expenses for the overall operation of the library such as accounting, Board activities, budgeting, and other administrative tasks;
2. **Fundraising** – Costs incurred in order to solicit support and donations. Fundraising expenses may include salaries, supplies, time, material, and other expenses. When recording fundraising expenses follow the below guidelines:
 - a. Fundraising costs should not be netted against the contribution revenue received. Costs and revenues should be reported on a gross basis.
 - b. Fundraising costs should be reported in the period incurred regardless of when expected contributions are received. Fundraising costs should never be deferred to a future period. Refer to Chapter 12 for additional fundraising information.
3. **Payments to Affiliated Organizations** – Payments to related parties or national organizations in return for services or other benefits should be allocated to another functional category. (e.g. Management and General), but if a portion cannot be allocated it can be reported as “unallocated payments to affiliated organizations.”)
4. **Other Supporting Services Expense Categories** – If the library has expenses that do not clearly belong in one of the functional expense categories they can be reported in a separate specified category.

405.3

Nonprofit libraries are required to report their expenses according to function. Nonprofit libraries are not required to report expenses by their natural classification, but should maintain this information because it might be helpful to management and the Board when analyzing costs. The chart of accounts is generally maintained by natural classification. Refer to Section 403.12 for additional information about the Statement of Functional Expenses.

405.4

When expenses are recorded, they should reduce net assets “without donor restrictions.” Expenses never affect net assets “with donor restrictions.” Expenses are recorded this way even if they are used to satisfy a donor’s stipulation for a contribution “with donor restrictions.” Normally, reductions in restricted assets only occur from one of the following:

1. **Reclassifications** – The only way to move assets from “without donor restrictions” to “with donor restrictions” and vice versa;
2. **Losses on Restricted Assets** – Losses on the sale of restricted assets when proceeds from the sale continue to be restricted are recorded as a reduction of the net asset classification “with donor restrictions;” and
3. **Losses on Restricted Unconditional Promises to Give** – Periodically the estimated fair value of unconditional pledges or promises-to-give must be revalued due to new information. If the library does not expect to realize the full amount of a restricted,

unconditional promise-to-give, the library will record a loss and a reduction to the net asset classification “with donor restrictions.”

406 Accounting and Recording for Accounts Payable and Accrued Expenses.

Note: This section does not apply to libraries using the cash method of accounting.

406.1

The accrual method of accounting requires libraries to record expenses in the period in which they are incurred.

406.2

Accounts Payable are amounts due to vendors for goods and services that the library has received but not paid (e.g. electric bill that is due 30 days after the end of the service period is an Accounts Payable until paid).

406.3

Below are some example journal entries for accounts payable. A library received an order of new books. The invoice for the associated order is \$1,000 and due thirty (30) days after receipt of the books. Accounts Payable must be recorded when the books are received through the following entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	110	Books	\$1,000	
	140	Accounts Payable		\$1,000

When the above invoice is paid the following entry should be recorded:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	140	Accounts Payable	\$1,000	
	100	Cash		\$1,000

In addition, it is important to track through an Accounts Payable Journal or the accounting software the vendor name, invoice date, due date, and amount. This allows for tracking of all invoices to determine how much is owed to a specific vendor and when bills need to be paid. Libraries can prepare reports reflecting the age of the invoice and when it is due to plan for short-term cash needs. Refer to Chapter # 4 - Example # 2 - AP Aging Report for a Microsoft Excel template.

Refer to [AP Aging Report](#)²⁰ for additional information on AP Aging Reports.

406.4

In addition, the library can incur costs for goods or services that were provided, even if an invoice has not been received. Payroll expense is a common example. For example, assume that the library director is paid bi-weekly. The library’s reporting period (e.g. month or year) ends the first week of the payroll cycle. Therefore, the library director has worked for one week in the

²⁰ “How to Manage Accounts Payable Aging Reports,” The Balance Small Business, accessed July 25, 2018. <https://www.thebalancesmb.com/how-to-manage-accounts-payable-aging-reports-13987>.

reporting period for which the library has not paid payroll. Assuming, the library director is paid \$2,000 for each payroll cycle (2-week period) the following entry is required to record the payroll expense and associated payroll tax incurred:

Date	Account #	Account Description	Debit	Credit
XX/31/2XXX	135	Payroll Expense	\$1,000	
	135A	Payroll Tax Expense	\$77	
	141	Payroll Payable		\$1,000
	142	Payroll Tax Payable		\$77

The library must reverse this entry during the next reporting period when the wages are paid.

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	141	Payroll Payable	\$1,000	
	142	Payroll Tax Payable	\$77	
	135	Payroll Expense		\$1,000
	135A	Payroll Tax Expense		\$77

406.5

Libraries are required to accrue a liability for employees' compensation for future absences if the following conditions are met:

1. The employee's right to receive compensation is based on employee work already completed (e.g. paid time off for vacation that is earned for days worked);
2. The rights are vested or accumulated (e.g. they are not contingent on the employee's future performance and they may be carried forward to subsequent years);
3. Payment is probable; and
4. The amount of future compensable can be estimated reasonably.

406.6

Accruals for compensated absences should be recorded based on the pay rate at the time of accrual (not at the time the benefit was received) and should include the library's tax responsibilities.

For example, if a library's annual leave policy provided 3 weeks (120 hours) of vacation per year to its librarian. The full amount of annual leave is available on the first day of the year and is paid in the event of employee termination. The librarian's pay rate at the end of the year was \$20 per hour. During the current year, the librarian used 2 weeks of vacation time. As a result, the library must accrue for 1 week (40 hours) of this vacation time at the end of the year.

Date	Account #	Account Description	Debit	Credit
XX/31/2XXX	136	Employee Leave Benefit Expense	\$800	
	136A	Employee Leave - Payroll Tax Expense	\$61	
	145	Accrued compensated absence		\$861

Refer to the [American Institute of Professional Bookkeeper's](#)²¹ for additional information on recording accrued expenses.

407 Accounting for Fixed Assets

407.1

Certain assets are useful for more than one accounting period (normally one year) and should be recorded as a capital asset and depreciated over an extended period of time under the accrual method. These assets usually cost a significant amount and provide services for longer than one year. Examples of capital assets include land, buildings, building improvements, capital leases, furniture, computer equipment/software, book collections, audio/visual material, and any other assets that will provide service for longer than one year. Assets are capitalized and depreciated since they provide future economic benefit; therefore, a portion of the expense to acquire the asset is deferred and recognized in that future period. Under the cash-basis of accounting, assets are not depreciated. Some libraries using the modified cash-basis accounting method chose to record depreciation on capital assets.

407.2

Assets that the library acquires (through purchase or donation) should be recorded at fair value. Generally, the fair value of purchased items is the purchase price. The fair price for a donated asset can be established through appraisal, market reports, or value of similarly priced item for sale online or in a catalog. The following entry shows an entry for the purchase of new furniture costing \$2,000:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	123	Furniture/Equipment	\$2,000	
	100	Cash (or Accounts Payable)		\$2,000

The following entry shows the proper recording, if the library received the above item through donation:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	123	Furniture/Equipment	\$2,000	
	116	Donation		\$2,000

407.3

Libraries should develop a policy related to fixed asset capitalization and depreciation. The policy should include the definition of capital asset which states the types of items that will be capitalized and a minimum dollar amount to be capitalized (e.g. a mouse may be classified as computer equipment but not capitalized due to its low value). The policy should also include if any items will be capitalized as a group (e.g. the value of one book in the library's collection is low but the value of all books is significant so the collection may be classified as a whole). When determining if anything will be capitalized as a group it is important how this will be accounted for (e.g. if you classify 3 new computers as a group and one breaks, how will the value be adjusted to account for the disposal). The policy should include: 1) the process for selling or disposing of the assets; 2) state the depreciation method; and 3) the useful life for various fixed

²¹ "Accrued Expenses (Accrued Liabilities)," American Institute of Professional Bookkeepers, accessed July 19, 2018. <http://www.aipb.org/pdf/AdjustingEntries.pdf>.

asset categories. Further useful life information can be referenced at the [IRS Website](#), [1.35.6.10](#).²² A sample is included below:

Asset category	Estimated useful life
Computers and related equipment	3 years
Purchased software	3 years
Non-computer office equipment (Phones, copiers, etc.)	5 years
Furniture and Fixtures	5 years
Leasehold improvements	Length of lease or 15 years, whichever is less

408 Accounting for Collections

408.1

Collections include works of art, rare books, and documents, and other items held for display or study by libraries.

408.2

[FASB ASC 958 360 25](#)²³ defines collections as items that meet the following criteria:

1. They are held for public exhibition, education, or research, and not for financial gain;
2. They are protected, cared for, and preserved; and
3. There is a policy requiring any proceeds from the sale of items to be used to acquire other collection items.

408.3

Libraries are not required to recognize collection items that are donated. Libraries must follow the same procedure for recording all items in collections. Libraries have the following three options for capitalizing collections:

1. Capitalize all collection items;
2. Capitalize no collection items; and
3. Capitalize only collection items on a prospective basis (e.g. after a specified start date).

408.4

Similar to other fixed assets (Refer to Section 407.2), collection items should be recorded at cost or fair value. Fair value should be based on quoted market prices if available. If not available, fair value should be priced on quoted prices for similar items, appraisals, or other valuation techniques. If the library chooses to retroactively capitalize all collection items, their cost or fair value may be based on the date of acquisition, current cost, or current market value, whichever is more practical. Capitalized collections are not depreciated.

²² "1.35.6 Property and Equipment Accounting," IRS, accessed July 19, 2018. https://www.irs.gov/irm/part1/irm_01-035-006#idm140511628331216.

²³ "ASU 2013-06," Financial Accounting Foundation, accessed July 24, 2018. <https://www.fasb.org/resources/ccurl/90/645/ASU%202013-06.pdf>.

408.5

Libraries that do not capitalize collections should separately recognize activities related to collections as follows:

1. Costs of collection items purchased are a decrease in net assets.
2. Proceeds from sales of collection items are an increase in net assets.
3. Proceeds from insurance recoveries of lost or destroyed collection items are an increase in net assets.

The above items are recorded as changes in the appropriate net assets classification, depending on the presence or absence of donor-imposed restrictions related to the collection items. Contributions of non-capitalized collection items should not be recognized in the Statement of Activities.

408.6

If a library chooses to capitalize collections on a prospective basis, items after adoption should be measured and recorded in the same manner as capitalized collection items in Section 408.4. The library should treat collections acquired before adoption in the same manner as not-capitalized items in Section 408.5.

409 Library Books and Audio/Visual

409.1

Library books generally have a useful life greater than one year and are depreciable. Since most of the items within a collection have a low value, but the value of the entire collection is significant, it may be appropriate for the library to use group or composite depreciation methods (Refer to Section 412 for additional information). The library's fixed asset capitalization and depreciation policy should describe the method used for library books and audio/visual material. If an individual asset within an asset group is retired, the total value of the asset group is credited by the original cost of the asset. The accumulated depreciation account is then debited by the gain or loss on the disposal of the asset. Refer to the [American Institute of Bookkeepers Website](#).²⁴ In certain situations, library books may be considered works of art or historical treasures and reported under the collection policies of the library (Refer to Section 410).

410 Depreciation

410.1

Once a library records a capital asset, it must depreciate the asset to properly expense a portion of the asset's cost in each accounting period that is part of the asset's useful life. An asset's useful life is determined by the length of time the asset will return an economic benefit or the total number of units the asset can reasonably be expected to produce. Refer to Section 407.3 for sample useful lives.

410.2

A variety of depreciation methods are permitted. Once the library determines which depreciation method it will use for each class of assets, the same method must be used for all assets in that

²⁴ "Bookkeeping Tips," American Institute of Professional Bookkeepers, accessed July 19, 2018. https://www.aipb.org/newsletter/bookkeeping_tips/pdfs/BookkeepingTips_2-37.pdf.

class for the entire useful life of assets. The following is a list of acceptable depreciation methods:

1. **Straight-Line Method** – Assumes that the asset’s economic benefit is used consistently and similarly throughout the useful life of an asset. For example, if an asset has a useful life of five years, depreciation equals 1/5 of the asset’s cost per year.
2. **Double-Declining Method** – Assumes that an asset’s economic benefit is used at a greater rate at the beginning of the asset’s life and slows the longer the asset is in use. The double-declining method is based on a percentage of the remaining asset balance rather than a percentage of original cost. To calculate depreciation, begin with the straight-line depreciation fraction. For example, an asset with a 10-year useful life would be 1/10. Double the fraction and make it a percentage (e.g. 1/10 doubles to 1/5 or 20%). Multiply the percentage by the asset’s current value. For example, if the library purchased an asset for \$10,000, the depreciation expense in the first year would be \$2,000 ($\$10,000 \times 20\%$). In the second year, the depreciation expense is \$1,600 [$(\$10,000 - \$2,000 \text{ (amount depreciated in prior year(s)}) \times 20\%$].
3. **Units of Production Method** – Assumes that assets exhaust their economic benefit through production of units (e.g. an asset that is heavily used will not last as long as an asset that is used scarcely). For example, a copier may cost \$10,000 and be expected to produce 100,000 copies. The depreciation recognized in each accounting period is determined by the number of copies made during the period. If 30,000 copies were made in the first, the amount of depreciation would be \$1,500 [$(\$10,000 / 100,000) \times 30,000$].

410.3

Assets are always maintained in the accounting records at historical cost, so the library must record depreciation in a separate accumulated depreciation account. Accumulated depreciation is maintained separately in the accounting records and reported in the financial statement as a reduction in fixed assets to determine net fixed assets.

410.4

Depreciation of \$1,000 for the year on a computer would be recorded via the following entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	190	Depreciation Expense	\$1,000	
	166	Accumulated Depreciation		\$1,000

410.5

Some fixed assets are not depreciated, since their economic benefit never declines (e.g. land and some historical treasures).

410.6

Group depreciation calculates depreciation for a collection of similar assets (e.g. a library’s book collection). Under this method, a single depreciation rate is applied annually to the acquisition cost of the entire collection. The estimated life for the group may be based on a weighted average or simple average of the useful lives of all the assets in the group or assessment of the life of the group as a whole. Libraries should group items based on their useful lives (e.g. hard

cover books have a longer useful life than soft-cover books). Any of the depreciation methods discussed in 410.2 can be used.

410.7

Additional information on GAAP depreciation is available at [American Institute of Professional Bookkeeper's](#).²⁵

411 Accounting for Investments

411.1

Libraries may hold various investments (e.g. stocks, bonds, mutual funds). FASB discusses two categories of investments:

1. Investments – Debt and Equity Securities; and
2. Investments – Other.

411.2

An equity security represents an ownership interest in a company or the right to buy or sell an ownership interest in a company at a specified price. Examples of equity securities include:

1. Common, preferred, and other capital stock;
2. Stock rights and warrants; and
3. Put and call options.

411.3

A debt security represents a creditor relationship with an enterprise. Examples of debt securities include:

1. U.S. Treasury, U.S. government agency, state, and municipal securities;
2. Corporate bonds; and
3. Convertible debt.

411.4

[FASB ASC 958-605-25-2](#)²⁶ requires equity and debt securities with a “readily determinable fair value” to be recognized at purchase price or fair value if received via a donation in the period received.

The fair value of a security is considered readily determinable if one of the following categories is met:

1. Sales prices or bid-and-asked quotations are available on the securities exchange registered with the Securities and Exchange Commission (SEC) or in an over-the-counter market.

²⁵ "Depreciation Under GAAP (For Book Purposes)," American Institute of Professional Bookkeepers, accessed July 19, 2018. <http://www.aipb.org/pdf/DEPRECI.A.pdf>.

²⁶ "ASU 2013-06," Financial Accounting Foundation, accessed July 24, 2018. <https://www.fasb.org/resources/ccurl/90/645/ASU%202013-06.pdf>.

2. If the equity is traded in a foreign market, that market is of a breadth and scope to the U.S. markets referred to above.
3. For mutual funds, the fair value per share is determined and published and the basis for current transactions.

For example, a library receives a donation of 100 shares of common stock in a publicly traded corporation. The market value of the stock on the date the donation is received is \$100 per share, which equates to a total contribution of \$10,000. Libraries should record the following entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	131	Investments	\$10,000	
	116	Donation		\$10,000

411.5

Investments have two elements that must be recorded:

1. Realized income – Interest, dividends, and capital gain distributions that are reinvested or distributed to the library; and
2. Unrealized gains/losses – Changes in the market value that are not distributed until the investment is sold.

At the end of each month, libraries should review investment activity to calculate the current fair value. The fair value of equity investments is determined by reviewing monthly statements for the broker or investment websites, such as [Marketplace](#).²⁷ Libraries should multiply the price per share at the end of the month by the number of shares owned to determine the current fair value. If quoted prices are not available, the fair value should be estimated based on market prices for similar securities or other valuation techniques.

For example, if during the period subsequent to receipt of the donated stock in Section 411.4 the library receives an account statement reflecting dividends earned and reinvested \$500 and an ending market value of \$9,000, it should record the following entries:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	131	Investments	\$500	
	140	Investment Earnings		\$500

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	140	Investment Earnings	\$1,500	
	131	Investments		\$1,500

The first entry records the dividends earned and reinvested and the second entry records the change in market value (dividends earned + fair market value loss). These two entries result in \$9,000 value in the investment account to correspond with the account statement.

²⁷ "Home," Marketplace-The Numbers," accessed July 24, 2018. <http://thenumbers.marketplace.org/publicradio/markets>.

Realized and unrealized gains and losses on debt and equity investments should be reported in the statement of activities as increases or decreases in net assets (without donor restriction or with donor restrictions based on donor stipulations).

Note: Libraries on the cash-basis should only record realized income.

411.6

[FASB ASC 958-235](#)²⁸ provides guidance on the following other investments:

1. Partnership interests;
2. Investment in real estate;
3. Mortgage notes;
4. Venture capital funds;
5. Oil and gas interests; and
6. Equity securities that do not have readily determinable fair values.

Similar to equity investments discussed in Sections 411.4, other investments should be recorded at acquisition cost or fair value. If a fair value estimate has not been developed, the library should evaluate whether events or changes in circumstances have occurred that may have a significant adverse effect on fair value of the investment (e.g. a significant deterioration in the investee's financial or operating performance). Refer to [FASB ASC 320-10-35-25](#)²⁹ through 35-29 for additional information. For cost method investments where the fair value is less than cost, the library should determine if the impairment is other than temporary. Refer to [FASB ASC 320-10-35-31](#)³⁰ for additional guidance.

412 Accounting for Debt

412.1

Libraries may incur debt from borrowing from a financial institution in order to purchase a large item, such as a building or furniture.

Assume a library needs to purchase new furniture that costs \$10,000. The library does not have \$10,000 available; therefore, it secures a loan for \$10,000. Loan payments are \$200 per month and the interest rate is 6%.

The library would record the following entry for the receipt for of the loan under the accrual method:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash	\$10,000	
	131	Notes Payable - Furniture		\$10,000

²⁸ "ASU 2013-06," Financial Accounting Foundation, accessed July 24, 2018.
<https://www.fasb.org/resources/ccurl/90/645/ASU%202013-06.pdf>.

²⁹ "ASU 2018-04," Financial Accounting Foundation, accessed July 24, 2018.
<https://asc.fasb.org/imageRoot/34/116779634.pdf>.

³⁰ "ASU 2018-04," Financial Accounting Foundation, accessed July 24, 2018.
<https://asc.fasb.org/imageRoot/34/116779634.pdf>.

Once the library purchases the furniture, it should record the following entry under the accrual or cash-basis method:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	165	Fixed Assets - Furniture	\$10,000	
	100	Cash		\$10,000

The above two entries cancel out the cash amount and result in furniture with a value of \$10,000 and a note payable of \$10,000.

The library must record payments (principal and interest portion) as the loan is repaid:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	185	Interest expense	\$50	
	131	Notes Payable - Furniture	\$150	
	100	Cash		\$200

412.2

Libraries also use capital leases to fund asset purchases. Leases are considered operating leases or capital leases. A lease is capitalized as a capital lease if one of the following criteria is met:

1. The lease passes title to the lessee by the end of the lease term;
2. The lease contains a bargain purchase option;
3. The lease term is at 75% of the property's estimated remaining economic life; and
4. The present value of the minimum lease payments is at least 90% of the property's fair value.

Libraries should account for a capital lease as if the leased asset was purchased and the entire purchase price was financed. The amount recorded should be the lesser of the fair value of the leased asset at the inception of the lease or the present value of the minimum lease payments as of the beginning of the lease term. Once recorded, the leased asset should be depreciated like any owned asset.

Assume a library acquired a computer system under a lease agreement that stipulated that at the end of the three-year lease the library can purchase the system for \$1. The fair value of the system is \$10,000. The lease requires monthly payments of \$323 aggregating \$3,876 per year. The lease qualifies as a capital lease due to the bargain purchase option of \$1 at the end of the lease agreement. Since this transaction is considered a capital lease the following entries are required:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	166	Fixed Assets - Equipment	\$10,000	
	135	Capital Lease Payable		\$10,000

The above entry records the acquisition of equipment.

Subsequent payments for the year would be recorded as follows:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	135	Capital Lease Payable	\$3,011	
	185	Interest Expense	\$865	
	100	Cash		\$3,876

In addition, under the straight-line method, depreciation for the year would be recorded as:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	190	Depreciation Expense	\$3,333	
	166	Accumulated Depreciation		\$3,333

Refer to [leases](#)³¹ for additional information on leases.

412.3

If a lease does not meet the criteria for capitalization, monthly payments should be treated as an expense. Refer to the entry below for recording of a \$300 payment for an operating lease for a copier.

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	170	Office Equipment Expense	\$300	
	100	Cash		\$300

³¹ "Proposed Accounting Standards Update-Leases (Topic 840)," FASB, accessed July 24, 2018. https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176157191432&acceptedDisclaimer=true.

CHAPTER 5 – PAYROLL

500 Chapter Objective/Summary

500.1

This chapter outlines the types of payroll taxes that affect a library, the dates tax deposits are due to the taxing authority, the reporting requirements and due dates of returns, and the methods for recording payroll in the payroll journal, payroll cards, and the general ledger. Also, this chapter provides examples of some record-keeping tools and ways to outsource payroll. It is important to review the referenced documentation every January to verify use of current rates and tax forms. The following chapter outline highlights the major topics discussed in the chapter.

- 501 – Types of Payroll Taxes
- 502 – Taxes Withheld from the Employee's Pay
- 503 – Taxes Paid by the Employer Directly as an Expense
- 504 – Frequency of Tax Deposits
- 505 – Reporting Requirements and Due Dates
- 506 – Other Forms Required to be Filed or Completed
- 507 – Calendar of Returns and Due Dates
- 508 – Payroll Banking
- 509 – Payroll Activities
- 510 – Recordkeeping Alternatives
- 511 – Direct Deposit
- 512 – Independent Contractors
- 513 – FMLA

501 Types of Payroll Taxes

501.1

There are two categories of payroll taxes. Those withheld from the employee and subsequently remitted to the appropriate taxing authority, and those paid directly by the employer to the taxing authority.

502 Taxes Withheld From the Employee's Pay

502.1

Federal Income Tax – The employee pays this tax to the federal government on all earned income. The employer is required to withhold this tax from the employee's pay and remit it on a periodic basis along with a Federal Tax Deposit Coupon (Form 8109-B). Refer to Internal Revenue Service (IRS) Publication 15 Circular E to calculate the amount of withholding. Refer to the [IRS website](https://www.irs.gov/publications/p15)³² for Publication 15.

All employees should complete Form W-4 when they begin employment with the library and have life changes (e.g. birth of child, loss of spouse's job).

³² "Publication 15 (2018), (Circular E), Employer's Tax Guide," IRS, accessed July 19, 2018. <https://www.irs.gov/publications/p15>.

Refer to the [IRS website](#)³³ for a copy of the form W-4 on the forms and publications,

The library determines the amount of federal income tax to withhold based on various information on the W-4, such as: 1) the employee's filing status (e.g. married, single, or married but withhold at a higher single rate), 2) the number of exemptions claimed by the employee, 3) the amount of the gross pay due to the employee, and 4) any additional amounts the employee elects to have withheld. The amount is determined by the withholding tables provided in IRS Publication 15, Circular E.

502.2

Social Security Tax – Provides social security benefits to the employee at retirement. The library remits this tax to the federal government along with the federal income tax on a periodic basis. The amount withheld is a percentage of the employee's gross pay up to a predetermined limit set by the federal government on an annual basis. The wage tax percentage and gross pay limitation are located in IRS Publication 15 Circular E.

502.3

Medicare Tax – Provides Medicare benefits to the employee at retirement. The library remits this tax to the federal government along with the federal income tax and social security tax on a periodic basis. The amount withheld is a percentage of the employee's gross pay. The current tax percentage is located in IRS Publication 15 Circular E.

502.4

Pennsylvania Income Tax – The library is required to withhold this tax from the employee's pay and remit it to the Commonwealth of Pennsylvania on a periodic basis. Calculate the amount of the withholding by multiplying the gross pay by the Pennsylvania income tax percentage. For the current income tax percentage, refer to [PA Dept. of Revenue](#).³⁴

502.5

Local Income Tax – Employees pay this tax to their local government units based on their earned income. Employers must register with the municipality/school district where the business is located. Employers must withhold this tax from the employee's pay and remit it to the municipality on a periodic basis. Calculate the amount of withholding by multiplying the gross pay by the locality's income tax percentage. Contact applicable local governments or refer to their websites for the current percentage. Refer to [tax registers](#)³⁵ to determine the appropriate tax collector and contact information.

503 Taxes Paid By the Employer Directly as an Expense

503.1

Social Security Tax – The library also pays a portion of the Social Security Tax, which it remits to the federal government along with the federal income, social security, and Medicare taxes withheld from employees. The amount paid is a percentage of the employee's gross pay up to a predetermined limit set by the federal government on an annual basis. The wage tax percentage

³³ "2018 Form W-4," IRS, accessed July 19, 2018. <https://www.irs.gov/pub/irs-pdf/fw4.pdf>.

³⁴ "Current Tax Rates," Pennsylvania Department of Revenue, accessed July 19, 2018. <http://www.revenue.pa.gov/GeneralTaxInformation/Current%20Tax%20Rates/Pages/default.aspx>.

