



## FINANCIAL POLICY

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The Financial Policy helps the Library conduct library operations in a fiscally responsible way, documents the Library's fiscal strategies and focuses its efforts toward future financial goals as outlined in the Library's Strategic Plan. The Library relies on the City of Novi's Finance Department to provide accurate accounting and budgeting information as it relates to the Library's general and contributed accounts. In addition, it is the policy of the Library to depend on the City of Novi to invest Library funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Library and complying with all state statutes governing the investment of public funds. This Policy applies to all financial assets of the Library.

### City Budgeting Guidelines

The State Budget Act requires all governmental bodies to appropriate amounts annually prior to the beginning of each fiscal year. The Act also requires the budget be monitored during the year and amended as facts and circumstances change. If an expenditure budget was to go over the budgeted amount, even by one dollar (\$1.00), this is a violation of the Act and is considered an unauthorized expenditure. The City, which the Library is a part of, would be in violation of the Act and the noncompliance condition would be noted in the annual audit report and to the State of Michigan. The State would in turn require the City/Library to submit a corrective action plan on how to ensure this violation does not occur again.

### Financial Assumptions

While the Library's general goals and objectives are concerned with collections, programs, services, technology and staff development, its financial goals and objectives are concerned with the funding to provide these library services.

It is assumed that financial stability is a function of adequate and dependable revenues from diverse sources. As a public service organization, most of these revenues should provide benefits and services to the citizens; however, some fund balances are allocated to reserves to cover unexpected expenses, such as automation upgrades, revenue shortfalls or unbudgeted expenses. It is assumed that no sudden major changes will take place that will substantially change the revenue sources or governing structure of the Library.

The Library Board of Trustees and staff are committed to evaluating the various areas of expenses in advance of the needs arising:

- Major facility expenses (replacement of carpet, roof, HVAC, parking lot, furniture, etc.)
- Automation system in association with The Library Network
- Automated Materials Handling System
- Patron self-checkout equipment
- Updating patron and staff office technology
- Appropriate staffing levels

Each year, as part of the budgeting process with the Library Director, various areas of expenses are evaluated. The Board is responsible for giving library management direction and determining the right balance between expenditures and service levels.

## Sources of Funding

The primary sources of operating funds for the Library is a 1 mil, Headlee-reduced property tax and .2000 mills property tax under the State Library Act collected in Novi. The Board recognizes that property tax funding fluctuates with changes in the economy, variations in taxable valuations and development within the library service area.

### **Additional revenue sources come from, but are not limited to:**

- Penal fines
- Direct mail appeal to current donors within the Library's service area
- Friends of the Novi Public Library
- Bequests and gifts
- Grants
- Fees
- State Aid
- Fundraising efforts
- Facility space rentals (Meeting Rooms and Café)

## Financial Principles

The Library primarily operates on a cash accounting system with the exceptions of unrealized gain or loss on investments, accrued interest and deferred tax revenues. The Library recognizes and records transactions when cash is received or disbursed. Bills are paid on original invoices only and are paid as close to the invoice due date as possible while taking into consideration the Library's business cycles and the City of Novi's council meeting schedule.

Donated or contributed funds may be restricted for specific designated library service-related purposes by the donor, for which the Library (and Board) will honor and ensure proper fund expenditure.

### **General Fund (271)**

For the General Fund (271), the reserve will be maintained at a target minimum of 28% of budgeted annual expenditures. In the event that circumstances arise causing the fund balance of the General Fund (271) account to fall below 25%, the Board will immediately discuss a corrective action plan.

In the event the General Fund Balance exceeds 50% (excess Fund Balance), the Board and Library Director shall do one or all of the following:

- Restore any programs, services or collections that were reduced or terminated solely for financial reasons.
- Pay down any longer term debt.
- Retain the excess Fund Balance in account 271 if a deficit is foreseeable within the next few years.
- Transfer the excess Fund Balance to the Contributed Fund 272.

Reserve Study:

- The Board and Library Director shall budget according to any current reserve study which requires transfers from the General Fund (271) to the Contributed Fund (272).

Strategy for increased financial stability would include:

- Have at least 5% of library revenue in all funds (271 and 272) come from non-tax related sources
- Continue to pursue grants to augment library programs and services
- Seek corporate partnerships and/or sponsorships

Conservation of resources can be achieved through cost containment measures such as:

- Monitoring staffing patterns to ensure that work is getting done in the most cost-effective ways possible

- Seeking new technologies to increase staff output, carefully monitoring budget performance reports to ensure accuracy and timeliness
- Periodic reviews of internal controls

Financial statements will be prepared on a timely, recurring basis by the City of Novi, and will be reviewed by the Library Director and the Board on an on-going basis to ensure budgetary compliance.

### **Accounting, Auditing & Financial Reporting**

An independent audit of the Library's finances is performed annually with the City of Novi.

The Library will maintain strong internal audit controls.

The City of Novi will provide annual financial reports following Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB).

### **Purchasing Guidelines**

The Library Director, Managers and designated staff are responsible for the administration of the procurement process for the supplies, materials, services and equipment required for operation and maintenance of the Library.

Purchases will be made in accordance with federal, state and municipal requirements.

Purchases will be made in an impartial, economical, competitive and efficient manner.

#### Purchases Or Contracts Under \$5,000:

For expenditures of less than \$5,000, Managers are authorized to make the purchase with Library Director approval. It is the responsibility of the Manager to ensure the quality of goods/services and that competitive prices are received. Verbal quotations are acceptable.

#### Purchases Or Contracts Between \$5,000 - \$24,999:

For expenditures over \$5,000 it is the Manager's responsibility to assure that a competitive price is received. At least three (3) written quotations must be obtained, unless the Manager can establish to the satisfaction of the Library Director that there are not three (3) qualified vendors, in which case as many quotations as can be secured are required. Quotations are to be maintained by the individual departments.

An explanation must be provided if the lowest cost is not selected. Factors including, but not limited to, product quality, serviceability, delivery and other considerations of a similar kind normally relevant to the exercise of good business judgment shall constitute sufficient and good cause on which to base such decisions.

#### Purchases Or Contracts Of \$25,000 & Over:

Goods and services with a dollar value of \$25,000 or more shall be procured by the formal sealed bid process.

#### Capital Purchases:

All capital purchases require prior approval by the Library Director. "**Capital**" is defined as any item with a cost of \$25,000 or more and has a life of one (1) year or more. Capital purchases of \$25,000 or greater require a purchase order.

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