³⁵ "EIT / PIT / LST Tax Registers," Pennsylvania Department of Community and Economic Development, accessed July 19, 2018. http://munstats.pa.gov/Reports/ReportInformation2.aspx?report=EitWithCollector_Dyn_Excel&type=O.

and gross pay limitation are located in IRS Publication 15 Circular E. Refer to the [IRS website](#)³⁶ for a copy of Publication 15.

503.2

Medicare Tax – The library also pays a portion of the Medicare Tax to the federal government along with the other federal taxes withheld for employees and the employer's portion of Social Security tax. The amount withheld is a percentage of the employee's gross pay. The current tax percentage is located in IRS Publication 15 Circular E.

503.3

Libraries qualified under Section 501(c)(3) of the Internal Revenue Code are exempt from the federal unemployment tax.

503.4

Pennsylvania Unemployment Tax – If the library is a 501(c)(3), they have two options for unemployment insurance. The library can pay unemployment insurance tax or become a reimbursing employer. Reimbursing employers do not have to pay unemployment tax but reimburse the state for claims paid to former employees. An advantage of selecting the unemployment tax method is that the library will know the tax rate for the upcoming year and can project the annual cost, which will not change based on unemployment claims (although the tax rate may rise in future years). The advantage of reimbursing is that the library only has to pay for unemployment claims, which could be a lower cost for libraries with stable employment.

Libraries that choose to pay unemployment tax must remit this tax to the Commonwealth of Pennsylvania on a quarterly basis. Calculate the amount due by multiplying the taxable wages for the quarter by the Pennsylvania unemployment rate for the library. The Commonwealth mails the library a contribution Rate Notice (Form UC-657) at the end of each calendar year that shows the effective rate for the upcoming calendar year end. Refer to [PA Dept. of Labor website](#)³⁷ for the current rate.

504 Frequency of Tax Deposits

504.1

Failure to make tax deposits to the government on a timely basis will result in the library being assessed a penalty and interest by the taxing authority.

504.2

Federal Income Tax withheld and employer portion of federal taxes – The library must deposit employment taxes, including Form 945 taxes, by Electronic Funds Transfer (EFT). The Library must use EFT to make all federal tax deposits. Generally, an EFT is made using the Electronic Federal Tax Payment System (EFTPS). If the library does not want to use EFTPS, it can designate a financial institution, payroll service, or other trusted third-party to make electronic deposits on the library's behalf. EFTPS is a free service provided by the Department of Treasury. To get more information about EFTPS or to enroll in EFTPS, visit the [EFTPS](#)

³⁶ "Publication 15 (2018)," IRS, accessed July 19, 2018. <https://www.irs.gov/businesses/small-businesses-self-employed/employment-tax-due-dates>.

³⁷ "Computation of Rates," Pennsylvania Department of Labor and Industry, accessed July 19, 2018. <http://www.uc.pa.gov/employers-uc-services-uc-tax/uc-tax-rates/Pages/Computation-of-Rates.aspx>.

[Website](#).³⁸ Additional information about EFTPS is also available in Publication 966. Refer to the [IRS website](#)³⁹ for a copy of Publication 966.

Deposit due dates – There are two deposit schedules, monthly or semi-weekly. Before the beginning of each calendar year, the library must determine which of the two deposit schedules it is required to use. The deposit schedule depends upon your library's total taxes for the prior year.

For current thresholds, frequency of payment, due dates, and frequently asked questions, refer to the [IRS website](#).⁴⁰

504.3

Pennsylvania Income Tax – The amount due determines the deposit date. Make deposits to the Commonwealth of Pennsylvania along with the accompanying Pennsylvania Form 501, "Employer Deposit Statement of Pennsylvania Withholding Tax." Submit the form and payment electronically through the [Department of Revenue's internet filing system](#).⁴¹

504.4

The Department of Labor and Industry requires that employers electronically file Unemployment Compensation (UC) wage and tax information through the Unemployment Compensation Management System (UCMS). Refer to the Commonwealth of Pennsylvania for more information about the wage reporting at [Commonwealth of Pennsylvania](#).⁴²

504.5

Local Income Tax – The library's local municipality determines the frequency and submission requirements. Refer to [Municipal Statistics](#)⁴³ to determine the appropriate tax collector and contact information.

505 Reporting Requirements and Due Dates

505.1

Federal Income Taxes – Report on Form 941, "Employer's Quarterly Federal Tax Return" and file on a quarterly basis. Form 941 is due by the last day of the first month subsequent to the quarter end (e.g. the return for the quarter January through March filing due date is April 30). Refer to the Forms and Publications Section on the [IRS website](#)⁴⁴ for a copy of Form 941.

505.2

Pennsylvania Income Tax Withheld – Report on Pennsylvania form PA-W3, "Employer Quarterly Return of Pennsylvania Withholding Tax" on a quarterly basis. Form PA-W3 is due by the last day of the first month subsequent to the quarter end (e.g. the return for the quarter

³⁸ "Welcome to EFTPS," EFTPS, accessed July 25, 2018. <https://www.eftps.gov/eftps/>.

³⁹ "Publication 966," IRS, accessed July 19, 2018. <https://www.irs.gov/pub/irs-pdf/p966.pdf>.

⁴⁰ "Employment Tax Due Dates," IRS, accessed July 19, 2018. <https://www.irs.gov/businesses/small-businesses-self-employed/employment-tax-due-dates>.

⁴¹ "eTides," Pennsylvania Department of Revenue, accessed July 25, 2018. <https://www.etides.state.pa.us/>.

⁴² "Forms- Wage Reporting," Pennsylvania Department of Labor and Industry, accessed July 19, 2018. <http://www.uc.pa.gov/forms/Pages/Forms---Wage-Reporting.aspx>.

⁴³ "Municipal Statistics," Pennsylvania Department of Community and Economic Development, accessed July 24, 2018. <https://munstats.pa.gov/forms/>.

⁴⁴ "Instructions for Form 941," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/i941.pdf>.

January through March filing due date is April 30). Refer to [PA Dept of Revenue](#)⁴⁵ for instructions on filing the PA W-3 electronically through the e-Tides system.

505.3

Pennsylvania Unemployment Tax – Report on the Pennsylvania form UC-2, “Employer’s Report for Unemployment Compensation” on a quarterly basis. Form UC-2 is due by the last day of the first month subsequent to the quarter end (e.g. the return for the quarter January through March filing due date is April 30). Refer to Section 504.4 for a link to the form.

505.4

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) required all states to create an automated new hire/rehire reporting program. In order to comply with PRWORA, Pennsylvania has a “New Hire Reporting Form.” Complete this form when the library hires a new employee. Refer to [Commonwealth Workforce Development](#)⁴⁶ for instructions and a copy of the form.

505.5

The form used to report local income tax withheld and the due date is different depending on the municipality. However, most municipalities require reporting of their income tax on a quarterly basis. Refer to [Municipal Statistics Tax Reports](#)⁴⁷ for reporting requirements and to determine the appropriate tax collector and contact information to obtain additional information.

506 Other Forms Required to be Filed or Completed

506.1

Federal Forms:

1. W-2: Complete this form annually for each employee to report wages and taxes withheld for the calendar year. File this form on an annual basis with the federal government, the Commonwealth of Pennsylvania, and the local taxing authority. Provide multiple copies to each employee for submission with personal income tax returns. The library must provide this form to all employees by January 31 for the prior calendar year. W-2 forms can be completed and printed on the Business Services Online section of the [Social Security Administration's website](#).⁴⁸ The library must file the W-2 with the taxing authorities by January 31 for the prior calendar year.
2. W-3: This form reports the total wages and federal taxes for the library for the calendar year. File this form annually with the Social Security Administration, January 31 for the

⁴⁵ "General Information & Specifications: W-2 & PA W-3 Quarterly Filing," Pennsylvania Department of Revenue, accessed July 24, 2018. https://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/EmployerWithholding/Documents/w-2_w-3_filing_general_information.pdf.

⁴⁶ "Instructions for Completing the Form," Pennsylvania COMMONWEALTH WORKFORCE DEVELOPMENT SYSTEM, accessed July 24, 2018. https://www.cwds.pa.gov/cwdsonline/NewHire/Documents/FORM_INSTRUCTIONS_NEWHIRE.pdfhttps://www.cwds.pa.gov/cwdsonline/NewHire/Documents/FORM_INSTRUCTIONS_NEWHIRE.pdf.

⁴⁷ "Municipal Statistics," Pennsylvania Department of Community and Economic Development, accessed July 24, 2018. <https://munstats.pa.gov/public/findlocaltax.aspx>.

⁴⁸ "Business Services Online," Social Security Administration, accessed July 24, 2018. <https://www.ssa.gov/bs/bsowelcome.htm>.

calendar year that has just ended. Refer to the [Social Security Administration Website](#)⁴⁹ for additional information on online and paper filing.

3. W-4: Employees complete and sign this form, "Employee's Withholding Exemption Certificate," at the time of employment or when they desire to make a change in their withholding status or exemptions. The library retains all W-4 forms. The forms are retained by the library and not submitted to the IRS unless the IRS provides a written request for a copy based on suspected under-withholding. Refer to the [IRS website](#)⁵⁰ for a copy the W-4.

506.2

State Forms:

1. REV-1667: This form reports the total wages and Pennsylvania income tax withheld by the library for the calendar year. The library files this form annually with the Commonwealth of Pennsylvania, accompanied by Copy A of the W-2 forms. Form REV-1667 filing due date is January 31 for the prior calendar year. The library must file Form REV-1667 through the [Department of Revenue's internet filing system](#)⁵¹.
2. PA-3: "Employer Quarterly Return of Withholding Tax" is submitted through the [Department of Revenue's internet filing system](#)⁵² on a quarterly basis.

507 Calendar of Returns and Due Dates

Note: Check the form instructions every January to verify there has not been a change in due dates. Also, check with your local tax municipality to verify that the due dates correspond with the table.

Due Date	Form	Website Refer to	Type of Tax
January 31 st	Federal Form 941 (4 th quarter)	Federal Form 941 ⁵³	Employer and Employee Paid
January 31 st	Federal Form 940	Federal Form 940 ⁵⁴	Employer Paid
January 31 st	W-2 forms to all employees	W-2 to Employee ⁵⁵	Employee Paid
January 31 st	Federal Form W-2 to federal government	W-2 to IRS ⁵⁶	Employee Paid

⁴⁹ "Business Services Online," Social Security Administration, accessed July 24, 2018. <https://www.ssa.gov/bso/bsowelcome.htm>.

⁵⁰ "Form W-4, Employee's Withholding Allowance Certificate," IRS, accessed July 24, 2018. <https://www.irs.gov/forms-pubs/about-form-w4>.

⁵¹ "eTides," Pennsylvania Department of Revenue, accessed July 25, 2018. <https://www.etides.state.pa.us/>.

⁵² "eTides," Pennsylvania Department of Revenue, accessed July 25, 2018. <https://www.etides.state.pa.us/>.

⁵³ "Form 941," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/f941.pdf>.

⁵⁴ "Form 940," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/f940.pdf>.

⁵⁵ "ELECTRONIC W-2/W-2C FILING," Social Security Administration, accessed July 24, 2018. <https://www.ssa.gov/employer/bsobhnew.htm>.

⁵⁶ "ELECTRONIC W-2/W-2C FILING," Social Security Administration, accessed July 24, 2018. <https://www.ssa.gov/employer/bsobhnew.htm>.

Due Date	Form	Website Refer to	Type of Tax
January 31 st	Federal Form W-3	Federal W-3 ⁵⁷	Employee Paid
January 31 st	Pennsylvania Form W-3 (4 th quarter)	PA W-3 ⁵⁸	Employee Paid
January 31 st	Pennsylvania Form REV-1667	REV-1667 ⁵⁹	Employee Paid
January 31 st	Local Income Tax Withheld Form (4 th quarter)	Local Income Tax ⁶⁰	Employee Paid
January 31 st	Pennsylvania Form UC-2 (4 th quarter)	UC-2 ⁶¹	Employer and Employee Paid
April 30 th	Federal Form 941 (1 st quarter)	Federal Form 941 ⁶²	Employer and Employee Paid
April 30 th	Pennsylvania Form W-3 (1 st quarter)	PA W-3 ⁶³	Employee Paid
April 30 th	Local Income Tax Withheld Form (1 st quarter)	Local Income Tax ⁶⁴	Employee Paid
April 30 th	Pennsylvania Form UC-2 (1 st quarter)	PA UC-2 ⁶⁵	Employer and Employee Paid
July 31 st	Federal Form 941 (2 nd quarter)	Federal 941	Employer and Employee Paid
July 31 st	Pennsylvania Form W-3 (2 nd quarter)	PA W-3 ⁶⁶	Employee Paid
July 31 st	Local Income Tax Withheld Form	Local Income Tax ⁶⁷	Employee Paid

⁵⁷ "About Form W-3, Transmittal of Wage and Tax Statements," IRS, accessed July 24, 2018.

<https://www.irs.gov/forms-pubs/about-form-w3>.

⁵⁸ "eTides," Pennsylvania Department of Revenue, accessed July 25, 2018.

<https://www.etides.state.pa.us/>.

⁵⁹ "eTides," Pennsylvania Department of Revenue, accessed July 25, 2018.

<https://www.etides.state.pa.us/>.

⁶⁰ "Municipal Statistics," Pennsylvania Department of Community & Economic Development, accessed July 25, 2018. <https://munstats.pa.gov/forms/>.

⁶¹ "Pennsylvania Unemployment Compensation (PA UC) Quarterly Tax Forms," Pennsylvania Department of Labor & Industry, accessed July 25, 2018. https://www.uc.pa.gov/Documents/UC_Forms/uc-2_employers_report_for_uc.pdf.

⁶² "941 for 2018," Department of the Treasury, accessed July 25, 2018. <https://www.irs.gov/pub/irs-pdf/f941.pdf>.

⁶³ "eTides," Pennsylvania Department of Revenue, accessed July 25, 2018.

<https://www.etides.state.pa.us/>.

⁶⁴ "Municipal Statistics," Pennsylvania Department of Community & Economic Development, accessed July 25, 2018. <https://munstats.pa.gov/forms/>.

⁶⁵ "Pennsylvania Unemployment Compensation (PA UC) Quarterly Tax Forms," Pennsylvania Department of Labor & Industry, accessed July 25, 2018. https://www.uc.pa.gov/Documents/UC_Forms/uc-2_employers_report_for_uc.pdf.

⁶⁶ "eTides," Pennsylvania Department of Revenue, accessed July 25, 2018.

<https://www.etides.state.pa.us/>.

⁶⁷ "Municipal Statistics," Pennsylvania Department of Community & Economic Development, accessed July 25, 2018. <https://munstats.pa.gov/forms/>.

Due Date	Form	Website Refer to	Type of Tax
	(2 nd quarter)		
July 31 st	Pennsylvania Form UC-2 (2 nd quarter)	PA UC-2 ⁶⁸	Employer and Employee Paid
October 31 st	Federal Form 941 (3 rd quarter)	Federal 941	Employer and Employee Paid
October 31 st	Pennsylvania Form W-3 (3 rd quarter)	PA W-3 ⁶⁹	Employee Paid
October 31 st	Local Income Tax Withheld Form (3 rd quarter)	Local Income Tax ⁷⁰	Employee Paid
October 31 st	Pennsylvania Form UC-2 (3 rd quarter)	PA UC-2 ⁷¹	Employer and Employee Paid

508 Payroll Banking

508.1

Accounting for payroll can be difficult and time consuming. This section includes some advice to simplify the payroll recording process.

508.2

There are two main approaches to handling payroll banking:

1. Establish a separate checking account for payroll within the Operating/General Fund and transfer amounts into the account to cover gross payroll amounts from the various library funds.
2. Establish separate payroll checking accounts in each fund for handling payroll.

508.3

The first approach is easier to use and accommodates libraries that must pay employees out of several funds.

508.4

Open the payroll checking account with only the minimum balance (the “impress amount”) required by the bank. Each pay period, the library should transfer the same amount as the total payroll costs (e.g. gross pay and employer payroll taxes) into the checking account. After checks clear, the account balance should return to the impress amount deposited. If it is a different amount, identify and correct the difference immediately.

⁶⁸ “Pennsylvania Unemployment Compensation (PA UC) Quarterly Tax Forms,” Pennsylvania Department of Labor & Industry, accessed July 25, 2018. https://www.uc.pa.gov/Documents/UC_Forms/uc-2_employers_report_for_uc.pdf.

⁶⁹ “eTides,” Pennsylvania Department of Revenue, accessed July 25, 2018. <https://www.etides.state.pa.us/>.

⁷⁰ “Municipal Statistics,” Pennsylvania Department of Community & Economic Development, accessed July 25, 2018. <https://munstats.pa.gov/forms/>.

⁷¹ “Pennsylvania Unemployment Compensation (PA UC) Quarterly Tax Forms,” Pennsylvania Department of Labor & Industry, accessed July 25, 2018. https://www.uc.pa.gov/Documents/UC_Forms/uc-2_employers_report_for_uc.pdf.

508.5

It is important to note that the library must match the Social Security and Medicare tax payments withheld from employees. Therefore, the total Social Security and Medicare tax deposit is twice the amount withheld. Deposit and disburse the library's Social Security and Medicare Tax amounts from the Payroll Account.

509 Payroll Activities

509.1

A high-level process for recording payroll follows. If you do not have a payroll system, complete these calculations and store them in Microsoft Excel for future reference/use.

1. Employees complete time cards/sheets showing regular and overtime hours (manual or in a system);
2. Supervisors verify that the hours on the time cards are accurate and sign the time cards. If the time cards are manual, verify the hours are mathematically correct;
3. Compute gross pay for each employee based on time card hours (including overtime) or salaried rate. If the time cards are manual, verify the accuracy of the calculation;
4. Calculate tax deductions for each employee based on the applicable percentages (federal, state, and local);
5. Compute other deductions for each employee (e.g. insurance);
6. Determine net take home pay (gross pay minus tax and other deductions);
7. Complete an earnings record for each employee (this will be used to complete the W-2):
 - a. Review to verify accuracy of calculations; and
 - b. Please refer to Chapter # 5 - Example 1 - Earnings Record for an example Earnings Record.
8. Prepare a payroll check and payroll stub for each employee;
9. Complete payroll journal to accumulated total gross payroll; federal, state, and local taxes withheld; and other withholdings:
 - a. Entry to record employees' wages and withholdings for a sample pay period where employees earned \$10,000 in wages:

Date	Account #	Account	Debit	Credit
June 15, 2XXX	135	Payroll Expense	10,000	
	135.A1	Federal Income Tax Payable		1500
	135.A2	State Income Tax Payable		500
	135.A3	Local Taxes Payable		100
	135.A4	Local Taxes Payable		765
	126	Cash		7,135

- b. Entry to record the employer's payroll taxes including matching of the FICA and unemployment under accrual basis:

Date	Account #	Account	Debit	Credit
June 15, 2XXX	139	Payroll Tax Expense	915	
	139A.1	FICA Taxes Payable		765
	139A.2	Unemployment Taxes Payable		150

10. Review checks to payroll journal to verify accuracy;
11. Distribute payroll to employees;
12. Deposit in the appropriate federal depository bank based on schedule in Section 507:
 - a. The federal taxes withheld; and
 - b. The employer's share of payroll taxes.
13. Remit state taxes withheld to Pennsylvania Department of Revenue based on the schedule in Section 507;
14. Remit the local income tax to municipalities based on the schedule in Section 507;
15. Report insurance, pension, and other withholdings to the proper agencies as required; and
16. At least monthly, reconcile the cash balance in the payroll checking account to the balance in the payroll General Ledger account.

510 Recordkeeping Alternatives

510.1

Because of the increasing complexity of payroll accounting and frequency of federal and state tax changes, libraries should consider one of the following methods to simplify the payroll accounting function.

1. Purchase a computerized payroll recordkeeping package (stand-alone or part of software package).
2. Hire an outside service that will assist the library in performing the payroll function. Examples and comparisons of external payroll providers are available from business.org a non-profit organization that reviews software. Refer to [The Best Payroll Software and Services for Small Businesses in 2018](#).⁷²

510.2

The benefits of payroll software include:

1. Accurate and fast calculations;
2. Organizational tools;
3. Reporting tools;
4. Guidance through special circumstances; and
5. Assistance in tracking important tax information.

⁷² "The Best Payroll Software and Services for Small Businesses in 2018," Business, accessed July 24, 2018. <https://www.business.org/finance/accounting/best-payroll-software/>.

510.3

Many accounting applications, such as QuickBooks and Sage, include integrated payroll processing. The primary advantage is that payroll data can interface directly with the accounting system. For example, salary information from the payroll portion can interface directly to the general ledger. The major disadvantage of the integrated software approach is that the payroll component may not meet your organization's need (it may be too simple or too complex to use efficiently).

510.4

The advantage of stand-alone payroll packages is that you can obtain the best application for your library's payroll processing requirements without consideration of your accounting and business information needs.

The following is a list of popular payroll software.

<u>Name</u>	<u>Website</u>
ADP Workforce Now	ADP ⁷³
Gusto	GUSTO ⁷⁴

510.5

Many programs are priced according to the number of employees they can handle. To choose the most cost effective payroll software program for your library that will provide the features that you need, consider the following:

1. How large your payroll is;
2. What special features you will need (e.g. ability to use a specific timesheet format); and
3. How important it is to have an automated payroll system.

510.6

When trying to determine the payroll solution that is best for your library, consult the following resources:

1. Magazines and online articles about the latest payroll software and technology;
2. Software reviews that compare different brands; and
3. Free trials and demos that give you a first-hand look at the program and help determine which program is most functional.

510.7

Payroll outsourcing works by shifting the functions of payroll processing (e.g. collecting information about hours worked, computing employee tax information, and transferring funds to various accounts) to a third party. A payroll processing company can write checks, deposit funds to employee accounts, and provide W-2 forms at the end of the year. Outside payroll services are very convenient but may not be worth the cost for a small library. When considering

⁷³ "Services & Products," ADP, accessed July 25, 2018. <https://www.adp.com/>.

⁷⁴ "It's time to tame the chaos of payroll, benefits, and HR," GUSTO, accessed July 25, 2018. <https://gusto.com/>.

an outside payroll service, it is important to research different companies and compare costs and provided services.

510.8

Benefits of third-party payroll services include:

1. Saved costs on an in-house payroll function;
2. The vendor maintains the payroll program and tax tables. This means they are always up-to-date, without requiring any additional effort on your part, such as periodic installation of payroll tax table updates;
3. The vendor will automatically backup your payroll data on the payroll company's server; and
4. There is the important segregation of duties between payroll processing, human resources, and financial reporting.

510.9

When selecting a potential payroll vendor it is important to consider:

1. Ability to meet the library's needs;
2. Data security;
3. Speed;
4. Ease of use;
5. Accuracy and reliability (Most payroll processing companies will guarantee their work by offering to pay any charges that they incur by way of late filings or erroneous preparations. The library has responsibility for providing accurate data); and
6. Cost.

When comparing costs, it is important to note that many providers charge additional fees for extra services you might need, such as adding employees or adjustments.

The following are usually included in a basic payroll package:

1. Paycheck processing;
2. Online access for employees/employer;
3. Basic tax filing; and
4. Direct deposit.

If the vendor you are considering offers a free trial or demo, take advantage of this opportunity to test the product and its functionality before purchasing.

510.10

Two of the most commonly used traditional outside payroll services are listed below.

Payroll Service	Website
ADP	ADP ⁷⁵
Paychex	PAYCHEX ⁷⁶

510.11

Using a web-based service for outsourced payroll is also an option. It allows you to submit payroll input data, such as summarized time sheets, to a central computer, which then calculates the payroll and prepares the payments, payroll register, and other reports. Usually no additional software is required beyond a Web browser. It is important to verify that the web service you are considering uses a secure server; Internet Explorer identifies secure servers by displaying a lock symbol on the bottom of the browser's display.

The following is a listing of popular web-based payroll options:

Name	Website
Gusto	GUSTO ⁷⁷
Intuit Online Payroll	INTUIT ⁷⁸
SurePayroll (A Paychex Company)	SurePayroll ⁷⁹
Bank of America in partnership with ADP or Intuit	Bank of America ⁸⁰

For a listing and review of popular online payroll services refer to [The SHRM Website](#).⁸¹

510.12

Libraries should request a copy of the most recent Service Organization Control (SOC) Type II report from a potential payroll vendor before final selection. In addition, the contract with the payroll vendor should state that the vendor must provide a copy of the SOC Type II reports to the library upon request. A SOC is a report by an independent auditor, where the auditor expresses an opinion on the auditee's internal controls. The auditor's opinion is based on the listed controls. A Type II report reviews the effectiveness of the control design and the operation of the controls during the period covered by the report. A Type II report provides more assurance than a Type I report, which only reviews the design of the controls. All reputable payroll vendors should have a completed SOC report.

⁷⁵ "Services & Products," ADP, accessed July 25, 2018. <https://www.adp.com/>.

⁷⁶ "Lift the Fog," PAYCHEX, accessed July 25, 2018. <https://www.paychex.com/>.

⁷⁷ "It's time to tame the chaos of payroll, benefits, and HR," GUSTO, accessed July 25, 2018. <https://gusto.com/>.

⁷⁸ "Get Payroll Peace of Mind," Intuit QuickBooks, accessed July 25, 2018. <https://payroll.intuit.com/t/qbks-16443/online-payroll/>.

⁷⁹ "Small Business Payroll," SUREPAYROLL, accessed July 25, 2018. <https://www.surepayroll.com/>.

⁸⁰ Payroll Services for Small Business," Bank of America, accessed July 25, 2018. <https://www.bankofamerica.com/smallbusiness/online-banking/payroll.go>.

⁸¹ "List of Payroll Vendors and Companies," SHRM, accessed July 24, 2018. <https://vendordirectory.shrm.org/category/hcm-technology/payroll>.

There are two categories of SOC reports:

1. SOC 1 – Focus on service organizations reporting on controls relevant to internal control over financial reporting. This would include payroll data that is recorded in the general ledger.
2. SOC 2 – Used for service organizations that are reporting on controls that are not deemed to be relevant to the user entity’s internal control over financial reporting and often focus on IT controls (e.g. security, availability).

It is important for libraries to review the SOC report. Any review should start with the report opinion. The report should have an unqualified opinion, which means the included control objectives had no significant exceptions or deficiencies. A review should look at: 1) the report’s date and period covered, 2) evaluate the significance and relevance of any exceptions noted, 3) verify the report is current (no older than one year), and 4) the scope and included control objectives to verify they are sufficient.

Typical control objectives include:

1. IT Controls (SOC 1 or SOC 2 Report):
 - a. Security;
 - b. Back-up and Recovery;
 - c. Data Center; and
 - d. Change Management.
2. Payroll Process (SOC 1 Report):
 - a. Access to Information; and
 - b. Segregation of Duties.

Libraries need to be aware that there are certain controls that the library is expected to maintain even when outsourcing payroll. These controls are listed under the user consideration section of the report and may include the following:

1. Control over who has access to provide payroll information to the vendor;
2. Verification of the accuracy and completeness of information sent to the vendor;
3. Review of payroll reports to verify accuracy before payment is processed;
4. Review and correction of error reports;
5. Receipt and distribution of payroll checks;
6. Reconciliation of payroll bank account; and
7. Retention of payroll records.

511 Direct Deposit

511.1

Libraries with a large number of employees may be interested in establishing direct deposit to disburse payroll. This does not eliminate the record-keeping requirements for processing and recording payroll. However, it eliminates the necessity of writing payroll checks and lessens the risk of misappropriation of assets associated with blank check stock.

511.2

The library should contact its bank prior to establishing direct deposit in order to determine the bank's policies and procedures for setting up this service. Typically, the bank will require the library to provide a voided check or deposit slip from each employee in order to set up direct deposit. Most banks will charge a fee to set-up the direct deposit and a processing fee for each transfer transaction. However, there should be a reduction in labor costs for printing and distributing checks.

511.3

Usually, the bank requires transfer of the payroll funds into the payroll account at least three days prior to the payroll date. The bank will take care of making the transfers to the appropriate employees' bank(s). The library is responsible for providing the employee with documentation of the transaction as it would appear on the employer's check stub and making the necessary payroll tax deposits, as discussed in Section 504.

512 Independent Contractors

512.1

It is important that you understand if you are paying an employee or an independent contractor. A general rule is that the exempt organization, as the payer, has the right to control or direct only the result of the work done by an independent contractor, and not the means and methods of accomplishing the result. Details on the IRS position on an exempt organization's treatment of independent contractors are available on the [IRS website](#).⁸²

If you pay independent contractors, you may have to file IRS Form 1099-MISC, "Miscellaneous Income," to report payments for services performed for your trade or business. If the following four conditions are met, you must generally report a payment as nonemployee compensation.

1. You made the payment to someone who is not your employee;
2. You made the payment for services in the course of your trade or business (including government agencies and nonprofit organizations);
3. You made the payment to an individual, partnership, estate, or in some cases, a corporation (e.g. medical and health care payments, attorney's fees); and
4. You made payments to the payee of at least \$600 during the year.

Examples of 1099 payments to independent contractors include:

1. Paying an accountant or accounting firm to complete your tax return;
2. Paying a Lawyer to defend you in court; and
3. Paying a carpenter to design and build you book shelves

[Form 1099-MISC, Miscellaneous Income](#)⁸³ is transmitted with [Form 1096, Annual Summary and Transmittal of U.S. Information Returns](#),⁸⁴ which is similar to a cover letter for your Forms 1099-MISC.

⁸² "Exempt Organizations: Independent Contractors vs. Employees," IRS, accessed August 21, 2018. <https://www.irs.gov/charities-non-profits/exempt-organizations-independent-contractors-vs-employees>.

⁸³ "Form 1099-MISC," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/f1099msc.pdf>.

⁸⁴ "Form 1096," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/f1096.pdf>.

513 FMLA

513.1

FMLA is the Family Medical Leave Act. It is a law that requires employers with over 50 employees to provide unpaid leave, for 12 weeks, to employees for life events such as the birth of a child, serious health condition of a close family member, or the serious health condition of the employee. The employer must also continue providing benefits and provide job protection for the 12 weeks. Refer to [FMLA and Its Impact on Organizations](#)⁸⁵ for more information on the FMLA.

⁸⁵ "FMLA and Its Impact on Organizations," SHRM, accessed July 24, 2018. <https://www.shrm.org/hr-today/trends-and-forecasting/research-and-surveys/documents/fmla%20and%20its%20impact%20on%20organizations%20survey%20report.pdf>.

CHAPTER 6 – BUDGETING

600 Chapter Objective/Summary

600.1

The purpose of this chapter is to provide a working definition of a budget as it applies to libraries in the Commonwealth of Pennsylvania. This chapter will also discuss the importance of developing a budget, uses of a budget, and the basic framework of budget development.

601 Definition and Development of a Budget

601.1

A library develops a budget for a specific period of time (e.g. year), based on estimates of income and expenses during the period. Estimates should be based on historical numbers and any current factors (e.g. increasing electric rates, changes in funding). Libraries should develop budgets in correspondence with the library's strategic plan (e.g. growth or expansion plans should be reflected in the budget via increased book expenses, remodeling etc.). Strategic plans should be available to read in conjunction with the budget.

602 Importance of a Budget

602.1

There are many reasons for developing a budget. Four important reasons are:

1. Accountability;
2. Projection of expected results;
3. Planning and monitoring library operations; and
4. Communication of library needs and abilities.

602.2

Public libraries have a duty to be accountable for expenditures. The majority of library income comes from contributions, grants, and taxes. Therefore, it is important that the library identify the community's needs and develop a budget to meet those needs.

602.3

The budget projects expected results. It serves as a planning tool, which helps the library evaluate its objectives and quantify the sources and uses of funds that are needed to meet these objectives.

602.4

Monitoring actual results of operations and comparing them to budget figures provide timely and meaningful feedback to library decision-makers. The library should compare budget to actual results monthly in order to investigate and explain any expense overages or unusual fluctuations. Monthly comparisons allow libraries to discover monthly fluctuations before they become large. Many accounting programs allow users to input budget amounts and allow generation of reports based on various criteria-comparing budget to actual amounts. The Board should approve all budget expense overages before they occur. There may be a need for revisions to the budget during the year (e.g. a large decrease in donations). The Board should discuss and approve all revisions. The financial policy should define the thresholds and amounts and types of budget revisions that require Board approval.

602.5

Finally, budgetary data provides an efficient and effective means of communicating a library's needs and abilities. A library can use its budget to demonstrate the need for additional aid from local, state, and/or federal resources. Also, a library can use budgetary information to inform the public of the services it offers, the improvements it intends to make, and the need for additional funds.

603 Budget Development

603.1

Libraries should begin developing their budgets well in advance (generally about four months) of the fiscal year-end. Budget development should include feedback from the Board and library staff. Often, the library creates a budget committee that includes the treasurer, board president, library director, bookkeeper, and any other individuals the library would like to include. The committee meets multiple times to discuss and develop the budget. The Board must approve or disapprove the completed budget.

603.2

A library should complete the following steps when developing a budget (Thomson Reuters/PPC, 2017⁸⁶):

1. Verify that budget line items correspond to general ledger Chart of Accounts and annual report line items. This will aid in streamlining reporting and budgeting;
2. Project the amount of income you expect to receive based on historical amounts and current trends (e.g. grants, donations, fundraisers). It is important to factor in the likelihood of receiving the income when budgeting;
3. Determine what the library expects to accomplish within the next year including key programs and activities. Consulting the strategic plan can help determine what items should be completed within the coming year;
4. Solicit suggestions from staff and community on what programs/services they would like to see;
5. Discuss what resources (e.g. cost, staff time, building use) will be required to implement planned programs/services;
6. Estimate any changes in expenses that are not directly related to programs (e.g. increased electric rates, increased postage). It is important to evaluate every line item and not automatically assume it will remain the same amount in the coming year;
7. Determine if there are expected capital costs. Capital costs differ from operating costs in that they occur irregularly and may require special fundraising efforts (e.g. new building, remodeling, technology upgrades). Consider setting aside funds on a regular basis to fund current and future capital needs;
8. Determine if any budget items are cyclical in nature, and then budget and track by month (e.g. increase in youth program expenses during summer months when they are not in school);
9. Verify that projected expenses are equal to or less than projected income;

⁸⁶ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

10. Circulate copies of the draft budget to staff for feedback and suggestions;
11. Create an items learned list to reference in following years (e.g. did you start the process too late, was an important person missing from the discussions?); and
12. Annual report requirements should be considered when creating the budget.

603.3

For a sample budget and budget development resources, visit [Developing the Library Budget](#).⁸⁷

It is important to document budget assumptions so they can be referenced when comparing budget to actual and in future years. A sample of questions is included below:

1. Are new positions or hours needed because of growth in library services?
2. Have any areas of the collection been identified as needing upgraded in the coming year?
3. Is library staff attending any training programs in the coming year?
4. Will any maintenance items be required in the coming year (e.g. painting, roof inspection)?

When preparing the budget, consult the prior year's budget and the information above to minimize the likelihood of forgetting to account for a major account. Do not forget to adjust for expected events when reviewing the prior year budget.

The library should develop the budget in a format that relates to the format of the library's reporting system (e.g. chart of accounts) and annual report to the Office of Commonwealth Libraries. When the budget format aligns with the reporting system, libraries can pull amounts directly from the General Ledger for a specific period of time to complete the year-to-date section of the budget. In addition, this structure will simplify annual report preparation at the end of the year.

603.4

Budgets should contain the following four characteristics:

1. Clarity – The budget should be clear enough for the Board and employees to understand.
2. Accuracy – Budget documentation must support the accuracy of budget amounts (e.g. for fundraising there should be supporting documentation showing planned fundraisers and expected income for each one and the total should correspond to the total amount in the budget).
3. Consistency – Budget presentation should be the same format from period to period so the library can easily make comparisons. As an exception to this philosophy, a one-time presentation change should be made if the budget is not currently organized by annual report lines.
4. Comprehensiveness – Budgets should include a complete representation of fiscal activities.

⁸⁷ "Developing the Library Budget," Wisconsin Department of Public Instruction, accessed July 24, 2018. <https://dpi.wi.gov/sites/default/files/imce/pld/pdf/TE08.pdf>.

603.5

Common budgeting errors include:

1. Failing to include all knowledgeable people in the process;
2. Not matching budget line items to lines in the general ledger;
3. Making errors in spreadsheet formulas when computing amounts;
4. Overlooking expenses;
5. Overestimating forecasted revenue sources;
6. Budgeting contribution amounts as the difference between projected revenue from other sources and budgeted expenses;
7. Failing to account for known or expected changes in activities, (e.g. not including increased overhead expenses when adding new services/programs);
8. Utilizing every dollar. It is important to leave some unallocated revenue for contingencies. Accountants might increase the budgeted expense of a large line-item such as payroll to hold the excess or simply budget a slight surplus; and
9. Not performing a final reasonableness check. It is important to perform a high-level review of the budget. Compare total revenue and the bottom line to the current results to see if it is reasonable. You should be able to explain the organization's plan to get from where it is now to the budgeted results.

603.6

Most accounting software prepares budget to actual income and expense reports. Library staff will be responsible for entering budget information into the software and running the report.

Refer to Chapter # 6 – Example # 1 - Template – Budget for an additional budget example in a Microsoft Excel spreadsheet to use as a template.

In addition, an example budget per month with totals for the year is included for libraries who anticipate significant cyclical activity. If your library does not expect large cyclical activity, the monthly budget is not necessary. Refer to Chapter # 6 – Example # 2 - Budget – Monthly Breakdown.

603.7

The following are instructions for setting up a budget in QuickBooks.

QuickBooks features a budgeting tool which can be used as a business planning tool to assist in highlighting under or over performing areas. A budget would also indicate when profits are not meeting expectations. Prior to establishing your budget it would be helpful to know the following pieces of information:

1. The year in which you would like to establish your budget;
2. The start month of your fiscal year; and
3. Whether or not you will be creating the budget from scratch or if you will be creating the budget from previous year's actual data. (Note: if you are planning to use last year's fiscal data, it would be a best practice to review the data for accuracy.)

If you plan to base your budget on historical data you should first review last year's fiscal data or historical transactions. First run a profit and loss detail report to make sure transactions were

properly coded in the past. By default, this report shows transactions created during this fiscal year to date. To show the profit & loss report using last fiscal year's amounts, complete the following:

1. Select reports from the left menu;
2. Select company & financial;
3. Choose profit and loss detail;
4. Select customize report, under report date range, choose last fiscal year or last year if the first month of your fiscal year is January;
5. Select okay and the run report; and
6. Review the transactions listed under each account for accuracy, updating as needed.

To create a budget, go to Company, Planning, and Budgeting and select the option "Set Up Budgets." Next select the year that you will be creating the budget for in addition to setting the fiscal year's starting month. Now you are ready to enter the first month of your fiscal year.

Step 1: Set the fiscal year's first month. Your budget will start with the first month of your fiscal year. Please confirm that the starting month is accurate.

1. Select the company at the top, then choose my company;
2. Select the pencil icon at the top, then choose report information;
3. Check if the first month of the fiscal year is correct. If not, select the correct month of the fiscal year; and
4. Select save.

Step 2: Create the budget. After checking the fiscal year and historical profit and loss, you can now create the budget.

1. Select company at the top, then choose planning and budgeting;
2. Select set up budgets;
3. From the fiscal year drop-down, select the fiscal year for the budget. Use the date filed to specify the fiscal year.
 - a. Choose the type of budget that you want to create. You will see two radio buttons on create the new budget window. These tell you whether you want to create a budget of income and expense (profit and loss - reflects all activity for last year) or a budget of year end asset, liability, and owner's equity account balance (balance sheet (i.e. Statement of Financial Position) reflects ending balance). Typically, you want prepare the budget for income and expense amount (profit and loss radio button).
4. Provide any additional budgeting criteria such as no additional criteria or customer: job. You answer this question by selecting the radio button that corresponds to the budgeting criteria you want. Click next;
5. Indicate whether you want to start a budget from scratch or use previous year's actual data and then click finish. Select the option button that corresponds to your choice.
 - a. Create a budget from scratch (this option allows you to manually enter amounts for each account that you want to track); or

- b. Create a budget from the previous year's actual data. (This option automatically enters the monthly totals from last year by general ledger account in this budget.)
6. QuickBooks displays the budget window allowing you to manually enter your budget amounts.
 - a. Use the set up budgets window to identify the budgeted amounts that you plan for each account. Just click the monthly amount you want to budget and enter a value.
 - b. If you selected budget from scratch, QuickBooks will return an empty window listing all your profit and loss chart of account by month.
 - c. The budget drop-down list, at the top-left corner of the set up budgets window, allows you to select the budget you want to work with. This allows you to work with several different versions of your budget, as applicable. (To create a new budget, select create new budget which will guide you through the process described previously.)
 - d. To copy the amount shown in the selected box across the row, select the copy across button. (This allows you to copy, for example, the amount you budgeted for January into February, March, April, May, and so on.)
 - e. You can also select a budgeted amount and click the adjust row amounts button. QuickBooks displays the adjust row amounts dialog box, which allows you to adjust the selected amount by a specific percentage. The percentage can be increased or decreased. If you want to increase the budgeted amount by approximately 25% per month, you can use the adjust row amounts window to increase or decrease your existing entry.
7. After you enter your budget, click save to retain your budget.

Steps 3: Print and review the budget report. There are two types of budget reports you can access. Once printed on screen, you can email, print, or export to Microsoft Excel. The two types of reports are:

1. Budget Overview: This report shows a summary of budgeted amounts for a specific budget.
2. Budget vs Actuals: This report shows a summary of budgeted amounts versus actual amounts and their variances and variance percentages.

To view these reports:

1. Select reports at the top, then choose budgets & forecast;
2. Select budget overview report or budget vs. actuals report;
3. Select the budget that you completed. Press next;
4. Select a report layout for the budget report. Press next;
5. Click finish to create the report; and
6. (Optional) Once the report is on screen, you can then email, print, or export the budget:
 - a. In the upper right, select the email icon to email the budget report.
 - b. Select the print icon to print the budget report.
 - c. Select the export icon to export the budget report to Microsoft Excel or PDF.

604 Best Practices for Budget Revisions

604.1

A budget is subject to many changes throughout the year, and adapting the budget to those changes is an important part of successfully using a budget. Some practices related to changes within your organization are listed below. Refer to [Nonprofit Accounting Basics](#)⁸⁸ for further information.

1. **Include a contingency line item** – This will help mitigate risk and will lessen the impact on your budget if an unexpected expense is incurred.
2. **Have a budget change approval process** – The budget shapes how your organization spends money; and if it needs to change, there should be an approval process so that everyone can understand the budget changes and ensure the best possible decision is made.
3. **Use a spreadsheet program such as Microsoft Excel to create your budget** – Spreadsheet programs, especially Microsoft Excel, have great versatility. When it comes to changes, the biggest asset a program like Microsoft Excel provides is the ability to update the budget based on a change in one number. This will help gauge the changes that are to be made.

⁸⁸ "Budgeting Practices," Non Profit Accounting Basics, accessed July 24, 2018.
<https://www.nonprofitaccountingbasics.org/reporting-operations/budgeting-practices>.

CHAPTER 7 – AUTOMATED TOOLS

700 Chapter Objective/Summary

The purpose of this chapter is to highlight some of the major advantages to computerizing the accounting function and provide some guidelines to consider when selecting software. The following chapter outline highlights the major topics covered in this chapter.

- 701 – Advantages of Computerizing the Library Accounting Functions
- 702 – Selecting an Accounting Software Package
- 703 – Hardware Considerations
- 704 – Popular Accounting Software and Obtaining Software Information
- 705 – Evaluation after Installation

701 Advantages of Computerizing the Library Accounting Functions

701.1

Libraries can use computers to quickly perform repetitive tasks and calculations that would take a substantial amount of time for a person to complete manually. Computers offer the following basic advantages:

1. Automation;
2. Security;
3. Accuracy; and
4. Efficiency

701.2

The advantages of computerization can be broken down into several key benefits. Some sample advantages as they relate to a public library's accounting system are as follows:

1. **Organize and store many similar pieces of information** – Such as library membership data, addresses, etc.;
2. **Quickly retrieve a single item from a large group of similar items** – Such as vendor invoices, check numbers, or membership accounts;
3. **Quickly develop reports** – Such as budget to actual, trial balance (i.e. Statement of Financial Position), profit and loss statement, and vendor balances; these are generally standard reports. Refer to Appendix B for examples of common QuickBooks reports;
4. **Perform complicated mathematical tasks quickly and easily** – Loan amortization, interest calculations, etc.;
5. **Perform repetitive tasks precisely and consistently** – Transfer entries from subsidiary ledgers to the General Ledger accurately and quickly;
6. **Network capabilities** – Link multiple computers to a server to enable instantaneous updates to membership information, donor, and financial transactions/records; and
7. **Internal control** – Accounting software performs some control activities. Most systems have information processing controls that require detailed transactions to balance to a control or batch total. Also, journal entries must have equal debits and credits.

Additionally, physical controls such as passwords limit the access of records to individuals approved by management.

701.3

Some advantages include linking directly to the accounts they affect.

1. **Accounts Receivable** – A computerized system can easily track a large volume of donor accounts, as well as revenue due from other sources such as local, state, and federal governments.
2. **Inventory** – Computerization could streamline the categorizing process for a large volume of materials (e.g. books, DVDs) and create a simplified and integrated tracking process for loaning materials and tracking fines.
3. **Payroll** – Software reduces payroll complications by automatically calculating check amounts, deductions, and benefits; generating checks; initiating direct deposit; and preparing tax documents.

701.4

Software functions are not limited to recording and calculating data. Libraries can use software for assistance with other accounting and budgeting tasks including:

1. **Financial Modeling** – Software can analyze financial statements and highlight areas for improvement.
2. **Planning/Budgeting** – Software can easily provide results for hypothesized “what if?” situations. This gives library decision makers reliable and relevant information about hypothetical goals and objectives and the possible outcomes.
3. **File Management** – Computer systems provide an efficient means to organize financial data and save important documentation for later reference.
4. **Integration of Journals and Automatic Posting** – Full integration of subsidiary ledgers (e.g. payroll, accounts payable, accounts receivable, fixed assets, etc.) with the General Ledger, along with automatic transfers from the subsidiary ledger to the General Ledger, reduces the risk of error. Libraries should monitor General Ledger balances, particularly during period close, to verify that they match the original sources of information.

701.5

The following table illustrates some of the basic functional differences between a manual and automated accounting system. (Thomson Reuters/PPC, 2017⁸⁹)

⁸⁹ “Checkpoint PPC,” Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

Function	Manual Accounting System	Computerized Accounting System
General Ledger (G/L)	A collection of accounts where financial information is recorded. Financial statements are prepared from G/L data. G/L accounts are generally only summarized monthly through a manual process.	A collection of programs (e.g. payroll, accounts payable, accounts receivable) that create and maintain detailed financial transactions. The system records, posts, verifies (e.g. debits equal credits), and summarizes financial transactions. It quickly produces financial statements and reports at any time.
Accounts Receivable (A/R) and Cash Receipts (C/R)	A/R Journal - A detailed record of unpaid amounts owed to the Library such as donations, grants, fines, etc. C/R Journal - Detailed listing of cash collected with summary totals.	A system module that records and tracks future receipts (e.g. promised donations or grants) and cash receipts. Reports based on a variety of data (e.g. expected date of receipt, aged A/R) can be compiled quickly.
Accounts Payable (A/P) and Cash Disbursements (C/D)	A/P Journal - A detailed record of unpaid amounts due to others (e.g. vendors, suppliers). C/D Journal - Detailed listing of checks written with summary totals.	A system module through which payables and payment transactions are recorded. Reports based on a variety of dates (e.g. due date, paid date, etc.) can be compiled quickly. Checks are printed from the module based on data entered.
Payroll	Payroll Journal - Detailed records kept for payments to employees. This includes salary and withholdings.	A system module that calculates employee payments and withholdings. It prints paychecks, and records payroll transactions. It calculates and prepares information for various government forms (e.g. W-2, employee tax, employer tax).

701.6

Automated accounting software can aid the back-up process. It is much less time consuming to copy files than copy many manual journals and supporting documentation. It is important to regularly back-up your accounting systems (most systems should easily allow you to create a back-up file that can be opened on any computer on which the application/system is installed) to provide access if a computer crashes or is destroyed during a disaster. File back-up media include an external hard-drive, USB drive, DVD, or a remote server. When backing up files, it is vital that the library store one copy outside of the library (e.g. bookkeeper or treasurer's home) in case there is a fire or other disaster in the library. Libraries can also use an online (cloud) storage service for a monthly fee. Refer to [Consumer Reports](https://www.consumerreports.org/cro/2013/11/cloud-storage-services-comparison/index.htm)⁹⁰ for a listing of online storage services and reviews. Additionally, some accounting software has online/cloud based versions where data is automatically backed-up on the accounting provider's server.

701.7

Libraries that decide not to implement an accounting system should utilize Microsoft Excel, or similar spreadsheet software, for as many workpapers and journals as possible to take advantage of the automation and efficiency benefits of software.

⁹⁰ "Which Cloud Service is best for Your Needs?" Consumer Reports, accessed July 25, 2018. <https://www.consumerreports.org/cro/2013/11/cloud-storage-services-comparison/index.htm>.

702 Selecting an Accounting Software Package

702.1

Before identifying specific software needs, the library should analyze where it currently stands. Some of the items to consider include the following. (Thomson Reuters/PPC, 2017⁹¹)

1. **Current System** – Assess your current system and define its pros and cons while considering the following factors:
 - a. Size of the organization; types of financial information; frequency and number of transactions; frequency, types, number, and sizes of reports; and
 - b. Do you generate reports for each program (e.g. adult services, youth services, library building costs, etc.), each grant, major donors, etc.?
2. **Weaknesses of the Current System** – After you assess the current system, it is likely that you will note challenges with the current system. Problems and weaknesses should be documented and considered when researching a new system for your accounting needs.
3. **Level of Detail Expected** – You may want more or less detailed information than the current system provides. Consider what information is needed for users in the future (e.g. reports, comparisons, etc.).
4. **Outside Reporting Requirements** – You may report to several different audiences such as board members, grantor agencies, the state, and lenders. Consider reporting requirements for each of these audiences.
5. **The Need for a Budget** – You may need to develop or improve the budget process to include more timely access to recorded data (e.g. expenses and revenues) or more effective analysis tools such as ratios and graphs.
6. **Ongoing Staff Support** – You may rely on volunteers or staff with limited accounting software experience to use and maintain the system. If this is the case, intuitive, user-friendly systems should be considered.
7. **Tax Reporting** – You may need tax reporting information (e.g. W-2, employee taxes, employer payroll taxes, and Form 990).
8. **Program examples** – Examples of popular accounting software include QuickBooks and Oracle. A complete list of software can be found at [Software](#).⁹²

702.2

There is a range of accounting software available, so every library should be able to find a system that is appropriate in terms of functionality and price.

⁹¹ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018.

<https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

⁹² "Accounting Software," O-Net Online, accessed July 24, 2018.

<https://www.onetonline.org/search/t2/examples/43231601?s=management%20software>.

Libraries will have unique expectations and objectives for the accounting software program. The following factors specific to each library must be considered when choosing and implementing a computerized accounting system:

1. Library size, number of locations, number of staff using software, and complexity of transactions;
2. Accounting requirements;
3. Multiple funding sources considerations;
4. Contributions with donor restrictions;
5. Multiple programs, functions, or locations;
6. Number and type of accounts; and
7. Reporting formats for various users (e.g. state annual report, board of directors' reports, etc.).

702.3

Additional factors to consider when evaluating software include: (Thomson Reuters/PPC, 2017)⁹³

1. **Easy-to-learn** – Software that is easy to learn requires less training time and will generally be more efficient to use. This allows the user to have more time to focus on other library tasks.
2. **Ease of set-up** – Software should allow users to intuitively set-up the Chart of Accounts and add, delete, or modify accounts.
3. **Easy to correct** – Software includes procedures to easily identify and correct bookkeeping errors.
4. **Installation** – Software that is easy to install in-house saves on consultant fees.
5. **Value to the organization** – Consider only features that your library needs. If the organization has simple operations, it may not need add-on modules (which may add cost with no need for the module's functionality.)
6. **Expandability** – Software should be able to serve the library in the future. Consider the best option for the present and future (e.g. is the library planning a big fundraising or capital campaign/project in the future? Can the software track this type of activity?).
7. **Privacy and security** – The library must ensure the privacy of financial, payroll, and donor information. Access to software should be password protected and users should not share passwords. Many software packages allow for different access rights (e.g. certain staff may be able to view data but not modify it).
8. **Payroll** – If the library computes its payroll and prepares checks, it may benefit from payroll software depending on the amount and complexity of payroll. Many software vendors automatically update tax rates and perform calculations. Most of this software also prepares and electronically files the appropriate Form W-2s, 1099s, 940s, 941s, etc. This saves time and greatly reduces the risk of error.

⁹³ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

702.4

It is helpful to list and prioritize the library’s system needs, but it is important to remember that it may not be possible to satisfy all of the listed needs. Therefore, classify features as “required” or “desired.” All required features, and as many desired features as possible, should be satisfied by the new software package. Refer to the following table for a sample of an Accounting System Requirements Worksheet. (Thomson Reuters/PPC, 2017⁹⁴)

Example Accounting System Requirements Worksheet

		Level of Importance	Level of Importance	Software A:	Software B:	Software C:
Area	Need	Required	Desired			
Operating System	List the Operating System available on the current library PCs. (e.g. Windows 2010, etc.)					
Conversion	If your data is currently stored electronically, list the formats in which the data is available. (E.g. xlsx, doc, ASCII, csv, etc. Note whether the software can import data in any of the available formats.)					
Reporting	List necessary reports. Try to remain flexible with your formatting so that you can use the standard reports provided by the software. Include required reports such as the Board’s monthly report, grant reports, reports to the Office of Commonwealth Libraries, donor reports, etc.					
Budgeting	List requirements for budgeting and budget versus actual displays within the software.					
Accounts Payable	Software automatically tracks recurring					

⁹⁴ “Checkpoint PPC,” Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

		Level of Importance	Level of Importance	Software A:	Software B:	Software C:
Area	Need	Required	Desired			
	payments such as rent.					
Accounts Payable	Software creates and prints checks.					
Accounts Payable	Software displays batch totals when entering invoices into system.					
Accounts Payable	Software prepares and prints Form 1099 and related reports.					
Accounts Receivable	Software prepares an aged accounts receivable report.					

702.5

The major constraint on software selection is often the cost. Once the library decides to purchase new accounting software, the Board will need to approve a budgeted amount for the expense. This approval can be part of the annual budgeting process or a special approval during the year. The approved software budget will affect what software choices are available to the organization. If the Board approves a small amount, then custom software or specialized, highly powerful packages may not be obtainable.

702.6

After narrowing down the desired requirements, identify software dealers and obtain prices from their websites or from representatives. [TechSoup](https://www.techsoup.org/)⁹⁵ (Ref. Section 704.2) provides discounts for nonprofits on some software, including QuickBooks. Prices should be obtained based on a specific version of the software. When obtaining the price, verify the following information is included (Thomson Reuters/PPC, 2017)⁹⁶

1. Total cost:
 - a. Determine if modules are priced individually;
 - b. Obtain a price for general ledger, payroll and other modules, etc.; and
 - c. Question and obtain clarification on bundled items/services.
2. Number of users included in the price;
3. Services available:
 - a. Installation;
 - b. Setup;
 - c. Training; and
 - d. Technical support.

⁹⁵ "Nonprofit Tech Marketplace," TechSoup, accessed July 24, 2018. <https://www.techsoup.org/>.

⁹⁶ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

4. Warranties;
5. Additional/ongoing costs such as maintenance, technical support, updates and/or upgrade costs; and
6. Dealer service or support plan.

702.7

If the library and potential software users are unfamiliar with a specific brand of accounting software, it is beneficial to test the software before making a purchase decision. Two ways to test software are:

1. Obtain evaluation copies/trial versions; and
2. Arrange live product demonstrations.

An evaluation copy is a copy of the actual software available for library use. An evaluation copy of software can often be downloaded from the software developer's website. The software is usually limited either by the length of time or number of trial transactions. Once the evaluation is completed, the library will need to decide if they will continue using the software, and purchase the software if it is selected. There may be a small fee for using evaluation software, but it can be worth the money, as it gives the library a chance to see how the software will handle its specific transactions and data.

An alternative to testing software is to use product demonstrations. The library should prepare a script for the demonstrator to follow so that the demonstration includes all features that are important, including data-entry screens, Chart of Account features, and report formatting and flexibility. Libraries should use the same script with each product demonstration so the results will be easily comparable. (Thomson Reuters/PPC, 2017⁹⁷)

703 Hardware Considerations

703.1

The library should use a hardware system that allows all required functions and objectives to be completed. The following are common options:

1. **Personal computer** – Commonly referred to as laptop or PC. This computer system is a self-contained unit able to perform all the necessary functions on one computer. Transfer of information to another PC requires back up to an external device or connection to the internet. Refer to section 701.6.
2. **Network** – The network consists of one or more server(s) connected to multiple clients (PC or laptop). Processing occurs on both the client and the server. The software and the installation control whether the server or the client performs the actual computing tasks and storage of information. Generally, the client systems are responsible for input and output of data and the server stores the data. The advantage of this system is that multiple users will have easy access to data input by other users.
3. **Cloud** – Many services are available via internet connection. The services include electronic mail, storage, Microsoft office or other word processing and spreadsheet

⁹⁷ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

applications. The services are available for a small monthly fee and significantly reduce the information technology costs and risks associated with providing these services in-house.

4. **Online Accounting Service** – Allows users to perform all of the accounting tasks for a process online and share the data with authorized users from remote locations (such as Board members). Access to these types of services occurs via secured access from any computer with internet access. The library will not need to install software upgrades because the fee for the online accounting service usually includes upgrades and tax updates. Some accounting software (such as QuickBooks) has an online version. (Refer to Section 510.11 in Chapter 5 for information on online payroll services.

Libraries will need to verify that their current hardware meets system requirements for the software (e.g. processing speed, RAM, operating system, hard drive size) or consider upgrading hardware and/or software.

704 Popular Accounting Software and Obtaining Software Information

704.1

The following is a list of popular accounting software. This list is not all-inclusive but provides a starting point to research various options and capabilities.

Nonprofit Software Name	Company	Website
AccuFund for Non-Profits	AccuFund, Inc.	Accufund ⁹⁸
CYMA NFP Edition	CYMA Systems, Inc.	CYMA ⁹⁹
QuickBooks: Premier Nonprofit	Intuit	QuickBooks ¹⁰⁰
NetSuite Financials	NetSuite	Oracle ¹⁰¹

For Profit Software Name	Company	Website
AccountingEdge (Mac)	Acclivity	AccountingEdge ¹⁰²
Sage 50 Pro Accounting	Sage Software	Sage ¹⁰³

Please note that many of the available software packages will have a specific version for nonprofit organizations (e.g. QuickBooks: Nonprofit Edition). Nonprofit software generally performs certain specialized tasks that for-profit software does not (such as tracking grants and restricted funds and classifying net assets). (Thomson Reuters/PPC, 2017¹⁰⁴)

⁹⁸ "Nonprofit and Government Financial Operations Improvement Specialists," ACCUFUND, accessed July 25, 2018. <https://www.accufund.com/>.

⁹⁹ "CYMA NFP Accounting Software," CYMA, accessed July 25, 2018. <http://www.cyma.com/business-accounting-software/nfp.asp>.

¹⁰⁰ "Smarter Business Tools," QuickBooks, accessed July 25, 2018. <https://quickbooks.intuit.com/>.

¹⁰¹ "Financial Management," Oracle NetSuite, accessed July 25, 2018. <http://www.netsuite.com/portal/products/erp/financial-management.shtml>.

¹⁰² "AccountEdgePro," Priority, accessed July 25, 2018. <https://www.accountedge.com/>.

¹⁰³ "Sage Business Cloud," Sage, accessed July 25, 2018. <https://www.sage.com/en-us/>.

¹⁰⁴ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

704.2

The following is a list of online resources to consult when researching accounting software.

1. **TechSoup Global**¹⁰⁵ is a one-stop comprehensive source of technology information, resources, and support just for nonprofit organizations. Nonprofit organizations can purchase various software packages at discounted rates through TechSoup; and
2. **Software Advice**¹⁰⁶ contains reviews and other information to assist in the selection of accounting software.

Libraries can also consult with non-online resources such as:

1. CPAs;
2. Other local libraries; and
3. Other nonprofit organizations.

704.3

You can hire technology consulting firms to recommend and implement appropriate software specific to your library's size, complexity, and objectives. A common consultant implementation task is setting up the chart of accounts. However, small libraries might not receive enough benefit (e.g. time savings and expertise knowledge transfer) to justify the cost of hiring a consultant and obtaining accounting knowledge by working with the consultant. (Thomson Reuters/PPC, 2017¹⁰⁷)

705 Evaluation after Installation

705.1

Libraries should evaluate the adequacy of their selected system periodically after selection and implementation. The library should consider if the system is performing the desired tasks efficiently and effectively enough to accomplish the library's objectives. If the current system is not effective or efficient, libraries should consider switching to a different system. If the system is not performing as intended, modifications (e.g. software or hardware configurations) may be necessary to resolve issues.

¹⁰⁵ "Nonprofit Tech Marketplace," TechSoup, accessed July 24, 2018. <https://www.techsoup.org/>.

¹⁰⁶ "Accounting Software," Software Advice, accessed July 25, 2018. Accounting Software Advisor <https://www.softwareadvice.com/accounting/>.

¹⁰⁷ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

CHAPTER 8 – TAX CONSIDERATIONS

800 Chapter Objective/Summary

800.1

This chapter summarizes some of the basic tax considerations affecting nonprofit (exempt) libraries. This chapter includes information on qualifying as a nonprofit library, unrelated business income, federal filing requirements, and Pennsylvania filing requirements and tax issues. This chapter on tax considerations is not meant to be all-inclusive; its purpose is to provide a working knowledge of basic tax issues for nonprofit libraries and a guide to reference materials. If this chapter and the linked reference materials do not answer your questions, please contact your accountant. This chapter will adhere to the following outline of significant issues:

- 801 – What is a 501(c)(3) Exempt Library?
- 802 – Unrelated Business Income
- 803 – Federal Filing Requirements
- 804 – Pennsylvania – Tax and Filing Requirements

801 What is a 501(c)(3) Exempt Library?

801.1

Most nonprofit organizations seek exemption from taxation under Internal Revenue Code (IRC) Section 501(c)(3) as a charitable organization. Libraries generally qualify as charitable organizations since they are organized and operated for educational purposes, which is an appropriate IRC exempt purpose. Contributions that donors make to Section 501(c)(3) organizations normally qualify as tax deductions for the donors. Generally, Friends of the Library organizations require a unique 501(c)(3) exemption separate from the library's exemption as a supporting organization. Refer to the [IRS article](#)¹⁰⁸ describing 509(a)(3) supporting organizations.

801.2

Every 501(c)(3) organization is classified as either a private foundation or public charity. Private foundations and public charities are distinguished primarily by the level of public involvement in their activities. Libraries funded by a small group of contributors or that earn a majority of their income through an endowment will usually be considered private foundations. Under IRC Section 170(b), which provides percentage limitations on contribution deductions, donors may receive more favorable tax treatment for donations to libraries qualified as public charities than libraries qualified as private foundations. Refer to the [IRS website](#)¹⁰⁹ for details on IRC Section 170(b). Also, private foundation libraries may be subject to various excise taxes and penalties that are not imposed on public charities. As a result, public charity status is generally more desirable for a library.

¹⁰⁸ "Section 509(a)(3) Supporting Organizations," IRS, accessed July 24, 2018. <https://www.irs.gov/charities-non-profits/section-509a3-supporting-organizations>.

¹⁰⁹ "7.26.3 Private Foundations Defined — IRC 509(a)(1) and 170(b)(1)(A)(vi) Exclusion," IRS, accessed July 24, 2018. https://www.irs.gov/irm/part7/irm_07-026-003.

801.3

An organization's classification as a private foundation or public charity is determined by the IRS based on information provided in Form 1023, "Application for Recognition of Exemption," when seeking recognition of tax-exempt status and in Schedule A on the organization's Form 990 or Form 990-EZ filed each year. On Schedule A, an organization supports its status as a public charity by indicating that it qualifies as a particular type of organization that is automatically not considered a private foundation, or that it is an organization receiving a substantial part of its revenues from the government or general public. Alternatively, organizations may also qualify as a public charity if no more than 33 - 1/3 percent of their support comes from investment income and unrelated business income, and more than 33 - 1/3 percent of their support is received for charitable activities. In most cases, organizations want to prove they are public charities, not private foundations, because of the numerous advantages of being a public charity. Refer to the [IRS website](#)¹¹⁰ for frequently asked questions and Form 1023 instructions.

802 Unrelated Business Income

802.1

A library, despite its exempt status under IRC Section 501(c)(3), may still be subject to federal income tax. IRC Section 511 imposes a tax on unrelated business income of charitable organizations including libraries. For a copy of the applicable codes, refer to the [IRS website](#).¹¹¹

1. IRC 511 – imposes unrelated business income tax (UBIT);
2. IRC 512 – computation of unrelated business taxable income;
3. IRC 513 – defines an unrelated trade or business; and
4. IRC 514 – discusses income from debt-financed property.

802.2

Unrelated business taxable income is defined in IRC Section 512. For a copy of the code, refer to the [IRS website](#).¹¹² Unless specifically exempted, an activity is generally considered an unrelated business if it meets the following three requirements:

1. It is a trade or business?
2. It is carried on regularly?
3. It is not substantially related to furthering the exempt purpose of the organization?

For more information on the above requirements, refer to the [IRS website](#)¹¹³ for a copy of Publication 598. Some examples of unrelated business income for a library may include, but are not limited to:

1. Debt-financed rental income;
2. Dual use of facilities (e.g. renting out facility for weddings or other catered functions);

¹¹⁰ "Frequently Asked Questions: Form 1023," IRS, accessed July 24, 2018. <https://www.irs.gov/charities-non-profits/frequently-asked-questions-about-form-1023>.

¹¹¹ "7.27.4 Taxation of Unrelated Business Income," IRS, accessed July 24, 2018. https://www.irs.gov/irm/part7/irm_07-027-004.

¹¹² "7.27.6 Computation of Unrelated Business Tax Income," IRS, accessed July 24, 2018. https://www.irs.gov/irm/part7/irm_07-027-006.

¹¹³ "Tax on Unrelated Business Income of Exempt Organizations," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/p598.pdf>.

3. Interest income from related organizations over which the library has control; and
4. Income from bookstores or other regularly carried-on retail facilities operated for profit.

Items excluded from unrelated business income can include:

1. Certain royalties;
2. Certain rental income;
3. Certain interest income;
4. Activities completed by a volunteer workforce;
5. Donated merchandise (e.g. sale of donated books); and
6. Convenience of users.

803 Federal Filing Requirements

803.1

On an annual basis, income-tax-exempt libraries with annual gross receipts greater than an established amount must complete Form 990, "Return of Organization Exempt From Income Tax." Libraries with annual gross receipts under the established amount must complete either a 990-EZ or 990-N in place of Form 990. Refer to sections 803.2 and 803.3 and the [IRS website](#)¹¹⁴ for Form 990 information and additional information and qualifying amount of gross receipts. In addition, libraries may be required to complete Form 990 schedules including but not limited to:

1. Schedule A – Public Charity Status and Public Support;
2. Schedule B – Schedule of Contributors;
3. Schedule G – Supplemental Information Regarding Fundraising or Gaming Activities; and
4. Schedule M – Non-cash Contributions

Refer to the [IRS website](#)¹¹⁵ for Form 990 Series

Form 990 and the associated schedules are an informational return that reports the mission, program, and financial activities of a library. The 990 reflects whether or not the library continues to qualify for its exempt status, as well as its public charity status. If the library's gross receipts and total assets are below a determined amount, you may be able to complete one of the forms in section 803.1 instead of Form 990. Completion of Form 990 can be performed by library staff, the Board, or as an additional service by the CPA hired to complete the library's annual audit or review. Refer to section 1005.

803.2

If the library has annual gross receipts and total assets below a determined amount, it qualifies to file Form 990-EZ, "Short Form Return of Organization Exempt from Income Tax" instead of Form 990. It is usually recommended that you file Form 990-EZ if you qualify since it is

¹¹⁴ "Form 990 Series Which Forms Do Exempt Organizations File Filing Phase In," IRS, accessed July 24, 2018. <https://www.irs.gov/charities-non-profits/form-990-series-which-forms-do-exempt-organizations-file-filing-phase-in>.

¹¹⁵ "Current Form 990 Series - Forms and Instructions," IRS, accessed July 24, 2018. <https://www.irs.gov/charities-non-profits/current-form-990-series-forms-and-instructions>.

generally less time consuming to complete than Form 990. Refer to the [IRS website](#)¹¹⁶ for a copy of the Form 990-EZ.

803.3

If the library's gross receipts are normally \$50,000 or less, it may be allowed to electronically submit Form 990-N Electronic Filing System (e-Postcard). This form only requires completion of eight items and should be completed if your library qualifies. Refer to the Annual Electronic Filing Requirement page of the [IRS website](#).¹¹⁷

803.4

An exempt library that has gross income of \$1,000 or more in unrelated business income in a fiscal year must file Form 990-T, "Exempt Organization Business Income Tax Return." Refer to section 802 for a definition of unrelated business income. This form calculates and reports the amount of tax due on any unrelated business taxable income. The exempt library must file Form 990-T in addition to the Form 990, Form 990EZ, or Form 990-N. Refer to the [IRS website](#)¹¹⁸ for a copy of the Form 990-T and instructions. It is important to consult the instructions on an annual basis if you have unrelated business income, and to verify there have not been changes in the minimum income required to complete the form.

803.5

The exempt library must file applicable federal tax return(s) (e.g. Form 990, Form 990-EZ, Form 990-N, Form 990-T) by the 15th day of the 5th month after its accounting year ends. For example, if your accounting year ends on December 31st, the deadline for the applicable federal form(s) would be May 15th. The library can request a 6-month automatic extension of time to file by filing Form 8868, "Application for Extension of Time to File an Exempt Organization Return." Refer to the [IRS website](#)¹¹⁹ for a copy of the Form 8868 for the most recent year.

804 Pennsylvania – Tax and Filing Requirements

804.1

Under the Pennsylvania Nonprofit Code, corporations, including libraries, may be incorporated in Pennsylvania for any lawful purpose. Nonprofit corporations are independent organizations that have a public-oriented purpose, defined by state law. There are several advantages to incorporation, including:

1. Formal organization;
2. Name protection;
3. Tax-exemption;
4. Limited liability;
5. Institutional recognition; and
6. Public recognition and credibility

804.2

Pennsylvania may not impose filing requirements, other than payroll or sales tax, on libraries recognized as being federally exempt. Refer to Section 804.3 for information on obtaining

¹¹⁶ "Form 990-EZ," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/f990ez.pdf>.

¹¹⁷ "Publication 5248," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/p5248.pdf>.

¹¹⁸ "Form 990-T," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/f990t.pdf>.

¹¹⁹ "Form 8868," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/f8868.pdf>.

exemption from sales tax payment. However, if the charity is engaged in charitable solicitation, the Pennsylvania Solicitation of Funds for Charitable Purposes Act requires the organization to file a Charitable Organization Registration Statement (Form BCO-10), unless it is excluded from the Act. Refer to the [PA Dept of State](#)¹²⁰ for additional information and a copy of the form. This form must be completed initially within 30 days of receiving more than \$25,000 in gross national contributions (including special event income) or prior to compensating someone to solicit contributions from Pennsylvania residents. The organization must provide information on the manner in which they solicit contributions, what programs the contributions will support, where they are registered to solicit contributions, information on anyone compensated to solicit contributions, information on associated organizations and if this is a combined registration, and information on officers, directors, trustees and salaried executives and the individual soliciting contributions.

The form must be refiled no later than the 15th day of the eleventh month following the close of the organization's fiscal year. Public, nonprofit library organizations can be exempt from the registration requirements if they receive financial aid from state and municipal governments and file a state annual report and required supporting documentation (e.g. financial review or audit) with the PDE OCL. If your organization is not exempt as a library or does not meet any of the other exemptions, it must file a BCO-10 registration statement for its most recently completed fiscal year and include a copy of its IRS Form 990 return, the appropriate financial statements, and the corresponding fee.

804.3

A nonprofit organization must file an Application for Sales Tax Exemption. Refer to [Sales Tax Exemption Application](#)¹²¹ for a copy of the application and supporting documentation in order to obtain a state and local sales tax exemption. All exempt organizations must renew their sales tax exemption every five years. The library should automatically receive a renewal packet two months prior to expiration. For additional information on filing please refer to the [PA Dept of Revenue](#).¹²² Exempt libraries are not subject to Pennsylvania sales tax on the items they purchase which are directly used in pursuit and furtherance of the libraries' exempt purpose.

804.4

However, exempt libraries are required by Pennsylvania to collect sales tax on merchandise that they sell, unless the merchandise is specifically excluded from sales tax collection. Merchandise can be excluded from sales tax if sales take place less than three times per year and for less than 7 days per year. Refer to [PA Code Section 32.4\(b\)\(6\)\(i\)](#).¹²³ This assumes that they are not selling these books at a location (farmer's market, e.g.) that a for-profit bookstore is also selling at (i.e. directly competing with a vendor that is required to collect sales tax).

¹²⁰ "Home," Pennsylvania Department of State, accessed July 24, 2018.

<https://www.dos.pa.gov/BusinessCharities/Charities/RegistrationForms/Pages/default.aspx>.

¹²¹ "INSTRUCTIONS FOR SALES TAX EXEMPTION APPLICATION," Pennsylvania Department of Revenue, accessed July 24, 2018.

<https://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/SUT/Documents/rev-72.pdf>.

¹²² "How do I get a sales tax exemption for a non-profit organization?" Pennsylvania Department of Revenue, accessed July 24, 2018. https://revenue-pa.custhelp.com/app/answers/detail/a_id/413.

¹²³ "32.4 Isolated Sales," PA Code, accessed July 26, 2018.

<https://www.pacode.com/secure/data/061/chapter32/s32.4.html>.

If the library is required to collect sales tax, it must complete Form PA-3, "Sales Tax Return." This form must be filed online through e-tides. Refer to the [etides website](#)¹²⁴ for instructions. Note that a library that has received a Pennsylvania sales tax exemption number must also apply for a sales tax account number if it is making taxable sales for which it needs to collect and remit Pennsylvania sales tax. The library would do this via the Form PA-100, which can be filed online at [PA-100](#).¹²⁵ Payment options include ACH Debit, ACH Credit, and Credit Card. Libraries must file the Sales Tax Return and remit sales tax on a monthly, quarterly, or semi-annual basis. Refer to the [etides website](#)¹²⁶ for sales and use tax filing deadlines for the current year.

Please refer to the Retailer's Information Guide on the [PA Dept of Rev Website](#)¹²⁷ for a list of taxable items. Taxable items that a library might sell include, but are not limited to:

1. Books;
2. Book bags/tote bags;
3. Photocopies; and
4. Rental Income

¹²⁴ "Instructions for Completing the (Form PA-3) Sales, Use, and Hotel Occupancy Tax Return," Etides, accessed July 24, 2018. <https://www.etides.state.pa.us/Instructions/ST/Return.htm>.

¹²⁵ "On-line Version of the PA-100 Enterprise Registration Form," PA100, accessed July 24, 2018. <https://www.pa100.state.pa.us/Registration.htm>.

¹²⁶ "E-Tides Tax Due Dates," Etides, accessed July 24, 2018. <https://www.etides.state.pa.us/Home/TaxDueDates?taxsystem=ST>.

¹²⁷ "RETAILER'S INFORMATION," Pennsylvania Department of Revenue, accessed July 24, 2018. <https://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/SUT/Documents/rev-717.pdf>.

CHAPTER 9 – INTERNAL CONTROLS

900 Chapter Objective/Summary

900.1

This chapter discusses what an internal control structure is and identifies internal control objectives and components. This chapter also includes some specific control procedures for libraries. There is an internal control questionnaire in Appendix C that can be used to determine what types of controls are already in place and what controls may be needed. It is important to note that, due to the limited number of staff at many libraries, it may be difficult and not cost-beneficial to implement some controls procedures. The following chapter outline highlights the major topics discussed in this chapter:

- 901 – Definition of Internal Control
- 902 – Control Objectives
- 903 – Components of Risk Management
- 904 – Information Technology Controls
- 905 – What Controls are Necessary?
- 906 – Common Internal Control Issues
- 907 – Internal Control Questionnaire

901 Definition of Internal Controls

901.1

The [Committee of Sponsoring Organizations of the Treadway Commission](#) (COSO)¹²⁸ defines internal control as “a process, effected by an entity’s Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” COSO uses the term “process” because internal control is not one event or circumstance, but a series of actions conducted through management. Essentially, a control is any activity that makes sure the right things are done at the right time. Controls serve as internal checks and balances. Libraries can use internal controls to manage risks (i.e. any event that may have a negative impact on the achievement of the library’s objectives).

902 Control Objectives

902.1

COSO’s Internal Control – Integrated Framework provides for three categories of objectives, which allow organizations to focus on differing aspects of internal controls:

1. **Operations Objectives** – These pertain to the effectiveness and efficiency of the entity’s operations, including operational and financial performance goals, and safeguarding assets against loss;
2. **Reporting Objectives** – These pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms set forth by regulators, recognized standard setters, or the entity’s policies.

¹²⁸ “Welcome to COSO,” COSO, accessed July 24, 2018. <https://www.coso.org/Pages/default.aspx>.

Examples of reports include marketing programs, circulation reports, employee and user satisfaction results, and financial statements; and

3. **Compliance Objectives** – These pertain to adherence to laws and regulations to which the entity is subject (Internal Control – Integrated Framework Executive Summary, 2013).

903 Components of Risk Management

Based on COSO's Enterprise Risk Management (ERM) framework, there are five interrelated components of ERM:

1. Governance and culture;
2. Strategy and objective-setting;
3. Performance;
4. Review and revision; and
5. Information, communication, and reporting.

903.1

Governance and Culture: Governance sets the organization's tone reinforcing the importance of, and establishing oversight responsibilities, for ERM. Culture pertains to the library's ethical values, desired behaviors, and understanding of risk in the entity.

903.2

Strategy and Objective-Setting: ERM strategy, and objective-setting work together in the strategic-planning process. The library's risk appetite is established and aligned with its strategy; the library's business objectives put the strategy into practice while serving as a basis for identifying, assessing, and responding to risk. The results of this process are reported to the key stakeholders.

903.3

Performance: Risks that may impact the achievement of strategy and business objectives need to be identified and assessed by the library. Risks are prioritized by severity in the context of the library's risk appetite. The library then selects risk responses and takes a portfolio view of the amount of risk it has assumed. The results of this process are reported to key risk stakeholders.

903.4

Review and Revision: By reviewing entity performance, the library can consider how well the enterprise risk management components are functioning over time and in light of substantial changes, and what revisions are needed. Monitoring of the entity's performance occurs during the daily supervision of the library functions; by independent evaluations, such as external financial audits; and through the oversight of the Board.

903.5

Information, Communication, and Reporting: ERM requires a continual process of obtaining and sharing necessary information, from both internal and external sources, which flows up, down, and across the organization. In the library environment where there is a small staff, communication may occur informally. In all cases, communication with the Board is critical for maintenance of adequate oversight. The communication should occur in writing via regular reports the Board. The board reports should be provided to the Board with sufficient time for

them to read the materials. The reports should contain all of the information the board members will need for their next meeting. Some examples include the following items: agenda; date; time and location of the meeting; information on a new program or budget and who is presenting; financial information including budget versus actual statements; and an explanation of deviations.

The five components of the ERM Framework are supported by a set of principles. The principals are mapped to each of the components and cover everything from governance to monitoring. More information on the principles can be found in the COSO ERM Executive Summary located on the [COSO ERM](#).¹²⁹

903.6

Risk response identifies and evaluates possible responses to risk based on the library's risk appetite and the cost vs. benefit of potential risk responses. Types of responses include:

1. **Risk avoidance** – Withdrawing from or not performing an activity with risk (e.g. not utilizing laptops because of an increased risk in theft over desktops). Libraries may miss opportunities when risk is avoided;
2. **Risk reduction** – Reduces the likelihood and impact associated with a risk (e.g. installing alarms and fire suppression systems to reduce the risk associated with a building fire or installing security systems to reduce the risk of stolen materials);
3. **Risk sharing** – Sharing the risk with another party to reduce the negative impact (e.g. obtaining liability insurance for the library property or outsourcing the bookkeeping function); and
4. **Risk acceptance** – Accepting the potential for negative impact associated with a risk (e.g. allowing employees to accept cash donations at the front desk). This usually occurs after the library determines via cost benefit analysis that the benefit of other risk management techniques is not worth the cost.

903.7

Internal control activities are the policies and procedures that help ensure implementation of management's risk responses. With respect to certain objectives, control activities themselves are the risk response. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

The following are samples of specific procedures that libraries can implement as part of their control activities:

Proper authorization of transactions:

1. **Purchase of goods and services** – Requested by one person and approved by another;

¹²⁹ "Enterprise Risk Management Integrating with Strategy and Performance," COSO, accessed July 24, 2018. <https://www.coso.org/Documents/2017-COSO-ERM-Integrating-with-Strategy-and-performance-Executive-Summary.pdf>.

2. **Payment authorization** – Authorizer is different from the check signer and two signatures required on checks greater than a certain amount; and
3. **Board approval** – Initial board approval of the budget and a separate approval for any expenses that will exceed the budgeted amount.

Segregation of duties includes assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets:

1. **Cash** – The person collecting cash should not be the person who records the cash receipt.
2. **Purchases** – Segregate the approval of purchases from the person that can authorize payment and the person who receives the goods or services.

In many small libraries, it is not possible or practical to maintain a strict segregation of duties, due to the small staff size. In this situation, other procedures should be in place to help mitigate the risk. For example:

1. Rotation of duties;
2. More strict supervision;
3. Enforced vacations;
4. Additional training to improve the quality of personnel;
5. Oversight of financial transactions by the Board; and
6. Receipt of bank statements and review of reconciliations by an independent party.

Appropriate documentation and records to enable the proper recording of transactions and events:

1. Maintain all cancelled checks, vouchers, and receipts (Refer to FAQ in Chapter 11 for document retention guidance.);
2. Mark vouchers paid upon receipt of payment to prevent duplicate payments;
3. Match invoices to approvals/purchase orders and packing slips/service receipt data to ensure approval and receipt of purchases prior to payment; and
4. Use pre-numbered documents for receipts, checks, and other financial-related transactions.

Adequate safeguards regarding access to and use of assets and records:

1. Limit access to blank checks;
2. Restrictively endorse income checks “for deposit only” upon receipt;
3. Password-protect, and do not share passwords for computers and systems that have access to change information or contain confidential information; and
4. Deface voided checks by writing “Void” on the face of the check. Maintain all voided checks for five years.

Monitoring of performance and of recorded amounts:

1. Monthly bank reconciliations with independent review;

2. Check manual calculations for clerical accuracy;
3. Cash counts; and
4. Supervise review of daily operations;

904 Information Technology Controls

904.1

As computers and technology continue to play a more vital role in the daily operations of libraries, it is important that libraries consider the internal controls in place over these systems. There are two main types of Information Technology (IT) Controls:

1. General Controls; and
2. Application Controls.

904.2

General controls are present in the environment surrounding information systems. These include:

1. Organizational and administrative structure of the IT function;
2. Implementation of new or changes to the IT solution;
3. Control over IT operations, including security, business continuity, management of data, and the physical environment; and
4. Monitoring and evaluating the IT internal controls and compliance with regulator/governmental requirements.

904.3

Application software processes business transactions. Typical application software includes payroll and accounting systems. Typical controls over applications (e.g. payroll, general ledger, etc.) include:

1. Completeness – Payroll is reconciled at the end of the period to ensure all employees were paid;
2. Accuracy – Match corresponding PO's, invoices, receiving reports, and payment to verify that what was ordered was received and paid for at the agreed amount and quantity;
3. Validation – Unique usernames and passwords to access each application;
4. Authorization – Checks over a certain dollar amount require the signature of the president; and
5. Segregation of Duties - Person who receives cash payments (custody), cannot make bank deposits, record the cash in the general ledger, and prepare bank reconciliations.

905 What Controls Are Necessary?

905.1

If the library does not have sufficient controls, it will be at risk for fraud and operational deficiencies. However, if controls are too cumbersome, employees may find ways to bypass them to complete their jobs. The goal of internal controls is effective management by balancing asset protection with efficient operation. Selecting the appropriate mix of controls depends on

many factors, such as the type of accounting system, the nature, and volume of accounting transactions, and staffing levels.

905.2

The main areas for a library to implement controls and the objective of those controls include:

1. **Cash receipts** – To ensure that all library cash is received, promptly deposited, properly recorded, reconciled, and secured;
2. **Cash disbursements** – To ensure that cash is disbursed only upon proper authorization, for valid business purposes, and properly recorded;
3. **Petty cash** – To ensure that petty cash is disbursed only for proper purposes, secured, and properly recorded;
4. **Payroll** – To ensure that payroll disbursements are made only upon proper authorization to legitimate employees, properly recorded, and that compliance with regulations is maintained (e.g. tax remittance);
5. **Grants, gifts, and bequests** – To ensure that all grants, gifts, and bequests are recorded and the library complies with any restrictions;
6. **Fixed assets** – To ensure that fixed assets are acquired and disposed of only upon proper authorization, secured, and properly recorded; and
7. **Information technology** – Confidential and proprietary data is protected, and the information technology resources remain available for use as expected.

906 Common Internal Control Issues

906.1

The following are common internal control problems found in smaller organizations:

1. Policies and procedures are not formal and written;
2. Duties are not segregated appropriately among employees;
3. Lack of formal review or approval; and
4. Lack of adequate IT general controls.

907 Internal Control Questionnaire

907.1

Libraries can use the questionnaire in Appendix C as a tool to identify potential control weaknesses. Any “no” answer is indicative of a potential internal control weakness. Libraries should consider if they have additional controls that lessen the risk related to a “no” response. Libraries should consider changing procedures based on weaknesses identified and the practicality and cost-benefit of the change.

CHAPTER 10 – AUDIT CONSIDERATIONS

1000 Chapter Objective/Summary

1000.1

This chapter distinguishes between a compilation, a review, and an audit, and determines when they are required, the types of audit opinions, the frequency with which audits or financial reviews are required to receive state aid, factors to use in selecting an auditor, and how to reduce the cost of an audit. The following major topics are discussed in this chapter.

- 1001 – Types of Financial Statement Services
- 1002 – Types of Audits
- 1003 – Types of Opinions in Audit Reports
- 1004 – Audit Frequency Required to Obtain State Aid
- 1005 – Auditor Selection
- 1006 – Audit and Review Cost
- 1007 – Preparing for the Audit
- 1008 – Distribution of Audit Reports

1001 Types of Financial Statement Services

1001.1

Certified Public Accountants (CPA) provide three levels of financial statement service:

1. Compilation;
2. Review; and
3. Audit.

1001.2

Compilations consist of a CPA preparing the library's financial statements based on information provided by the library. A compilation is beneficial for the library when it has limited, in-house capabilities for financial statement preparation. CPAs are not required to confirm information supplied by management; therefore, compilations provide no assurance on the reliability of an entity's financial statements. CPAs do not have to be independent of the library to prepare compilations. Compilations do not fulfill the audit and review requirements of libraries receiving funding from the PDE OCL.

1001.3

Reviews consist of a CPA performing inquiry and analytical procedures on the financial statements. A review provides limited assurance that the financial statements do not require any material changes. A review provides a significantly lower degree of assurance than an audit. The CPA must be independent of the library to perform a review. The CPA's inquiries should include:

1. Accounting principles and practices;
2. Procedures for recording, classifying, and summarizing transactions;
3. Actions taken at board meetings that may affect the financial statements;
4. Inquiries of individuals having responsibility for financial and accounting matters; and

5. Analytical procedures generally include trend analysis, ratio analysis, and reasonableness tests.

1001.4

Audits consist of a CPA testing selected transactions by examining supporting documentation and confirming selected information with outside parties (e.g. bank balances). Audits provide the highest level of assurance that the financial statements fairly represent the entity's financial position. Audits provide reasonable (not absolute) assurance that the library's financial statements are fairly and accurately presented. Audit procedures involve testing only a sample of the financial activity. An audit requires the CPA to obtain a thorough understanding of the library's business, as well as the library's internal controls. The CPA must be independent of the library to perform an audit.

1001.5

CPAs that perform audits and reviews must be independent of the library. If the CPA performs any management duties for the library, it is not considered independent. Since management is responsible for the library's financial statements, the library must complete a draft of the financial statements. This can be completed by the library's bookkeeper, Board treasurer, volunteer, or a third party. If the library cannot correctly prepare all material aspects of the financial statements, and requires its CPA to prepare the financial statements, the CPA must report a significant deficiency or material weakness in the organization's internal control over financial reporting for audits. Libraries can request a financial statement disclosure checklist from the CPA that aids in completing financial statement disclosures. In addition, the library can ask the CPA for clarification on any items on the disclosure checklist that are unclear. (Thomson Reuters/PPC, 2017¹³⁰)

1002 Types of Audits

1002.1

When performing audits, CPAs must follow the American Institute of Certified Public Accountants (AICPA) auditing standards. Audit standards include the following: Statements on Auditing Standards (SAS), Statements on Standards for Attestation Engagements (SSAE), and Statements on Quality Control Standards (SQCS). Copies of the auditing standards can be obtained on the [AICPA's website](#).¹³¹

When performing a compilation or review, CPAs are required to follow the Statements on Standards for Accounting and Review Services (SSARS) issued by the AICPA Accounting and Review Services Committee (ARSC). A copy of these standards can be obtained on the [AICPA website](#).¹³²

In addition to following auditing standards, CPAs must, in certain situations, follow other guidelines and perform specific procedures required by regulatory agencies. For example, single audits are required for nonprofit organizations that expend more than \$750,000 in federal funds. Single audits will not be covered in this manual since the audience for this manual will

¹³⁰ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018.

<https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

¹³¹ "Audit and Attest Standards, Including Clarified Standards," AICPA, accessed July 24, 2018.

<https://www.aicpa.org/research/standards/auditattest.html>.

¹³² "Clarified Preparation, Compilation and Review Standards," AICPA, accessed July 24, 2018.

<https://www.aicpa.org/research/standards/compilationreview.html>.

generally not require single audits. If you believe your library might require a single audit, contact your CPA for additional details.

1002.2

It is important to not confuse auditing standards with accounting principles. Auditing standards provide the CPA with a framework to conduct the audit. In contrast, accounting principles consist of accounting conventions used to prepare the financial statements.

1003 Types of Opinions in Audit Reports

1003.1

Audit reports are frequently classified according to the type of opinion expressed by the auditor:

1. Unqualified;
2. Qualified;
3. Adverse; and
4. Disclaimer.

1003.2

An unqualified opinion states the financial statements present fairly, in all material respects, the financial position, result of operations, and cash flows of the organization in conformity with Generally Accepted Accounting Principles (GAAP) or Other Comprehensive Basis of Accounting (OCBOA). This type of opinion is also known as the standard report. Libraries should aim to receive an unqualified opinion. Certain circumstances do not affect the auditor's unqualified opinion but require the auditor to add explanatory language to the report to highlight a matter related to the financial statements. Examples of explanatory notes include a division of responsibility with another CPA or justification of a departure from recognized accounting principles.

1003.3

A qualified opinion states that, except for the effects of the matters to which the qualification relates, the financial statements are presented fairly in all material respects in accordance with GAAP or OCBOA. This type of opinion generally arises because the auditor is unable to gather sufficient evidence to serve as a basis for the opinion (scope limitation) or the library failed to follow GAAP or OCBOA when preparing the financial statements. All qualified reports include a separate explanatory paragraph before the opinion paragraph disclosing the reasons for the qualification.

1003.4

An adverse opinion states the financial statements are not presented fairly in accordance with GAAP or OCBOA. This type of opinion includes a disclosure paragraph in the report stating the reasons for the adverse opinion and the primary effects on the financial statements.

1003.5

A disclaimer opinion does not express an opinion on the financial statement to which it relates. In other words, the auditor does not have an adequate basis for an opinion and does not know whether the statements are fairly stated. This type of opinion generally arises when the auditor is not independent of the library or has been unable to obtain sufficient evidence on which to base an opinion.

1004 Audit Frequency Required to Obtain State Aid

1004.1

Per the Pennsylvania Code Section [22 Pa Code Section 131.32\(2\) Proof of eligibility](#).¹³³

“For expenditures made during a fiscal year completed prior to the October 1 deadline for filing the application for State aid, an independent auditor's report, performed in accordance with generally accepted auditing standards, of the entire operation, which includes income from all sources and related expenditures and fund balances of the library during the fiscal year ending December 31 or June 30 shall accompany or precede the application for State aid. The audit shall be filed every year for libraries which receive annually \$50,000 or more in State income or every third year, with a financial review filed in the years that an audit is not required, for libraries which receive annually less than \$50,000 in State income.”

The audit or review can be based on GAAP or OCBOA and can be accrual, modified accrual, or cash-basis. (See also Section 304.)

1005 Auditor Selection

1005.1

Libraries should consider many factors when selecting an independent CPA to complete an audit or review. The CPA must work closely with library staff, so interpersonal factors are important. In addition, the CPA must be independent to perform reviews or audits. To avoid independence conflicts no one connected with the CPA should serve on the Library's Board or perform any management duties (including the accounting function). Qualifications are also important. To assess the auditor's qualifications, obtain the following information: (Thomson Reuters/PPC, 2017¹³⁴)

1. The audit firm's background and experience specifically involving nonprofit organizations;
2. The firm's size;
3. The resume of the person in charge of the audit and the qualifications of the assigned staff members. This may include the number of years of audit experience, years of experience in nonprofit accounting and auditing, and professional certifications such as CPA;
4. References from the local business community; and
5. Other services the firm can provide (e.g. completing the Form 990).

¹³³ “131.32.Proof of eligibility,” The Pennsylvania Code, accessed July 25, 2018.
<https://www.pacode.com/secure/data/022/chapter131/s131.32.html>.

¹³⁴ Checkpoint PPC,” Thomson Reuters, accessed July 25, 2018.
<https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

1005.2

Names of qualified outside CPAs can be found from various sources, such as:

1. Board members;
2. Other local libraries and nonprofits;
3. Pennsylvania Institute of Certified Public Accountants (PICPA) CPA Locator on the [PICPA website](#)¹³⁵; and
4. [Find a CPA](#)¹³⁶ on the AICPA website.

1005.3

Libraries should consider issuing a Request for Proposal (RFP) when obtaining audit and review services. The RFP enables the library to solicit audit proposals from multiple CPAs and state the objectives and the scope of services being requested. Libraries should include the following types of information as part of the RFP:

1. Number of staff;
2. Qualifications of personnel performing accounting functions;
3. Revenue sources;
4. Typical monthly number and amounts of cash receipts and disbursements;
5. Copies of the most recent financial statements; and
6. A copy of the current budget.

Providing this information in the RFP will assist CPAs in understanding the library so they can provide an accurate cost estimate for the proposed work. In addition, the RFP should include timing requirements, reporting requirements, deadlines, and the guidelines for submitting the RFP. (Thomson Reuters/PPC, 2017¹³⁷)

Guidelines for writing an RFP and links to sample RFP documents are available on [TechSoup](#).¹³⁸

1005.4

Proposals from CPAs generally contain the following information:

1. **Executive summary** – Many proposals start out with an executive summary that summarizes the types of services that the firm will provide and the estimated fees for these services. This summary generally highlights important factors that differentiate the firm from its competitors.
2. **Profile of the firm** – A proposal often includes information about the firm's history, its resources, staff, and the basis for its reputation in the community.
3. **Scope of the engagement** – So that there are no misunderstandings, the proposal should include a statement of the work the CPA intends to perform and the reports it

¹³⁵ "CPA Locator," PICPA, accessed July 24, 2018. <https://www.picpa.org/consumers/cpa-locator>.

¹³⁶ "CPA License Verification - Find a CPA," AICPA, accessed July 24, 2018.

<https://www.aicpa.org/forthepublic/findacpa/findacpa.html>.

¹³⁷ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018.

<https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

¹³⁸ "An Overview of the RFP Process for Nonprofits, Charities, and Libraries," TechSoup, accessed July 24, 2018. <https://www.techsoup.org/support/articles-and-how-tos/overview-of-the-rfp-process>.

intends to issue. (e.g. is this an audit or a review) This statement should refer to any appropriate regulatory or other standards (e.g. single audit).

4. **Approach to the engagement** – A proposal generally includes a description of the approach the firm will use to perform the requested services. This should include who will manage and supervise the engagement as well as who will actually perform the work. It should also address where the work will be performed (e.g. on-site or off-site) and the timing of the various stages of the engagement.
5. **Biographies of the engagement Team** – This section should include biographies of the engagement team members (e.g. partner, manager, and staff).
6. **Comparable experience/clients** – This section should include how the CPA has successfully conducted similar work. The firm may provide references on request or may list names of existing clients along with contact information.
7. **Fee estimate** – A proposal almost always contains an estimate of the expected fee. This section should describe how the fee estimate was determined and should clearly identify all assumptions including library assistance, size, complexity of the engagement, and any other factors that may result in the fee being higher than the estimate.
8. **Conclusion** – The conclusion is a brief statement reiterating why the nonprofit organization will benefit from hiring the firm for the work. (Thomson Reuters/PPC, 2017¹³⁹)

1006 Audit and Review Cost

1006.1

Your library will be required to commit substantial resources (e.g. time and money) to have an audit performed. CPAs have standard billing rates for different levels of personnel. Staff accountants with less than one year's experience generally have the lowest billing rates, and partners have the highest rate. The rates a CPA charges depends on various factors, such as location (e.g. costs are generally higher in larger cities) and time of the year (CPAs may be willing to charge a discounted rate during a slow time of the year, e.g. outside of the first calendar quarter). It is generally less expensive to develop a long-term relationship with a CPA. CPAs incur certain startup costs and must set up certain permanent files for a new client, which will cause the audit to take additional time the first-year. Likewise, the library incurs startup costs in looking for, engaging, and preparing for a new auditor. It is always a good idea to compare prices of other firms on a periodic basis to verify the library is not overpaying based on market conditions. Libraries can also reduce audit fees by preparing audit workpapers. The library completing more work translates into less work for the CPA and a lower fee. Furthermore, auditors generally prefer to receive workpapers in electronic format (e.g. Microsoft Excel or accounting system export or back-up file) which can reduce the cost since it is faster to perform calculations and make adjustments. Electronic/system documentation also allows the CPA to work off-site, which can reduce travel costs. Reference Section 1007.1 for additional information. (Thomson Reuters/PPC, 2017¹⁴⁰)

¹³⁹ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

¹⁴⁰ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

1007 Preparing for the Audit

1007.1

The CPA will generally provide a request list prior to fieldwork with any required items. The library should maintain a copy of the prior year's request list to provide a head-start on items that might be requested. The library can then accumulate copies of these items throughout the year. If the library uses accounting software that is compatible with the CPA, the CPA may request a copy of the back-up file and obtain a copy of the General Ledger and other necessary reports directly, which can save time and money. It is important to have all requested items ready for the auditor by the requested date to make the audit more efficient and less time-consuming. If you do not understand a request, contact the CPA for clarification. The CPA might also be able to provide a copy of what it has received in past years or a generic sample as a guide. If the auditor is performing on-site fieldwork, staff and the Treasurer should be available during this time to answer any questions from the CPA. Examples of workpapers that might be requested include trial balance (i.e. Statement of Financial Position), bank reconciliations, loan agreements, budget to actual comparison, and leases.

1008 Distribution of Audit Reports

1008.1

Audits should be presented to and reviewed with the library's management and Board upon completion of the audit, but prior to distributing the report to outside parties.

1008.2

Financial statement audit reports should be distributed to any outside parties that require a copy (e.g. lenders, municipalities).

CHAPTER 11 – FREQUENTLY ASKED QUESTIONS

1100 Chapter Objective/Summary

This chapter contains some of the most frequently asked questions by libraries.

Question 1:

What criteria should we use when choosing a financial auditor?

You should consider two main factors when choosing a financial auditor: 1) qualification of the auditor, and 2) price of the audit. Price should never be the only determining factor. Refer to Chapter 10 for additional information on qualifications and prices for review and audit services.

Question 2:

What should I do to prepare for an audit or review?

The best preparation for an audit or review is to maintain clear and concise financial records with ample supporting documentation for all transactions recorded. Refer to Section 1007 in Chapter 10 for additional information.

Question 3:

How long should accounting records be retained?

Sarbanes-Oxley (U.S. legislation designed to regulate certain corporate financial activities and improve the accuracy of financial statements) uses the following record retention guidelines. Libraries are not required to comply with Sarbanes-Oxley but this provides best practices on retention periods. (Thomson Reuters/PPC, 2017¹⁴¹)

DOCUMENT TYPE	RETENTION PERIOD
Accounts Payable Ledger	7 Years
Accounts Receivable Ledger	7 Years
Bank Statements	7 Years
Chart of Accounts	Permanent
Contracts & Leases	7 Years after Expiration
Correspondence (Legal)	Permanent
Deeds and Mortgages	Permanent
Employee Expense Reports	7 Years
Employee Personnel Records	4 Years after Termination
Employment Applications	3 Years
Insurance Records	Permanent
Inventories of Products	7 Years
Invoices to Customers	5 Years
Invoices from Vendors	5 Years
Payroll Records & Tax Returns	7 Years
Purchase Orders	5 Years
Time Cards & Daily Reports	7 Years
Training Manuals	Permanent

¹⁴¹ "Checkpoint PPC," Thomson Reuters, accessed July 25, 2018. <https://tax.thomsonreuters.com/products/brands/checkpoint/ppc/>.

Question 4:

Should there be a difference in record-keeping depending on whether we have a review or an audit.

No. The library should maintain the same amount of documentation regardless of whether there is an audit or a review. The auditor will request more documentation and examine the accounting records in more detail for an audit than a review, but this does not affect record-keeping requirements.

Question 5:

What is the difference between the terms expense and expenditure?

Many people use these terms interchangeably but the technical explanation follows. An expense is the amount reported on the income statement. An expense is generally comprised of multiple payments during the period (e.g. salary expense, office supply expense). Expenditure is a single payment or disbursement (e.g. purchase of an asset, reduction of debt).

Question 6:

Should books and collections be capitalized (e.g. recorded as fixed assets and depreciated)?

Refer to Section 407 – 410 of Chapter 4 for information on financial recording for books and collections.

Question 7:

How do we record cash received at the library desk?

If you use a cash register at the desk, all cash receipts should be entered into the cash register and placed in the cash drawer. At the end of each day, the cash register should be “closed out.” Closing out consists of reviewing a report or receipt from the cash register of transactions and the ending cash balance and counting the cash in the drawer. Two people should be present for the cash count. The amount of cash in the drawer should match the ending balance on the cash register report. If there are discrepancies, the library should try to determine the cause of discrepancies. At the end of the day, make an entry to the cash receipts journal for the total cash received. Record the amount to the appropriate category (e.g. fines and cash).

If the library uses a simple cash drawer, manually document each receipt of cash by recording the type (e.g. fines, donations) and amount. Daily, total the manual list of cash receipts and reconcile that total to the cash on-hand. Record the total amount of cash received for the day as a single entry in the cash receipts journal.

Refer to section 305.2 for additional information on the cash receipts journal.

Question 8:

How do I record investment income, dividends, and interest?

There are two elements of investment income: realized and unrealized. Realized gains and losses are the result of actual earnings on your account that you received or reinvested in the account (e.g. dividends, interest, and gain or loss when the investment or a portion of the investment is sold). Unrealized gains or losses represent the difference between the investment balance (original balance plus or minus any realized gains or losses) and the market value of

the investment. This occurs if a stock's value increases or decreases after purchase, and the library did not sell the stock. The gain or loss is not realized until the stock is sold. Unrealized gains or losses are paper gains or losses, since they exist only on paper.

Libraries using the accrual method of accounting should record realized and unrealized gains. Libraries using the cash method only record realized gains.

Libraries using the cash and accrual method must both record realized gains or losses. Realized gains and losses represent actual earnings or loss on the account. Examples include received dividends, received interest, and the gain or loss upon the sale of an investment.

Refer to Section 411 for example investment journal entries.

Question 9:

If I order and pay for a book for a library employee and subsequently charge the employee for the book, what entries must I make?

Libraries should record the following entry when the book is purchased (assume the cost is \$20):

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	125	Other Recoverable Disbursements or A/R - Employee	\$20	
	100	Cash (or Accounts Payable)		\$20

Libraries should record the following entry when the employee pays for the book:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash (or Accounts Payable)	\$20	
	125	Other Recoverable Disbursements or A/R - Employee		\$20

These two entries cancel each other out; therefore, if they happen during the same period they will not affect the final balance of each account. However, if they happen in different accounting periods they will affect the balances of the accounts in each accounting period.

Question 10:

I have received permission from the Board to set aside a certain sum of money (e.g. \$2,000) each year that will eventually be used to make a major purchase, such as a bookmobile. How should I record this?

This is an example of a board designation. Libraries record board designations at the end of a period through a closing entry to net assets. Libraries should record the following entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	140	Net Asset Balance – Without Donor Restrictions	\$2,000	
	140.B	Net Asset Balance – Without Donor Restrictions, Board Designated		\$2,000

Question 11:**How do I set-up a petty cash account for paying small expenses?**

The best way to set up a petty cash account is the impress method. The library starts the account by cashing a check for the desired impress amount (e.g. \$100) and placing the money into a petty cash box or drawer. The board should approve the impress amount and the individuals that have access to petty cash.

Libraries should make the following entry to record the initialization of the petty cash account:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	101	Petty Cash	\$100	
	100	Cash		\$100

When library personnel use petty cash, they should complete a voucher including the date, amount, payee, nature, and purpose of the expense. The voucher should be approved by someone who has authority to make purchases on behalf of the library (e.g. PO approval) before the purchase is made. Attach receipts to the voucher after purchase. Libraries should write a check to the petty cash custodian to replenish the petty cash account for the amount of expenses/expenditures indicated on the vouchers once petty cash falls below an established level (e.g. \$25). Libraries should record the check via the following entry based on the type of expenses on the vouchers (assumes a total of \$78 of purchases for office expenses):

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	152	Office Expense	\$78	
	100	Cash		\$78

The total of cash on hand plus substantiating vouchers in the petty cash account box or drawer at any given time should always equal the established petty cash impress amount.

Only use petty cash when the amount of cash needed is small. Disburse larger amounts via check. Circulation desk receipts should not be stored with the petty cash to maintain the integrity of the impress amount.

Question 12:**As a system headquarters, we receive money from the county or state to use for local libraries within the county. Either the library receives the money or the county/state pays some of the library's bills. How do I record these transactions?**

If the system headquarters has control of the funds (e.g. has the decision-making authority regarding how funds are used or distributed) the system headquarters would recognize the receipts as revenue. County and state aid generally fall under this category. The headquarters would record the following journal entry for receipt of \$50,000 of funds:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash	\$50,000	
	103B	State Aid Income		\$50,000

Under the accrual method, once the system headquarters makes a decision regarding the distribution or the use of the funds, they make the following entry (note: this entry is not required under the cash method):

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	103C	State Aid Income distributed to other libraries	\$50,000	
	150	Due to other libraries		\$50,000

After the system headquarters distributes the cash, they record the following entry under the accrual method:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	150	Due to other libraries	\$50,000	
	100	Cash		\$50,000

Under the cash method, the following journal entry is required when the cash is actually distributed:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	103C	State Aid Income distributed to other libraries	\$50,000	
	100	Cash		\$50,000

Libraries that receive money from system headquarters should record the following entry (assuming \$10,000 was received):

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash	\$10,000	
	1035	State Aid Income received from other libraries		\$10,000

When a system headquarters pays bills for libraries, it should record the same entry as if they were distributing the money directly to the library. The library receiving money is responsible for recording the expenses for the bill paid through the following entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	152	Office Expense	\$500	
	1035	State Aid Income received from other libraries (or due from other libraries if a receivable has been established)		\$500

In some instances, a system headquarters may receive funds on behalf of a local library that it does not have authority over and never attains the legal rights to. The system headquarters is merely serving as a pass-through organization. This is an example of an agency transaction. Refer to Section 404.12 for more information on agency transactions.

Question 13:

We recorded an expense for several newspaper subscriptions into my Audio Materials expense account instead of my periodicals and newspapers account. Can I correct this error?

Yes, it is generally easy to correct errors in accounting software. You may be able to view the incorrect entry and change the account entry. If this is not possible, you can delete the incorrect entry and record the correct entry. If the financial period in which the incorrect entry occurred has been closed, you can make the correction through the following journal entry with a comment to explain the entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	151	Periodicals and Newspapers	\$500	
	152	Audio Materials		\$500

If you are using a manual system, you will need to reverse the original incorrect entry and then make a new entry for the correct account(s).

Question 14:

We are a library system with two branch libraries. I would like to account for the expenses of each branch separately. Should I set up separate funds?

Yes, each branch should have its own set of funds and separate general ledger accounts. These amounts may be consolidated in the financial statement presentation for the system.

Question 15:

Because of local requirements, I am maintaining two checking accounts from which I make payments for general operating expenses. In this circumstance, is it necessary to have two General Funds?

No. The best method is to maintain one General Fund with one general ledger account for each checking account. It is easier to have one operating checking account. However, if you do use two, you will need a separate cash receipts and cash disbursements journal for each checking account.

Question 16:

We received a refund for some books we returned. I have already paid the original invoice. How do I record the receipt?

The refund should be recorded as a deposit (debit cash) and the same account the original disbursement was recorded in should be credited (e.g. expense or fixed asset account)

Question 17:

How often should internal financial reports be prepared and presented to the board?

The library should prepare monthly internal financial reports. All monthly reports should be shared with the Board or at least the finance committee of the board. The Board should meet at least quarterly to discuss any issues or questions.

Question 18:**What is the Board Treasurer's responsibility?**

Different libraries expect the Treasurer to complete different roles depending on specific situations (e.g. if there is a bookkeeper or staff). It is important to establish responsibilities of the Treasurer in the Board bylaws or written policy. These responsibilities should be discussed with potential Treasurers before they start. The following is a sample of the Treasurer's responsibilities, which should be modified to your library's needs and desires:

1. The Treasurer will coordinate the preparation of the annual budget, oversee, and report on the financial matters to the Board at regular meetings.

Refer to [Blue Avocado](#)¹⁴² for information on Board bylaws. Refer to [Propel Non-Profits](#)¹⁴³ for additional information on Treasurer Job description.

Question 19:**How do I record reimbursements (e.g. E-rate)?**

To make recording easier, contact your telecommunications provider (e.g. Verizon) to see if they will bill you at the total amount due minus the discount to avoid reimbursements. When an expense is paid that you expect to be reimbursed for, you should establish a receivable for the expected reimbursement amount. (Do not forget to record the cash disbursement):

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	120	Due from XYZ	\$500	
	152	Audio Materials		\$500

Once you receive the reimbursement, the following entry is required:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash	\$500	
	120	Due from XYZ		\$500

Question 20:**How should a library handle bookkeeping on rental property that generates income for the library?**

Record receipts from the rental property through the following journal entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	100	Cash	\$1000	
	140	Rental Income		\$1000

Remember that rental income may be subject to unrelated business income tax. Refer to Section 802 for additional information.

¹⁴² "Bylaws Checklist," Blue Avocado, accessed July 24, 2018.
<http://www.blueavocado.org/content/bylaws-checklist>.

¹⁴³ "What Makes a Great Board Treasurer?," Propel Nonprofits, accessed July 24, 2018.
<https://www.propelnonprofits.org/blog/makes-great-board-treasurer/>.

Question 21:**How should the library show the accounting on employment program staff, where the library pays a percentage of the person's salary?**

There are two common types of programs. Some programs pay the full salary of the staff while some pay a portion of the salary and the library pays the remaining portion (e.g. PHEAA). Libraries must determine if the amount of the salary paid by the program should be considered a donation and recorded in the financial statements (see section 404.3 for additional information). Generally, the salary that the program pays must be reported in the annual report to the Commonwealth. The library should record any salary they pay as part of the program in the same manner as other payroll expenses (refer to Chapter 5).

Question 22:**How should the library handle the accounting for a book fair, when the income goes directly to the book company, and the library is given books which are equal in value to what was raised at the fair?**

The fair value of the books received should be recorded as a donation. For example, if the library received \$1000 of books, the library should record the following entry:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	120	Books	\$1000	
	116	Donations		\$1000

If the library knows the amount of books that will be received immediately following the book fair based on the amount of sales, but does not actually receive the books until a later time, the donation should be recorded as a receivable under the accrual method:

Date	Account #	Account Description	Debit	Credit
XX/XX/2XXX	110	Receivables – Book Fair	\$1000	
	116	Donations		\$1000

If the library collects cash during the book sale on behalf of the book fair company and later sends the collected cash to the book fair company, it is considered an agency transaction. Refer to Section 404.12 for additional details.

Question 23:**How often should I change auditors?**

There is no requirement for nonprofit organizations, including libraries, to change or rotate auditors. Refer to Chapter 10 for additional information on selecting an auditor. This information can also be used to evaluate if your current auditor is meeting the needs of your organization.

Question 24:**Can a library have profits?**

Yes, a library can have profits. This is called unrelated business income. Refer to Section 802 for information on the definition and taxable nature of unrelated business income.

Question 25:**What is the difference between income and revenue?**

Revenue is the amount of cash generated by the library, through contributions, memberships, fundraising events, and fees, considered primary to its operation. Nonprofit revenue falls into three categories: restricted, temporarily restricted, and unrestricted. Restricted and temporarily restricted monies are considered principal and can be restricted by either their purpose or time constraint. Unrestricted monies are all other revenues brought in by the organization.

A library's income is reflected in its net assets. Net assets are recorded in a nonprofit's Statement of Financial Position and Statement of Activities and reflect the library's revenues minus expenses and losses. A library's expenses may include the amount of resources used to carry out its programs (known as "program expenses") and/or the amount of resources used for fundraising and management (known as "support expenses"). Therefore, a library's income, reflected in its net assets, is its revenue minus its expenses and losses.

Question 26:**Are there limitations on how much can be spent on lobbying?**

The library's financial policies and IRS tax regulations impose limits on lobbying spending for the library. Lobbying should be addressed and acceptable lobbying activities and expenses defined by the library's financial policies. Refer to the American Library Association's [Lobbying Fact Sheet](#)¹⁴⁴ for additional guidance on setting policies related to lobbying. It is recommended that you consult your tax professional for information on the specific limits for your organization.

Question 27:**Can the Library Director overspend a budget category without board authorization, or move money among budget line items?**

The library's financial policies will dictate the spending authorization of the Library Director and its policy on over budget spending and transfer of budget dollars among accounts.

¹⁴⁴ "Lobbying and ALA: Fact Sheet," American Library Association, accessed July 23, 2018. <http://www.ala.org/aboutala/sites/ala.org.aboutala/files/content/governance/legalguidelines/alalobbying/lobbying-and-ala-fact-sheet-march-12-20081.pdf>.

CHAPTER 12 – NONPROFIT FUNDRAISING

1200 Gift Acceptance Policy

1200.1

Before accepting donations, libraries should develop a gift acceptance policy. It is important to have a policy in place before accepting a potential controversial gift to ensure that possible implications are considered. The policy should include limitations or any special procedures for specific types of gifts. Some items for consideration include:

1. Individuals or companies from whom gifts will be accepted;
2. The types of gifts that will be accepted;
3. Types of gifts that must be reviewed before accepted;
4. Use of accepted gifts; and
5. Actions to be taken upon receipt of certain types of gifts (e.g. stocks, real estate, etc.)

Examples of gifts that might require evaluation prior to acceptance include (National Council of Nonprofits):

1. Gifts from donors that conflict with the organization's core values or mission;
2. Property – The library should evaluate if it can use/sell the property and if there are obligations associated with the property (e.g. mortgage on a building or land);
3. Restricted gifts; and
4. Financial instruments such as stocks, bonds, etc.

1200.2

It is important to honor donors' requests for restricted gifts. For example, any funds that a library receives from a new building campaign must be directed toward the new building and no other operating expenses.

1200.3

Libraries should give donors the option of remaining anonymous. Libraries can include an option for anonymity on pledge cards or other donation documentation. An example of an anonymous option box on the pledge form:

“I wish to keep my identity and gift anonymous. Please do not use my name on donor lists, annual reports, or similar publications.”

1200.4

Depending on the type and amount of contribution received from a donor, there are different acceptance acknowledgement requirements. Generally, if a donor contributes a value of more than a \$250, they will require written documentation to deduct the deduction on their taxes. It is not required to recognize these contributions in writing; however, most, if not all donors will want to deduct their contribution from their taxes, and it would behoove the library to provide the written documentation to donors.

Quid-pro-quo contributions require the organization to provide a written disclosure statement to the donor if the contribution is greater than \$75. Furthermore, the organization is subject to a \$10 penalty per contribution for not providing a proper disclosure statement. For exceptions and

explanations to the rule and more information about written disclosure requirements, visit [IRS Publication 1771](#).¹⁴⁵

1201 Accounting for Fundraisers

1201.1

Accurate accounting for fundraisers is important since it can be a large portion of the organization's revenue.

FASB ASC 958-605-30 requires libraries to recognize contributions based on their fair market value at the date of receipt.

For example, if the library receives a TV with a fair value of \$1,000 the receipt would be recorded as:

1. Debit: Asset \$1,000; and
2. Credit: Contributions \$1,000.

When the library uses the TV as part of the fundraiser, the asset will be removed from the library's financial statements. For example, if the library sold the TV at an auction for \$1,200, the following entry would be recorded.

1. Debit: Cash \$1,200;
2. Credit: Asset \$1,000; and
3. Credit: Contributions \$200.

Money and items contributed for fund-raisers can be tracked in your accounting software or manually.

Refer to [FASB's website](#)¹⁴⁶ to view the standards; a basic subscription, which is free, is required.

1201.2

FASB ASC 958-720-05-4 requires libraries to report information about expenses by their functional classifications. Fundraising is generally considered one type of functional expense. If an expenditure (e.g. employee's salary) is used for fundraising and another functional expense, (e.g. management and general activities) it must be allocated between the types of costs. FASB ASC 958-720-45-29 summarizes the accounting requirements for joint activity classification. Allocations can be based on a variety of methods using financial or non-financial data.

Refer to [FASB's website](#)¹⁴⁷ to view the standards; a basic subscription, which is free, is required.

¹⁴⁵ "Publication 1771," IRS, accessed July 24, 2018. <https://www.irs.gov/pub/irs-pdf/p1771.pdf>.

¹⁴⁶ "Accounting Standards Codification," FASB, accessed July 19, 2018. <https://asc.fasb.org/>.

¹⁴⁷ "Accounting Standards Codification," FASB, accessed July 19, 2018. <https://asc.fasb.org/>.

1202 Games of Chance

1202.1

The Pennsylvania Local Option Small Games of Chance Act allows eligible nonprofit organizations to conduct small games of chance for the purpose of raising funds for the promotion of “public interest purposes.”

The Act allows the following games of chance:

1. Punchboards;
2. Pull-tabs;
3. Raffles (including raffle auctions);
4. Daily drawings;
5. Weekly drawings;
6. 50-50 drawings, including major league sports drawing;
7. Race night games obtained from distributors licensed with the department; and
8. Pools, excluding sport pools, which are prohibited by federal law

For a summary of the requirements and restrictions for the above games of chance, refer to [PA Dept. of Revenue](#).¹⁴⁸

1202.2

Eligible organizations allowed to participate in small games of chance are as follows:

1. Charitable organization;
2. Religious organization;
3. Fraternal organization;
4. Veterans organization;
5. Club;
6. Civic and service organization; and
7. Affiliated non-profit organization of a major league sports team

Per the Small Games of Chance Overview on the PA Department of Revenue’s website, an eligible organization that has as its primary purpose the promotion of a public interest purpose may use small games of chance proceeds to carry out that purpose. One of the definitions of “public interest” listed in the overview is, are the activities and operations of a nonprofit, benevolent, religious, educational, philanthropic, human, scientific, patriotic, social welfare, social advocacy, public health, public safety, emergency response, environmental or civic objective. In addition, an auxiliary group (e.g. Friends of the Library) may conduct small games of chance using the library’s license, as long as the auxiliary group is listed on the license application. For additional information on small games of chance refer to [PA Dept. of Revenue](#).¹⁴⁹

¹⁴⁸ "Small Games of Chance: Basic Guidance on what is Legal versus Illegal for Club Licensees and Eligible Organizations," Pennsylvania Department of Revenue, accessed July 24, 2018. https://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/SGOC/Documents/sgoc_legal_vs_illegal.pdf.

¹⁴⁹ "SMALL GAMES OF CHANCE OVERVIEW," Pennsylvania Department of Revenue, accessed July 24, 2018.

For the library to be considered an eligible organization you must pay a fee and complete Form [REV-1752](#).¹⁵⁰ This form must be completed every year to renew the license if desired. See instructions on page 4 of the application for additional information on type of eligible organization.

Local municipalities may not allow small games of chance, have restrictions, or require filing of documents with the municipality. The library should contact the municipality where the small games of chance will take place to determine what, if any, local process must be followed in order to hold a small games of chance event.

1202.3

The proceeds from small games of chance may only be used for public interest purposes or for the purchase of small games of chance. Proceeds used toward the library's mission will generally be included in the definition of public interest purposes. For a current listing of public interest purposes, refer to [PA Dept. of Revenue](#).¹⁵¹

1202.4

The Act regulates prize limits for various games of chance. The prize amount for a single game of chance may not exceed \$2000 (with the exception of daily and weekly drawing carryovers). Organizations may not award prizes during any 7-day period (seven consecutive reoccurring operation or non-operation days) with a total value, in cash or merchandise, of more than \$35,000. When a daily or weekly drawing is conducted to award 100 percent of the gross revenue from the game, then the prize does not count against the \$35,000 weekly prize limit. No more than \$15,000 may be awarded in raffles during a calendar month (Organizations may apply for ten special raffle permits per year and may award up to \$150,000 from all special permit raffles. For additional information, refer to [PA Dept. of Revenue](#).¹⁵²

1202.5

Games of chance may only be conducted on the library's licensed premises (e.g. library building). There are two exceptions to this requirement.

1. Raffle tickets may be sold anywhere in any municipality that has approved small games of chance by referendum.
2. Games of chance can be conducted at annual carnivals, fairs, picnics, or banquets. The library must notify the district attorney and licensing authority in the county where the event will be held.

https://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/SGOC/Documents/sgoc_overview.pdf.

¹⁵⁰ "ELIGIBLE ORGANIZATION GAMES OF CHANCE APPLICATION," Pennsylvania Department of Revenue, accessed July 24, 2018.

<https://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/SGOC/Documents/rev-1752.pdf>.

¹⁵¹ "ELIGIBLE ORGANIZATION GAMES OF CHANCE APPLICATION," Pennsylvania Department of Revenue, accessed July 24, 2018.

<https://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/SGOC/Documents/rev-1752.pdf>.

¹⁵² "ELIGIBLE ORGANIZATION GAMES OF CHANCE APPLICATION," Pennsylvania Department of Revenue, accessed July 24, 2018.

<https://www.revenue.pa.gov/FormsandPublications/FormsforBusinesses/SGOC/Documents/rev-1752.pdf>.

1202.6

The major requirements and restrictions of the Small Games of Chance Act include:

1. Players must be 18 or older to participate.
2. Libraries may not advertise the prizes offered in games of chance. However, prizes must be identified on raffle tickets.
3. Libraries may not pay people to conduct games of chance.
4. Only the library's management, officers, directors, bar personnel, and bona fide members may conduct small games of chance.
5. Prizes should be delivered to the winner as soon as possible.

For additional information, refer to the Frequently Asked Questions about Local Option Small Games of Chance Act on the [Lancaster DA website](#).¹⁵³

1202.7

The Pennsylvania Local Option Small Games of Chance Act requires libraries to keep records related to games of chance activity sufficient to demonstrate compliance with the law upon inspection or audit for at least two years. Records must include the following:

1. All sales invoices;
2. Gross receipts from the conduct of each game of chance;
3. The cost of each game of chance and other expenses related to the conduct of each game of chance;
4. The total of prizes paid out for each game of chance and each prize's cost or fair market value;
5. The proceeds from the conduct of each game of chance;
6. Totals for items enumerated in items 2 through 5 above for each operating day, operating week, calendar month, calendar year, and licensed term;
7. Details as to how proceeds from games of chance were used or disbursed by the eligible organization;
8. A record of any prize for which the licensed eligible organization is required to make a W-2G report to the IRS;
9. A list of winners' names and addresses for prizes in excess of \$600; and
10. For merchandise prizes, the licensed eligible organization is required to obtain a sales invoice showing the purchase price of the prize or, if the prize was donated to the licensed eligible organization, a written statement from the donor indicating the fair market value for the prize.

A licensed eligible organization must also maintain records relating to the printing or purchase of materials to be used for raffles and daily and weekly drawings. Records should include an

¹⁵³ "Frequently Asked Questions about Local Option Small Games of Chance," Lancaster County, Pennsylvania, accessed July 24, 2018. <https://co.lancaster.pa.us/DocumentCenter/View/3569/2015-Frequently-Asked-Questions-Small-Games-of-Chance-Act>.

invoice or receipt from the place of purchase that shows the cost and number or amount for the materials purchased. For additional information, refer to [PA Dept of Revenue](#).¹⁵⁴

¹⁵⁴ "SMALL GAMES OF CHANCE OVERVIEW," Pennsylvania Department of Revenue, accessed July 24, 2018.
https://www.revenue.pa.gov/GeneralTaxInformation/Tax%20Types%20and%20Information/SGOC/Documents/sgoc_overview.pdf.

APPENDIX A Sample Audit Reports

A.1 Sample Audit (accrual basis)

Note: the items in Appendix A.1 through A.3 are based on the standards in effect prior to December 15, 2017.

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
AND
INDEPENDENT AUDITOR'S REPORT

XYZ PUBLIC LIBRARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
XYZ Library

We have audited the accompanying financial statements of XYZ Public Library (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of XYZ Public Library as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Harrisburg, Pennsylvania
March 25, 2018

XYZ PUBLIC LIBRARY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

Name	Amount
Cash and cash equivalents	\$ 2,800,000
Campaign pledges receivable	1,250,000
Accounts receivable	250,000
Investments	200,000
Real estate, equipment, and library materials, net	5,400,000
Other	80,000
Total Assets	\$ 9,980,000

LIABILITIES AND NET ASSETS

Name	Amount
Liabilities	
Accounts payable	\$ 200,000
Accrued payroll, vacation, payroll taxes, and withholdings	170,000
Total liabilities	370,000
Net assets	
Unrestricted	8,035,000
Restricted	
Temporarily	1,500,000
Permanently	75,000
	1,575,000
Total net assets	9,610,000
Total liabilities and net assets	\$ 9,980,000

The accompanying notes are an integral part of these financial statements.

XYZ PUBLIC LIBRARY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

Name	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating support and revenue				
Tax appropriations	\$ 4,500,000	\$-	\$-	\$4,500,000
Grants	340,000	30,000	-	370,000
Contributions	210,000	1,300,000	-	1,510,000
Operating revenue	329,000	-	-	329,000
Investment income	60,000	-	-	60,000
Change in the value of restricted investments	-	(25,000)	1,800	(23,200)
Net assets released, satisfaction of purpose restrictions	120,000	(120,000)	-	-
Total operating and support revenue	5,559,000	1,185,000	1,800	6,745,800
Operating expenses				
Library services	4,100,000	-	-	4,100,000
Management and general	500,000	-	-	500,000
Fundraising	120,000	-	-	120,000
Total operating expenses	4,720,000	-	-	4,720,000
Change in net assets	839,000	1,185,000	1,800	2,025,800
Net assets				
Beginning of year	7,196,000	315,000	73,200	7,584,200
End of year	\$ 8,035,000	\$ 1,500,000	\$75,000	\$ 9,610,000

The accompanying notes are an integral part of these financial statements.

XYZ PUBLIC LIBRARY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Library Services	Management and General	Fundraising	Total
Operations				
Bank fees	\$-	\$6,000	\$-	\$6,000
Building and equipment maintenance	170,000	10,000	-	180,000
Computer supplies and online service	110,000		-	110,000
Depreciation				
Buildings, furnishings, and equipment	260,000	10,000	-	270,000
Library materials	550,000	-	-	550,000
Vehicles	20,000	-	-	20,000
Equipment rental	15,000	8,000	-	23,000
Fairs and expos	4,000	-	-	4,000
Freight and postage	20,000	5,000	-	25,000
Insurance	150,000	40,000	-	190,000
Memberships	10,000	2,000	-	12,000
Miscellaneous	40,000	14,000	-	54,000
Newspapers	20,000	-	-	20,000
Online loan and catalog service	45,000	-	-	45,000
Outsourcing charges	4,000		-	4,000
Payroll taxes	158,000	25,000	-	183,000
Periodicals	45,000	600	-	45,600
Printing	50,000	400	-	50,400
Professional fees	25,000	30,000	120,000	175,000
Program expenses	40,000	-	-	40,000
Rent	20,000	-	-	20,000
Salaries	2,176,000	310,000	-	2,486,000
Supplies	15,000	7,000		22,000
Telephone	30,000	8,000	-	8,000
Travel and training	18,000	12,000	-	30,000
Utilities	93,000	10,000	-	103,000
Vehicles, repairs, and maintenance	12,000	2,000	-	14,000
Total operating expenses	\$4,100,111	\$ 500,000	\$ 120,000	\$4,720,000

The accompanying notes are an integral part of these financial statements.

XYZ PUBLIC LIBRARY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

Name	Amount
Cash flows from operating activities	
Change in net assets	\$ 2,025,800
Adjustments	
Depreciation	840,000
Cash received for capital projects	(350,000)
In-kind contributions for library materials	(130,000)
Gain on sale of assets	(2,000)
Unrealized losses on investments	25,000
Change in assets and liabilities	-
(Increase) decrease in	
Accounts receivable	(140,000)
Pledges receivable	(900,000)
Other assets	(6,000)
Increase (decrease) in	
Accounts payable	170,000
Accrued payroll, vacation, payroll taxes, and withholdings	(2,600)
Total adjustments	(495,600)
Net cash provided by operating activities	2,025,800
Cash flows from investing activities	
Proceeds from sale of equipment	5,000
Purchase of real estate, equipment, and library materials	(1,600,000)
Net cash used in investing activities	(1,595,000)
Cash flows from financing activities	
Proceeds from contributions restricted for investment in capital projects	350,000
Net cash provided by financing activities	350,000
Net increase in cash and cash equivalents	-
Cash and cash equivalents	
Beginning of year	\$ 2,514,800
End of year	\$-

The accompanying notes are an integral part of these financial statements.

XYZ PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

XYZ Public Library (the "Library") provides a library and community center for the literary, scientific, and educational advancement and benefit of the people of the Borough of XYZ, Pennsylvania and the general vicinity.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with the Financial Accounting Standards Board (FASB) Codification ASC 958, *Financial Statements of Not-for-Profit Organizations* (ASC 958). Under ASC 958, the Library is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities as of the date of the financial statements, and revenue and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in banks, and cash equivalents, which are highly liquid debt instruments with maturities of less than ninety (90) days.

Accounts and Pledges Receivable

Accounts and pledges receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers and contributions having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

XYZ PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support. This requirement is dependent on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets, if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Investments

Investments are recorded at fair values based upon values provided by external investment managers on quoted market prices. Net realized and unrealized gains and losses on investments are reflected in the statement of activities and changes in net assets.

Real Estate, Equipment, and Library Materials

These assets are recorded at cost, except for donated books, which are recorded at their estimated value on the date donated. Depreciation is computed using the straight-line method over the estimated useful lives of assets. All assets other than library materials acquired in excess of \$500 with estimated useful lives exceeding one year are capitalized. All library materials are capitalized.

Donated Materials and Services

The Library records the value of donated materials when there is an objective basis available to measure their value. Donated material and equipment, if any, are reflected as contributions in the accompanying statements at the estimated value on the date received.

No amounts have been reflected in the financial statements for donated services. The Library pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Library with the development and conduct of its programs.

Accrued Vacation

Employees of the Library are entitled to paid vacation depending on length of service and other factors; therefore, a liability is accrued for vacation earned but not yet taken.

XYZ PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

Income Taxes

The Library is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code for exempt function activities and state income taxes under the provisions of the Pennsylvania Nonprofit Corporation Law. The Library adheres to the provisions of FASB Codification 740, "Income Taxes" (ASC 740). ASC 740 prescribes a comprehensive model for financial statement recognition, measurement, classification, and disclosure of uncertain tax positions. The Library has concluded that there are no uncertain tax positions that require recognition or disclosure in the financial statements. Management believes it is no longer subject to income tax examinations for years prior to fiscal year 2017.

Subsequent Events

Management evaluated subsequent events through March 25, 2018, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2017, but prior to March 25, 2018, that provided additional evidence about conditions that existed at December 31, 2017, have been recognized in the financial statements for the year ended December 31, 2017. Events or transactions that provided evidence about conditions that did not exist at December 31, 2017, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2017.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2017:

Account	Amount
Checking	\$200,000
Money market and savings	2,500,000
Cash management account	100,000
Total	\$2,800,000

The cash balance is secured by the Federal Deposit Insurance Corporation (FDIC) up to applicable FDIC limits. The balances, at times throughout the year, exceeded FDIC limits.

XYZ PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

3. CAMPAIGN PLEDGES RECEIVABLE

Fund-raising campaign pledges receivable were as follows as of December 31, 2017:

Account	Amount
Unconditional promises to give before unamortized discount	\$1,300,000
Less unamortized present value discount at 3.85%	(50,000)
Net unconditional promises to give	\$1,250,000
Amounts due in:	
Less than one year	300,000
One to five years	950,000
	\$1,250,000

4. REAL ESTATE, EQUIPMENT, AND LIBRARY MATERIALS

The costs and related accumulated depreciation of real estate and other fixed assets at December 31, 2017, are as follows:

Account	Amount
Land	\$500,000
Buildings, furnishings, and equipment	6,400,000
Library materials	3,000,000
Motor vehicles	90,000
Construction in progress	410,000
	10,400,000
Less accumulated depreciation	(5,000,000)
	\$5,400,000

XYZ PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

5. INVESTMENTS

The fair values of investments at December 31, 2017, are as follows:

Account	Amount
US Treasury Securities	\$50,000
Mutual Funds	150,000
Total	\$200,000

Investments held by the library contain donor-imposed temporary and permanent restrictions. Investment income is available for general use by the Library and is reported as unrestricted investment income. Changes in the value of restricted investments are reported as increases or decreases in temporarily or permanently restricted net assets.

During 2017 the following investment activity was reported:

Account	Amount
Investment income	\$60,000
Changes in value, temporarily restricted	(25,000)
Changes in value, permanently restricted	1,800
	\$ 36,800

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820, *Fair Value Measurements and Disclosures* are described as follows:

Level	Description
Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Library has the ability to access.
Level 2	Inputs to the valuation methodology include: <ol style="list-style-type: none"> 1. Quoted prices for similar assets or liabilities in active markets. 2. Quoted prices for identical or similar assets or liabilities in inactive markets. 3. Inputs other than quoted prices observable for the asset or liability. 4. Inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

XYZ PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

U.S. Treasury Securities: Valued at the closing price reported on the active market where the individual securities are traded.

Mutual Funds: Valued at the net asset value (NAV) of shares held by the Library at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Library believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Library's investments at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
U.S. Treasury securities	\$50,000	\$-	\$-	\$50,000
Mutual funds	150,000	-	-	150,000
Total investments at fair value	\$200,000	\$-	\$-	\$200,000

XYZ PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

6. NET ASSETS

Unrestricted net assets consist of the following at December 31, 2017:

Account Description	Amount
Designated by the board of directors for future expansion	\$500,000
Undesignated	\$7,535,000
Total unrestricted	\$8,035,000

Temporarily restricted net assets consist of the following:

Account Description	Amount
Contributions with time restrictions, expiring in 2020	\$200,000
Contributions and support with use restrictions for the following:	
Library material acquisitions	25,000
Audiovisual equipment and library materials	15,000
Computer hardware and software	10,000
Other	1,500
Capital campaign projects	1,248,500
Total temporarily restricted	\$1,500,000

Permanently restricted net assets are restricted to investment in perpetuity. The income is expendable to support the following:

Account Description	Amount
Library materials	\$25,000
General maintenance	\$50,000
Total permanently restricted	\$75,000

7. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during 2017 by incurring expenses satisfying the restricted purposes.

Account Description	Amount
Library materials and program expenses	\$20,000
Audiovisual equipment and library materials	25,000
Total permanently restricted	75,000
Total Net Assets Released from restrictions	\$120,000

XYZ PUBLIC LIBRARY
NOTES TO FINANCIAL STATEMENTS

8. LEASES

The Library leases space and equipment under lease agreements which are classified as operating leases. One lease relates to operating space and expires on October 31, 2018.

Total payments of \$16,670 are due under the remaining lease during 2018. Total rental expense for operating space during 2017 was \$20,000.

9. COMMITMENTS

As of December 31, 2017, the Library has a remaining commitment for a construction contract of approximately \$500,000.

Sample Review Cover Page through Accountant's Report (accrual basis)

The financial statements and notes prepared during a review will be identical to ones prepared for an audit. The only differences between a review report and audit report are the cover page, table of contents, and Accountant's Report since a review does not express an opinion on the financial statements. A sample review cover page, table of contents, and Accountant's Report follow.

XYZ PUBLIC LIBRARY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

XYZ PUBLIC LIBRARY

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INDEPENDENT ACCOUNTANTS REVIEW REPORT

To the Board of Directors
XYZ Public Library

We have reviewed the accompanying financial statements of XYZ Public Library (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Harrisburg, Pennsylvania
March 25, 2018

A.3 Sample Audit (modified cash basis)

XYZ PUBLIC LIBRARY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
AND
INDEPENDENT AUDITOR'S REPORT

XYZ PUBLIC LIBRARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
XYZ Public Library

We have audited the accompanying financial statements of XYZ Public Library (a nonprofit organization), which comprise the statement of financial position – modified cash basis as of December 31, 2017, and the related statement of activities – modified cash basis for the year the ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Public Library as of December 31, 2017, and its activities for the year ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Harrisburg, Pennsylvania
March 25, 2018

XYZ PUBLIC LIBRARY

STATEMENT OF FINANCIAL POSITION – MODIFIED CASH BASIS

December 31, 2017

Account	Unrestricted	Permanently Restricted	Total
Assets			
Current assets			
Cash and cash equivalents	\$43,576	\$-	\$43,576
Investments	170,000	8,015	178,015
Total current assets	213,576	8,015	221,591
Long term investments	23,000	-	23,000
Property, plant, and equipment, net	82,274	-	82,274
Total Assets	-	8,015	326,865
Net Assets			
Unrestricted net assets			
Invested in property and equipment	82,274	-	82,274
Designated by the board for long term investments	23,000	-	23,000
Undesignated	213,576		213,576
Total unrestricted net assets	318,850	-	318,850
Permanently restricted net assets	-	8,015	8,015
Total net assets	\$318,850	\$8,015	\$326,865

The accompanying notes are an integral part of these financial statements.

XYZ PUBLIC LIBRARY

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS

Year Ended December 31, 2017

Account	Unrestricted	Permanently Restricted	Total
Support and revenue			
Support			
Grants	\$98,527	\$-	\$98,527
Contributions	8,680		8,680
Annual fund drive	6,210		6,210
Other fundraising	7,836		7,836
Total support	121,253		121,253
Revenue			
Fines and fees	4,654		4,654
Lost books/sale items	218		218
Miscellaneous income	634		634
Investment income	12,243	223	12,466
Total revenue	17,749	223	17,972
Net assets released from restrictions	223	(223)	-
Total support, revenue, and assets released from restrictions	\$139,225	\$	\$139,225

XYZ PUBLIC LIBRARY

STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS (CONTINUED)

Year Ended December 31, 2017

Account	Unrestricted	Permanently Restricted	Total
Expenses			
Salary	\$74,081	\$-	\$74,081
Payroll taxes	4,816	-	4,816
Professional fees	2,800	-	2,800
Library materials	26,890	-	26,890
Summer reading program	788	-	788
Public relations	6,888	-	6,888
Fundraising expense	285	-	285
Library supplies	2,188	-	2,188
Office supplies	1,608	-	1,608
Insurance	2,822	-	2,822
Building and ground maintenance	3,674	-	3,674
Dues	664	-	664
Travel and training	338	-	338
Contractual service	1,257	-	1,257
Miscellaneous	264	-	264
Postage	3,047	-	3,047
Internet	248	-	248
Utilities	4,900	-	4,900
Telephone	91	-	91
Computer equipment and software	600	-	600
Equipment maintenance	630	-	630
Furniture and equipment	761	-	761
Depreciation expense	4,734	-	4,734
Total expenses	144,374	-	144,374
Change in net assets	(5,148)	-	(5,148)
Net assets at beginning of year	323,998	\$8,015	332,013
Net assets at end of year	\$318,850	\$8,015	\$326,865

The accompanying notes are an integral part of these financial statements

XYZ PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

XYZ Library (the “Library”) provides a library and community center for the literary, scientific, and educational advancement and benefit of the people of the Borough of XYZ, Pennsylvania and the general vicinity.

Financial Statement Presentation

The financial statements have been prepared on the modified cash basis of accounting, in which revenues are recognized when received rather than when earned; and expenses are recognized when cash is disbursed rather than when the obligation is incurred. The Library also capitalizes purchases of property, plant, and equipment on the statement of financial position and records depreciation expense on the capitalized assets. The financial statements are presented in accordance with the Financial Accounting Standards Board (FASB) Codification ASC 958, *Financial Statements of Not-for-Profit Organizations* (ASC 958). Under ASC 958, the Library is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Library considers cash and cash equivalents to be funds held in checking and savings accounts as well as funds held in money market accounts.

Investments

The Library carries investments at cost in both short and long term certificates of deposit with variable interest rates and maturity periods.

Income Taxes

The Library is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

XYZ PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Property, Plant, Equipment, and Depreciation

The Library's land, building, and equipment are recorded at cost. Depreciation of building and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. A summary of property, plant, and equipment as of December 31, 2017, follows:

Account Description	Amount
Land	\$3,000
Building	106,232
Equipment	24,276
Leasehold Improvements	14,117
Furniture and Fixtures	12,955
Total property, plant, and equipment	160,580
Accumulated depreciation	(78,306)
Property, plant, and equipment, net	\$173,535

2. SHORT TERM INVESTMENTS

Short term investments are comprised of certificates of deposits with balances and terms as of December 31, 2017, as follows:

Account	Amount	Interest Rate	Maturity Date
Unrestricted:			
Certificate of deposit – A	\$ 100,000	3.25%	11/21/20
Certificate of deposit – B	45,000	2.96%	09/23/20
Certificate of deposit – C	25,000	2.79%	12/31/20
Total	\$ 170,000		
Permanently Restricted			
Certificate of deposit	8,015	2.78%	03/25/21
Total	\$8,015		

XYZ PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

3. LONG TERM INVESTMENTS

Long term investments consist of a \$23,000 certificate of deposit that has been designated by the board to be held as a long-term investment. Although only invested in a 12-month CD to take advantage of potential increases in interest rates, the intent of the board is to continue to roll these funds over every twelve months for the foreseeable future. At December 31, 2017, this certificate of deposit had an interest rate of 2.96% and a maturity date of September 23, 2018.

4. DONATED SERVICES

No amounts have been reflected in the statement for donated services, however, a substantial number of volunteers have donated significant amounts of their time in the Library's program services and in the fund raising campaigns.

5. COMMITMENTS AND CONTINGENCIES

The Library receives a substantial amount of its support from state and local governments. A significant reduction in the level of this support, if this were to occur, may have an effect on the Library's programs and activities.

APPENDIX B

This appendix provides detailed step-by-step instructions for setting up QuickBooks. QuickBooks is only one of many options for financial software. The items needed and the process of setup is similar regardless of the software used. This example will provide you with information on the process used to setup basic financial software.

B.1 Accounting Software Set-up

B.1.1 Introduction

When a Library first purchases software, it must go through installation and set-up processes. The software will include installation instructions with guidance as you complete the installation. Once installation is complete, you will need to configure or set-up all of the software variables to customize the software for the Library's specific accounting and reporting needs.

The following is a sample list of items you should have on hand to complete software set-up, and a general description of the process for setting up a new company in QuickBooks. The Library can use this same list of items and the process for most accounting software programs.

B.1.2 Items Needed

List of items needed to set up a company on QuickBooks:

1. Fiscal year start-date. If this is a new Library, the start-date would be the opening day. If the library has been running for a while, the best approach is to use the last day of the prior library fiscal year or December 31, XXXX, if the library uses the calendar year. This method would best match-up with the account balances on bank statements;
2. List of users that will have access to the software along with the type of access they will require;
3. The location where the QuickBooks file will be saved;
4. The answers to questions under # 5 and # 7 in section B.1.3; and
5. Chart of accounts. Refer to Chapter 3 Appendix # 8 - chart of accounts with corresponding parent accounts for additional details.

B.1.3 Sample QuickBooks Set-up Process

QuickBooks software is constantly evolving and updating its products to meet the needs of end-users. The software comes in various editions, offering options for organizations of various sizes. QuickBooks Pro handles the basic needs of most businesses, whereas Enterprise Solutions (the most robust and powerful edition of QuickBooks) provides enhanced features and speed for the largest of small organizations. On the other hand, the online editions of QuickBooks offer features that are available anytime you are online. The steps on how to set-up a company are based on QuickBooks Desktop 2016. These steps may change depending on the product and version used. It is recommended to use the product guide.

1. Open QuickBooks Desktop 2016
2. Select create a new company
 - a. There are four approaches to creating a company:
 - Express Start – Answer some basic questions;
 - Detailed Start – Control the setup and fine tune the company file;
 - Create – Create a new company file based on an existing one; or

- Other Option – Convert data from Quicken or another accounting software.
- 3. It is recommended that the library select “Detailed Start” and go through the interview process if they are not familiar with the software. The interview will guide the set-up process.
- 4. The software will prompt you to enter company information, such as library name (the name you enter will be included in the heading on the reports the library runs in the software), Tax ID, address, email address, and web site. The name of the company is a required field.
- 5. Complete the first series of questions that QuickBooks generates to gather basic information about the organization. You will need to select or answers the following questions:
 - a. Select your industry – Generally it is “Non Profit;”
 - b. How is the library organized? This question will help QuickBooks to create the correct accounts for your business entity and assign tax form lines to those accounts;
 - c. Select the first month of the library fiscal year (e.g. January or July) - Your fiscal year is typically the same as your income tax year. A fiscal year is a 12-month period used for calculating the library’s yearly financial reports;
 - d. Set up the library administrator password – The library should establish a password. This is optional but recommended as an additional security measure. It is also recommended that the library establish a unique user ID and password for each individual that will use the accounting system. This will allow you to track changes and also apply levels of access. Access should be limited as to what is required by the individual to complete their job duties. The library should limit the amount of people with access to the QuickBooks file in order to help reduce the risk of inaccurate or unauthorized changes; and
 - e. Create your company file – The QuickBooks information has to be stored in a file called the company file. The library will choose a file name and location to save the company information. Generally it is saved in a network drive. Make sure the location where you save the file is secure, access is limited, and regular back-ups occur.
- 6. QuickBooks will save the file.
- 7. The second series of questions that QuickBooks will ask to gather more information about the organization. These questions will help QuickBooks enable or disable features:
 - a. Do you have services, products, or both?
 - b. Do you charge sales tax?
 - c. Do you have estimates?
 - d. Do you want to track sales orders before you invoice your customers?
 - e. Do you want to use billing statements in QuickBooks?
 - f. Do you want to use invoices in QuickBooks?
 - g. Do you want to use progress invoicing?
 - h. Do you want to track the bills you owe?
 - i. Do you want to track inventory?
 - j. Do you want to track time in QuickBooks?

- k. Do you have employees?
8. The next step is to set-up the chart of accounts. Libraries should determine the chart of accounts categories to use (e.g. current assets) before starting this process. Refer to Chapter 3 Appendix # 8 - chart of accounts with corresponding parent accounts, which will group items on the financial statements.
 9. Select a date to start tracking your finances – The date that you select will be the start date in QuickBooks.
 10. Review income and expense accounts – QuickBooks will recommend accounts that your industry typically uses. You can select additional accounts or unselect the recommended accounts, depending on your structure, keeping in mind that the sample chart of accounts is merely a basic guide for you to modify. It is recommended to have the account code with number and name. This will increase the ease of sorting accounts and help make your review or audit more efficient. Accounts from the prebuilt chart of accounts in the EasyStep Interview will automatically be numbered (account numbers can be edited). Any accounts the library adds after the initial company set-up will have to be manually numbered. Libraries can create multiple sub-accounts that relate to a single parent account. Sub-accounts are sub-categories to the main account categories that provide additional details (e.g. the main account of grants might have multiple sub-categories with different types of grants). Reports will display the individual totals for the sub-accounts along with the grand total for the parent account. It may be beneficial to consult your CPA or review the prior year reviewed or audited financial statements to see what accounts were grouped together on the financial statements.
 11. The set-up process is now finished.
 12. Changes to company information can be made at any time. Use the QuickBooks company menu to make necessary changes.
 13. If the library has multiple programs and wants to track expenses and income for each program, the library should establish classes. Classes provide a method to further classify the library's activities and can be useful for tracking restricted donations. To use classes, libraries must enable this feature in the Preferences of QuickBooks. Once classes are enabled, QuickBooks will automatically add a class field to transactions. As a result, when you enter a cash receipt, cash disbursement, journal entry, or other transaction, you can assign the transaction to the appropriate class. Libraries can run reports for a single class or for multiple classes to track programs.

If you have any questions, when setting up your company, consult the help menu of the software or the user manual. Downloads of user manuals are frequently available free from the company's website.

Refer to [QuickBooks Manual](#)¹⁵⁵ for more information on QuickBooks set-up and use.

¹⁵⁵ "QuickBooks 2016," Intuit, accessed July 25, 2018. http://http-download.intuit.com/http.intuit/CMO/quickbooks/2016/docs/QuickBooks_2016_The_Missing_Manual.pdf.

B.2 Reports

B.2.1 Reports

The majority of software programs will have standard reports that are built into the software. With the help of these reports, libraries can create many reports almost instantaneously. The reports are often grouped by category. A listing of common categories and the associated reports uses follows. Reports will only generate data maintained within the accounting software (e.g. if you maintain payroll detail in separate software, it will not be included on the reports unless it is imported into QuickBooks).

B.2.2 Company & Financial

This section includes financial statements (e.g. Statement of Financial Position (i.e. Balance Sheet), profit, & loss, statement of cash flows and cash flows forecast). These reports show how the company is doing financially. A Statement of Financial Position (i.e. Balance Sheet) shows a list of what you own (assets), what you carry as debt (liabilities), and what you have invested in your company (net assets). The profit and loss (i.e. income statement) shows money you earned (income) and money you spent (expenses) so you can see how profitable you are. Generally, the standard balance sheet and profit & loss reports meet the needs of for-profit companies unless you have a specific non-profit version of accounting software. Refer to Section B.2.11 for information on the recommended types of financial reports.

B.2.3 Customers and Receivables

This section contains various accounts receivable reports and reports with customer information and balances. These reports let you see who owes you money, how much your customers owe, and the balance that is due so you can get paid. If the Library is tracking accounts receivable within QuickBooks, the customer balance reports can be useful.

B.2.4 Sales

This section includes reports to track sales by customer or items. These reports group and total sales in different ways to help analyze your sales and determine how you are doing and where you are making money. Libraries will generally not use reports in this section unless they have a bookstore on-site for which they track sales.

B.2.5 Jobs, Time, and Mileage

The section includes reports on mileage, estimated by job and job profitability. These reports will help you to find out how well your company is doing at estimating jobs, how much time is spent on each job, and the mileage expense for each vehicle or job. Libraries might track expenses for different programs as jobs within QuickBooks.

B.2.6 Vendors & Payables

This section contains accounts payable reports and unpaid bill reports. It also contains reports listing vendor contact information. These reports show what you owe and when payments are due so you can take advantage of the time you have to pay bills but still make payments on time to avoid late payment fees.

B.2.7 Employees and Payroll

This section includes various payroll reports (e.g. payroll summary, payroll items detail, workers comp summary, employee earning summary), paid time off, and employee withholding. These reports show information about the employees, payroll, and payroll related expenses. Refer to Section 510 for information on payroll processing options.

B.2.8 Banking

This section includes reports on deposit detail, check detail, missing checks, reconciliation discrepancy, and previous reconciliations. You can find information about the banking transaction. Libraries can connect its bank and credit card accounts to QuickBooks and download recent transactions, which will save time entering transactions.

B.2.9 Accountant & Taxes

The section includes trial balance (i.e. statement of financial position), adjusted trial balance (i.e. statement of financial position), general ledger, and adjusted journal entries reports. The trial balance (i.e. statement of financial position) is a financial report that lists every account in the general ledger, it shows the debit or credit balance for each account. At the bottom, the debit balances should sum to equal the credit balances. To get to the adjusted trial balance, adjusting entries must be made at the end of the accounting period. An example of an adjusting entry is recording an expense that you incurred before the accounting period ends, but did not pay until after the accounting period. For example, you wrote a check during the month but it did not clear the bank by the end of the month. For further information on trial balances and adjusting entries, refer to [Business Economics Library](#).¹⁵⁶ Your CPA may request some of these reports during your audit/review. In addition, the trial balance provides information for completion of the annual report (verify that the date of the trial balance matches the “As of” date for the annual report).

B.2.10 Budgets & Forecasts

This section consists of budget vs. actual reports, and graphs and forecast reports. Refer to Chapter # 6 – Example # 1 - Template - Budget for sample budget vs. actual reports. Most accounting software will produce similar reports.

B.2.11 List

This section shows information about the company and includes various lists, such as contact lists, price lists, customer and vendor phone list and fixed asset lists.

B.2.12 Industry Specific

The nonprofit section includes financial statements applicable to libraries, including the statement of financial position, statement of financial income and expense (statement of activities), and statement of functional expenses. Refer to Section 403 for examples of these statements in Microsoft Excel. Most accounting software will generate similar reports. This section also includes reports to review donors and grants and compare budget to actual.

B.2.13 Contributed Reports

This sections provides a command that enables you to display web pages of custom QuickBooks report templates that Intuit and outside parties (e.g. accounting firms, small businesses, and so on) have developed and then “contributed.”

B.2.14 Custom Reports

Libraries can modify standard reports to filter certain information (e.g. accounts or dates) or change the display (e.g. headers and footers). Libraries will generally have minimal need for customizing reports with all the standard reports available and ability to modify these reports.

¹⁵⁶ "Working Trial Balance," Business Economics, accessed July 24, 2018.
<https://businessecon.org/2017/02/working-trial-balance/>.

APPENDIX C

Internal Control Questionnaire

This general questionnaire identifies ideal internal control procedures that should be in place for all libraries, regardless of their size. If your library does not have many of these controls in place, you should identify the areas with the highest risk and start implementing controls in these areas. Frequently the key areas of risk are cash receipts and cash disbursement. Refer to [Blue Avocado](#)¹⁵⁷ for key controls for a small nonprofit. What are considered key controls for a library are dependent upon its size, organizational structure, operating environment and oversight. The below list of controls includes controls that are recommended as key controls. This does not mean the controls are appropriate for your environment.

I. Cash Receipts Controls	Yes	No	N/A
1. Does the board annually authorize all bank accounts?			
2. Are employees handling cash bonded (perform cost benefit analysis based on the amount of cash received)? By law, the Treasurer is required to be bonded. Refer to PA Public Library Code Title 24 PA C.S.A Section 9318(e) ¹⁵⁸			
3. Are background checks performed on prospective employees and volunteers who handle cash?			
4. Are adjustments of cash accounts approved by the appropriate person?			
5. Is access to computerized cash receipts records limited to those with a logical need for such access?			
6. Is incoming mail opened and are receipts listed in duplicate by two or more persons having no access to cash receipts or accounts receivable records?			
7. Is the list of mail receipts subsequently compared to cash receipts records and authenticated copies of deposit slips by an employee having no access to cash?			
8. Are checks restrictively endorsed "for deposit only" by the individual who opens the mail when received?			
9. Are photocopies of cash receipts made that properly conceal information identifying the donor's account data?			
10. Are pre-numbered cash receipts prepared and contributions, gifts, or other remittance data and other support attached?			
11. Are cash receipts entered in books of original entry by persons independent of the mail opening and receipt listing function?			
12. Are receipts (e.g. checks and currency) deposited intact on a daily basis?			
13. Do adequate physical controls exist over cash receipts from time of mail opening until time of bank deposit?			
14. Direct mail campaigns:			

¹⁵⁷ "Five Internal Controls for the Very Small Nonprofit," Blue Avocado, accessed July 24, 2018. <http://www.blueavocado.org/content/five-internal-controls-very-small-nonprofit>.

¹⁵⁸ "Title 24 PA C.S.A. Section 9318(e)," Pennsylvania General Assembly, accessed July 27, 2018. <http://www.legis.state.pa.us/cfdocs/legis/LI/consCheck.cfm?txtType=HTM&ttl=24&div=0&chpt=93&sctn=18&subctn=0>.

I. Cash Receipts Controls	Yes	No	N/A
a. Are two employees responsible for controlling incoming mail and preparing a list of amounts received?			
b. Is the record of amounts received totaled and initialed by both employees?			
c. Is this list compared to the bank deposits by someone who does not have access to the donations?			
d. Does the organization use the lockbox services of a bank?			
15. Are numerical sequences of direct contact solicitation containers, remittance envelopes, etc., accounted for?			
16. Are direct contact solicitation collection documentation totals compared to bank deposits and posting to cash receipts journals?			
17. For cash collections by direct contact solicitations, is there a solicitation plan that includes:			
a. An organized group of area captains, division and neighborhood campaigners, and door-to-door solicitors?			
b. A schedule of areas and dates of solicitation?			
c. Comparison of solicitors' reports to street maps, neighborhood directories, etc.?			
d. Accreditation of collectors (identification)?			
e. Issuance of pre-numbered receipts for contributions and a double count of currency collections?			
f. Provision for remitting cash collections to clerks collecting currency, with currency collections compared against pre-numbered receipts?			
g. Solicitor's reports that are summarized, totaled, and compared to bank deposits?			
18. For cash collections by canisters:			
a. Is there a schedule of canister locations and a collection schedule for these receipts to be regularly transmitted to the clerks in charge of depositing currency?			
b. Are pre-numbered receipts issued for canister collections?			
c. Are the contents of the canister counted in the presence of two persons?			
19. For cash collected at special events:			
a. Do individuals handling collections account for all tickets?			
b. Are cash receipts reconciled to tickets sold?			
c. Are unsold tickets accounted for?			
20. For cash collected from promoter-run bingo operations:			
a. Does an employee or volunteer of the organization independently count cash receipts and reconcile the cash to an inventory on hand report and a cash paid out report?			
b. Does an employee or volunteer reconcile the operator's daily transaction sheets to the inventory on hand and the actual deposits recorded on the bank statement?			
c. Does an employee or volunteer periodically compare the profit on pull-tab tickets to the guaranteed profit for the packages of tickets purchased?			

I. Cash Receipts Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
21. Are clerks who collect currency closely supervised and fund development employees separate from the accounting function?			
22. Are post-dated checks, disputed items, unidentified receipts, NSF checks, checks charged back by banks, and similar items received and investigated by persons independent of preparation of deposits and posting of accounts receivable detail?			
23. When required by funding sources, are restricted funds deposited to separate bank accounts?			
24. Are receipts of currency controlled by cash register or other independent means that are unavailable to the, accounting function?			
25. Are currency receipts properly reconciled to the totals of cash registers, pre-numbered receipts, or other devices?			
26. Is cashing of checks out of currency receipts prohibited?			
27. Is a positive pay or reverse positive pay process used?			

II. Cash Disbursements Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the governing board annually authorize all bank accounts and check signers?			
2. Is the bank immediately notified of all changes of authorized check signers?			
3. Are employees handling cash bonded?			
4. Are all disbursements (including payroll), except petty cash, made by check?			
5. If not, are there adequate controls for non-check disbursements such as debit memos and wire transfers (for example, passwords for individuals authorized to make transfers, bank callback verifications for telephone transfers exceeding a predetermined dollar amount, use of a zero balance account, etc.)?			
6. Check stock::			
a. Are checks pre-numbered and used in sequence?			
b. Are controls over blank check stock adequate? (E.g. locked cabinet or drawer, safe, etc.)			
c. Is there a specified custodian for blank check stock?			
d. Do only employees authorized to prepare checks have access to stock?			
7. Check preparation:			
a. Are checks prepared by employees independent of voucher/invoice approval?			
b. Prior to check preparation are the following compared:			
i. Purchase order/approval?			
ii. Receiving report, if applicable?			
iii. Vendor invoice			
iv. Budgets or approval from a funding source or the governing board?			

II. Cash Disbursements Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Are checks prepared from original vendor invoice only and not from a vendor statement?			
d. Is there a clearly defined check approval process (even for payments to the executive director)?			
e. Are checks recorded in disbursements journal as prepared? (note: this will automatically be done if checks are generated from the accounting system)			
f. Are all check numbers accounted for?			
g. Are voided/spoiled checks properly mutilated (signature portion removed) and retained?			
h. Are all checks made payable to a specific payee and not to cash or bearer?			
i. Is a check protector used?			
j. Does the organization use a positive pay or reverse positive pay system?			
k. Does the organization use a secure name font or place asterisks in the row above the payee?			
l. Does all supporting documentation accompany checks presented for signature?			
m. Are all supporting documents properly canceled at time of signature to prevent duplicate payment?			
n. Do only persons authorized to prepare checks have access to blank checks?			
o. If a laser printer is used to print checks, does the check stock have toner anchorage, is a high quality toner used, and is the fuser on the printer set to "high heat?"			
8. Check signing			
a. Are check signers authorized by the governing board?			
b. Are checks required to be countersigned? (Checks should not be signed in advance and left for the other signer.)			
c. Have dollar limits been established for one-signature checks?			
d. Are authorized check signers independent of:			
i. Voucher preparation and approval for payment?			
ii. Check preparation, cash receiving, and petty cash?			
iii. Purchasing and receiving?			
iv. Timekeeping for payroll checks?			
v. Bank account reconciliation?			
e. Is signing of blank checks prohibited?			
f. Is custody of checks after signing and before mailing handled by an employee independent of all payable, disbursing, cash, receiving, and general ledger functions?			
g. If check signing machines are used, are facsimile signature plates adequately safeguarded, used in the presence of the custodian, and controlled by using numbering devices?			
9. Are employees with cash disbursements duties required to take vacations and are other employees required to perform those functions when those employees are absent?			

II. Cash Disbursements Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. Are job assignments rotated periodically so that employees know another employee will perform their job duties in the near future?			
11. Is access to computerized cash disbursements records limited to those with a logical need for such access?			
12. Are receipts required before the petty cash custodian makes disbursements?			
13. Does the organization use an approved vendor list, and are additions to the vendor master file subject to proper approval?			
14. Has the organization implemented a fraud hotline and notified employees and vendors of its existence?			
15. Are employees responsible for the purchasing, accounts payable processing, cash disbursement, accounts receivable, and wire transfer functions bonded?			
16. Does the organization use competitive bidding on contracts and have controls over the awarding of the contracts?			
17. Does the organization have "right-to-audit" and "access" to vendor's books clauses in contracts?			
18. Are bank reconciliations prepared in a timely fashion by someone outside the cash receipts and cash disbursement functions who has been trained about what should be investigated?			
19. Are bank statements sent directly to the executive director or someone who does not prepare or sign checks?			
20. Is a positive pay or reverse positive pay process used?			

III. Cash Reconciliations Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Are employees with bank reconciliation duties required to take vacations and are other employees required to perform those functions when an employee is absent?			
2. Are bank accounts reconciled within a timely specified period after the end of each month?			
3. Are reconciliations completed by someone independent of the receipt and disbursement of cash?			
4. Does a responsible individual (e.g. Library Director) receive the bank statements directly from the bank?			
5. Do reconciliation procedures include the following with respect to deposits:			
a. Comparison of dates and amounts of daily deposits as on the bank statement with the cash receipts journal?			
b. Investigation of transfers between bank accounts to verify that both sides of the transactions have been recorded?			
c. Investigation of items rejected by the bank (e.g. deposits subsequently charged back by the bank because of insufficient funds)?			
6. Do reconciliation procedures include the following with respect to disbursements:			
a. Comparison of canceled checks with the disbursement journal as to the number, date, payee, and amount?			

III. Cash Reconciliations Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Account for the sequence of check numbers?			
c. Examination of canceled checks for authorized signatures?			
d. Examination of canceled checks for irregular endorsements?			
e. Examination of canceled checks for alterations?			
f. Review of voided checks?			
7. Are completed bank reconciliations reviewed?			
a. Is the review documented by initialing and dating the reconciliation?			
8. Are checks outstanding for over 90 days periodically investigated?			
a. Is the payment stopped and an entry made restoring such items to cash?			

IV. Petty Cash Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is the responsibility for each petty cash fund assigned to only one person?			
2. Are petty cash funds maintained using the impress method (i.e. a check request is generated to replenish the fund to the established amount based on an exact amount of receipts)?			
3. Are petty cash funds segregated from other cash?			
4. Is there a prohibition against petty cash disbursements over a specified amount?			
5. Custodian:			
a. Is the custodian independent of employees who handle receipts?			
b. Are the accounting records inaccessible to the custodian?			
6. Vouchers:			
a. Is a pre-numbered voucher used for all petty cash disbursements?			
b. Are vouchers completed in full in ink or another manner that would make alterations difficult?			
c. Are vendors approved by a department head or other responsible employee other than the custodian?			
d. Are the amounts of vouchers spelled, as well as numerically written?			
e. Are vouchers properly supported by invoices or cash register tapes?			
f. Are all items contained in the petty cash fund of a current and usual nature?			
7. Reimbursements:			
a. Is there an adequate review of reimbursement vouchers before reimbursements are made?			
b. Are reimbursement vouchers and attachments marked at, or immediately following, the signing of the reimbursing check, so that they cannot be reused?			
8. Is the petty cash fund periodically counted by someone independent of the custodian?			

IV. Petty Cash Controls		<u>Yes</u>	<u>No</u>	<u>N/A</u>
9.	Is the cashing of employee, volunteer, and donation checks out of petty cash prohibited?			
V. Investments Controls		<u>Yes</u>	<u>No</u>	<u>N/A</u>
1.	Is authorization for purchases and sales of investments vested with the board or other responsible committee or official?			
a.	Are all investment transactions reviewed and approved by the board?			
2.	Does an investment committee or designated official determine that the type of investments are permitted by funding sources and donors and that the investment income and gains are used only for purposes authorized by laws, donors, or the governing board?			
3.	Are employees with investment responsibilities required to take vacations and are other employees required to perform those functions when an employee is absent?			
4.	Are securities adequately protected, preferable in a safe, safety deposit box, or on deposit with a trustee or financial institution?			
5.	Is it necessary for more than one person to authorize their release from safekeeping or to have access to the safety deposit box?			
6.	Are the above people authorized by the Board?			
7.	Are the above people bonded?			
8.	Are the above people prohibited from having access to the accounting records (manual or electronic)?			
9.	Is access to investment records limited to those that need access for their job functions?			
10.	Are all securities held in the name of the organization?			
11.	Are detailed records maintained that include the following information:			
a.	Description of investment.			
b.	Date of acquisition and purchase prices (or fair market value at date of donation).			
c.	Physical location of item (e.g. safety deposit box).			
d.	Interest/dividend/income rates and accrual/receipt dates.			
e.	Restrictions on segregation or pooling and on disposition or use of income or proceeds.			
f.	Lapse date of any restrictions.			
12.	Are record-keeping functions for securities and investment income performed by employees who have no access to the securities, cannot authorize security transactions, and have no duties in the cash area?			
13.	As investment income is received, is it deposited in the proper bank account, and accurately and timely posted to the investments records?			
14.	Are schedules of investments showing all income received prepared monthly and reviewed by a responsible person?			

V. Investments Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
15. Are investment earnings recorded in the proper class of net assets?			
16. Restricted investments:			
a. Is physical segregation of any securities required?			
b. Are all acquisitions and disposals reviewed by the board for compliance with restrictions?			
c. Does the board review and determine the use of income and proceeds from investments in compliance with restrictions?			
17. Are procedures adequate to identify, record, and segregate investments received under split-interest agreements?			
18. Are periodic surprise counts of evidence of ownership made and reconciled to detail records and other controls?			
19. Are periodic statements from outsiders or data resulting from an independent source request by the Board (e.g. broker's position listing), and promptly reconciled to detail records?			
20. Is adequate physical control exercised over securities written down to zero?			

VI. Payroll Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Personnel, employment, and rate authorizations:			
a. Are requests for new personnel originated only by the Library Director or other responsible employees?			
b. Are new employees required to complete an employment application? Are there investigations of appropriate employment application information? Investigations should include checking employee backgrounds, former employers, and references.			
c. Does a responsible employee periodically review classes of positions and pay rates for compliance with the provisions of the personnel practices or other documents designating rate of pay of employees?			
d. Are all employees notified in writing of the organization's personnel policies and performance reviews?			
e. Are personnel files maintained?			
▪ Do they contain information on employment application and new employee investigation, date employed, pay rates, changes in pay rates and position, authorizations for payroll deductions, earnings records, W-4 form, immigration documentation, specimen signatures, and termination data, where appropriate?			
f. Are written termination notices required that properly document reasons for termination and require approval of an appropriate person?			
g. Do physical controls exist over personnel records that prevent their loss or use by unauthorized personnel (e.g., maintained in locked files accessible only to authorized persons)?			

VI. Payroll Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
h. Is access to computerized payroll records limited to those with a logical need for such access?			
i. Are notices of changes in personnel data reported promptly to the payroll accounting function?			
2. Payroll preparation and timekeeping:			
a. Timekeeping and time cards:			
▪ Are attendance and time records used?			
▪ Is timekeeping independent from payroll preparation?			
▪ Are time cards or other attendance records signed by the employees?			
▪ Is approval of time by the Library Director required before processing payroll?			
▪ Are changes on time cards initialed or approved by a department head or similar person?			
b. If payroll is processed by an outside service organization, are controls in place to ensure that:			
▪ Time records submitted for processing are complete and accurate and appropriate control totals are maintained for subsequent reconciliation to payroll registers?			
▪ All other payroll information provided to the service organization (pay rates, withholdings, etc.) is authorized, and all authorized information is communicated?			
▪ Paychecks and/or payroll registers produced by the payroll service are reviewed, reconciled to control totals, and approved prior to distribution of paychecks?			
▪ Controls at the service organization are designed properly and operating effectively? If the outside service organization provides a service auditor's report on internal controls (commonly referred to as SOC 2 Report or an SSAE 16 SOC 1 report), is the report reviewed by management at least annually and is consideration given to the section of the report which addresses end user controls?			
c. Are persons preparing the payroll independent of other payroll duties (such as timekeeping, distribution of checks), and do they have access to other payroll data or cash?			
d. Are persons performing payroll tasks completing the following checks prior to preparing the payroll:			
▪ Check time card/attendance records for computations of payroll period hours?			
▪ Review time card/records for specific overtime approval and approvals of department heads, etc.?			
▪ Check overtime hours, rates, and computations?			
▪ Review time records for unapproved erasures and alterations?			
▪ Verify pay rates?			

VI. Payroll Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
e. Is the payroll subject to final approval before payment by a responsible official (such as the Library Director) or by another person who is independent of payroll preparation and timekeeping?			
f. Are payroll checks drawn on a separate account operated on an impress system?			
g. If checks are machine-signed, is there adequate control over the use of the signature plate, and are the procedures the same as for accounts payable checks?			
h. Are payroll checks pre-numbered, blank stock controlled, checks used in numerical sequence, and numerical sequence accounted for and reconciled to the payroll check register?			
i. Are all voided/spoiled checks properly mutilated (removal of signature portion) and retained?			
j. Do checks contain detail of gross pay and deductions?			
k. Does an adequate system exist for distributing payroll costs to the proper accounts, programs, and other functions?			
l. Are procedures in place to ensure that payroll taxes are paid on a timely basis, and that payroll tax returns are filed when due?			
m. Are procedures in place to ensure that other withholdings, such as 401(k) or 403(b) and cafeteria plan withholdings, are remitted in a timely manner?			
n. Are reconciliations prepared of gross and net pay amounts as shown on tax returns to total payroll on the payroll register and general ledger?			
3. Are paychecks distributed by someone independent of timekeeping or preparing payroll, checks, and envelopes?			
4. Unclaimed paychecks:			
a. Are checks returned to an employee who is not associated with the payroll function?			
b. Are checks released only on presentation of proper identification by the employee?			
c. Are checks that are distributed in remote locations signed for by the recipient?			
d. Is a continuing record maintained of all unclaimed wages?			
5. Year-end preparation of W-2 forms:			
a. Is the total of W-2 wages for the year reconciled to the general ledger and payroll register wages paid?			
b. Are W-2 forms that have been returned or unclaimed received and investigated by a person other than payroll and timekeeping personnel?			
6. Are employee time records maintained in sufficient detail to allow for allocations of payroll costs:			

VI. Payroll Controls	Yes	No	N/A
a. To specific grants, contracts, or cost reimbursement agreements?			
b. By function; for example, by program (e.g. adult services, youth services, etc.), management, and fund-raising?			
c. To lobbying efforts?			
d. Between unrelated business income activities and activities related to the organization's purpose?			
7. Is there a comparison of actual to budgeted payroll by a responsible person and are significant variances investigated and documented?			
8. Is there a comparison of W-2 personnel with 1099 personnel to ensure the same individual is not on both lists?			
9. Are detailed records maintained of the liability for compensated absences and are they regularly reconciled to the control account?			
10. Are post-employment and post-retirement benefit accruals reviewed by a knowledgeable individual to ensure they are accurate and properly recorded?			
11. Are employees with payroll responsibilities required to take vacations and are other employees required to perform those functions when an employee is absent?			
12. Are employee benefit matters monitored by individuals who are knowledgeable of the applicable legal, regulatory, actuarial, and accounting requirements?			

VII. Property and Equipment Controls	Yes	No	N/A
1. Is formal board approval required for all property and equipment additions?			
a. If not, do items costing in excess of a specified amount require governing board approval?			
2. Are designated individuals responsible for verifying compliance with the terms and conditions of all grants, restricted contributions, etc.?			
3. Is formal board approval required for disposal of property and equipment?			
4. Does the organization have written policies that permit personnel to:			
a. Distinguish between capital items, repairs, and maintenance expenses?			
b. Determine a cutoff amount below which items are expensed?			
c. Establish depreciable life?			
d. Determine the fair value of contributed property and equipment?			
5. Are detailed property and equipment records maintained that include description, date purchased or received by donation, cost or fair value at donation, donor or funding source restrictions on use or disposition?			

VII. Property and Equipment Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Are detailed property and equipment ledgers (e.g. cost, accumulated depreciation, and depreciation expense) reconciled to the general ledger?			
7. Is the above reconciliation reviewed?			
8. Is depreciation calculation/detail reviewed?			
9. At least annually, is a physical inventory of property and equipment taken that is compared with records?			
a. Are reconciliations prepared and any discrepancies immediately followed up and explained?			
b. Are reconciliations reviewed?			
10. Is the bookkeeper informed of any material changes in the status of property and equipment items (e.g. sales, scrapping etc.)?			
a. Are assets not used for operating purposes identified for disclosure in the financial statements?			
11. Is equipment properly identified by numbering or another method?			
12. Are fully depreciated assets maintained in the accounting records?			
13. Are items adequately safeguarded from loss due to fire, theft, or misplacements?			
14. Are periodic insurance reviews and appraisals made?			
15. Are periodic reviews of the carrying values of property made to assess whether such values are adequate to be recoverable in the ordinary activities of the organization?			
16. Is access to electronic fixed asset records limited to those that require access for their job functions?			
VIII. Inventory Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Is inventory adequately safeguarded against loss, theft, physical deterioration, and misuse?			
2. Are perpetual inventory records maintained, both in dollars and in quantities, and periodically balanced to the general ledger?			
3. Are periodic physical inventories taken and balanced to the perpetual records?			
a. Are there written instructions for such counts?			
b. Are material differences investigated and explained?			
4. Do adjustments to the inventory records require management approval?			
5. Are inventories covered by insurance?			
6. Is access to electronic inventory records limited to those that require access for their job functions?			

IX. Information Technology Controls	Yes	No	N/A
1. IT strategic planning:			
a. Is a management steering committee responsible for reviewing and approving IT plans and policies?			
b. Does the library conduct regular risk assessments and appropriately address noted risks?			
c. Are all outside service providers evaluated before contracting to determine the potential impact on controls and the financial statements?			
2. Back-up and recovery:			
a. Does the library have a back-up and data retention policy/schedule specifying how often backups are performed, how long they are retained, and where backup media is stored?			
b. Are application data backups performed to minimize the risk of lost or corrupted data? Are backup tapes or other media secured (accessible only by authorized personnel)?			
c. Are application data recovery procedures tested at least once annually to ensure data integrity and recovery?			
d. Are file server backups performed to minimize the risk of lost or corrupted data? Are backup tapes or other media secured (accessible only by authorized personnel)?			
e. Are file server recovery procedures tested at least once annually to ensure data integrity and recovery?			
f. Is batch processing controlled and monitored to ensure proper completion?			
g. Is access to scheduled job content and to the scheduler properly controlled?			
h. Do interfaces between systems include appropriate controls to ensure the complete and accurate transfer of data?			
i. Do appropriate environmental controls exist to ensure the security and reliability of equipment in data centers and other technical facilities (e.g. fire/smoke detection and fire suppression, temperature and humidity controls, and an uninterruptible power supply and/or backup generators where required)?			
j. Has management defined and implemented a problem management and change management tracking system to ensure that key compliance related events and operational events that are not part of standard operation (e.g. incidents, problems, and errors) are recorded, analyzed, and resolved in a timely manner?			
3. Logical security:			
a. Does an information security policy exist that defines information security objectives? Is this policy supported by documented standards and procedures where necessary?			

IX. Information Technology Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Do procedures exist and are they followed to ensure timely action relating to requesting, establishing, issuing, suspending, modifying, and closing user accounts?			
c. Are new user accounts in the network, application, and database environments set up in response to properly authorized requests from management?			
d. When user access rights are modified (due to job transfers or other reasons), are the access rights of these users reviewed in order to remove access rights that are no longer needed?			
e. Are additional access rights only granted in response to properly authorized requests from management?			
f. Are user access rights removed or suspended in a timely manner when employees are terminated? Do standards exist to define timeliness requirements for various situations (e.g. voluntary or involuntary termination)?			
g. User access rights (network, application, and database) are granted on a need-to-know and need-to-do basis.			
h. User access rights (network, application, and database) support necessary segregation of duties (as defined by the financial areas' reliance on automated controls).			
i. Segregation of Duties Controls:			
<ul style="list-style-type: none"> ▪ Are IT personnel prohibited from performing accounting duties and other functions normally provided by end users? 			
<ul style="list-style-type: none"> ▪ Are IT security personnel prohibited from performing programming, database management, or computer operations? 			
<ul style="list-style-type: none"> ▪ Programmers and developers do not have access to modify production software code. 			
j. Do application data owners perform a periodic review of user access rights for all in-scope applications (and network access when required)?			
k. Is database access, including the ability to read, modify, or delete key financial data either directly or via Open Database Connectivity (ODBC), appropriately restricted?			
l. Are procedures in place and followed to maintain the effectiveness of authentication and access mechanisms (e.g., password length, password history, password expiration, and lockout for failed attempts)?			
m. Use of shared ID's is prohibited except for limited, read-only access?			
n. Are access rights to generic ID's limited?			
o. Is physical access to computer room, file/communication servers, off-line data storage, and other sensitive storage appropriately restricted to authorized personnel? Is access reviewed for appropriateness on a periodic basis?			
p. Are controls over perimeter and network security in place (e.g. firewalls, routers, terminal service devices, wireless			

IX. Information Technology Controls	<u>Yes</u>	<u>No</u>	<u>N/A</u>
security, intrusion detection, and vulnerability assessments where appropriate)?			
q. Are software users prohibited from having access to source code, the compiler, and programming documentation?			
4. Change Management:			
a. Are formalized change management policies and procedures in place and updated as required?			
b. Are application, database, and operating system changes tracked in a centralized change tracking database or system?			
c. Is user acceptance documented prior to migrating application and database changes to production?			
d. Are operating system changes approved by IT management?			
e. Is source code version control maintained via change control software or other means for applications where the entity has source code?			
f. Are emergency changes at the application, database, and operating system levels documented and subject to formal change controls, including review after the fact, and notification of data owners for approval prompt when appropriate?			
g. Are controls in place to allow only authorized individuals to migrate application programs to production for applications where the entity has source code?			
h. Is a formal change management policy in effect that documents the minimum requirements for change control and system development on an entity-wide basis? The policy should address requirements to consider system security, availability, and processing integrity where appropriate, including in application controls, in the development of new systems, and in major changes to existing systems.			
i. Are application controls formally considered and documented during the implementation of new information systems.			
j. Are subject matter experts (as indicated by the application data owner) involved in deriving application system requirements?			
k. Is a test plan developed and followed for all major implementation projects, including unit, system integration, interface, and data conversion testing, as appropriate?			
l. Is user acceptance testing completed and documented on all user-requested projects prior to the move into production?			

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