



# MONEY MATTERS

Spending and Managing  
Friends' Funds



## Presented by Judy Hills

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- President of Friends of the North Carolina Public Libraries
- VP of Friends of the New Bern-Craven County Public Library
- Former college adjunct faculty—taught business education
- Taught grant writing, grant management, and other nonprofit courses
- Former Executive Director of a quasi-governmental regional organization that provides planning, aging program oversight, and other services to nine counties and 62 municipalities in central eastern North Carolina
- Familiar with business and financial policies and procedures of government entities
- Contact info: [jahnbnc@gmail.com](mailto:jahnbnc@gmail.com)



# Money & the Purpose of the Friends

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- Two things define purpose:
  - Bylaws
  - Mission Statement
- Purpose/Mission included with filing
  - Articles of Incorporation with the State
  - 501 (c)(3)
- Bylaws & Mission Statement should include:
  - Statement of supporting one or more libraries
  - Support may include: financial, political, cultural
- Bylaws & Mission Statement MAY include:
  - Developing & supporting a community of readers and lifelong learners
  - Promote literacy, encourage love of books
  - Contribute to the cultural enrichment of the local community
  - Making distributions to organizations with related missions
  - Awarding grants to libraries and community organizations
  - Expenditures to benefit the library directly or indirectly

# Money & the Status of Your Nonprofit

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- How Friends are structured makes a difference in their legal status
- Ways to structure:
  - Unstructured or informal—loose knit group with no legal standing
  - Nonprofit registered or incorporated in the state in which they operate
  - Nonprofit recognized by the IRS as a 501(c)(3)
- Those with legal status have rules and guidelines they must follow to retain that status
- Those without legal status may be at risk as most, if not all, states have laws governing charitable solicitation
- There are some limited protections for an incorporated nonprofit's officers, directors and members against organizational debts and liabilities
- Donors may not be able to take a tax deduction for the donation if Friends are not a 501(c)(3)
- How are your Friends structured?



# Money Issues Libraries Have With Friends

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These are statements made by librarians:

- Friends believe that because they raised the money, they should decide how it is spent.
- Friends withhold money for which the library has a legitimate need.
- The Friends group gives funds raised to organizations or initiatives outside the library.
- Friends' officers don't turn over, and they begin to think of the money raised as their own.

(Source: When Friends Go Rogue)

# Money Issues Libraries Have With Friends

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- Friends not sharing or publicizing organizational data (e.g., minutes, reports, financial statements)—lack of transparency
- Friends are ineffective at fundraising
- Friends expect library staff to handle Friends' funds
  - Sell tickets to events or raffles
  - Collect money for memberships
  - Buy supplies, material or equipment with Friends' credit card (given to staff)

# Money Issues Friends Have With Libraries

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- Libraries dictate to Friends how the organization's funds are to be spent. Libraries cannot **LEGALLY** do this.
- Friends are asked to supplant instead of supplement the library's funding.
- There is no accountability and feedback to the Friends on how money they gave to the library ends up being spent.

# The Paper Trail

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- Friends are to spend their organization's money on things and services related to their mission and bylaws
- When providing funds to others (library included) be sure to stipulate in writing how the funds are to be spent
- Libraries (and others) receiving Friends' funds are obligated to spend the funds as indicated
  - Library financial reports should have a line item to track income and expenses related to Friends' funding (treat as a grant—fund accounting)
  - Not spending funds as directed will result in an audit exception for the library
- This is the paper trail should the IRS, the state or others question how the funds were spent



# Supplanting vs. Supplementing

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- Supplanting: a county, municipality or regional library reduces the funding for an activity or purchase specifically because Friends' funding is available (or expected to be available) to fund that same activity or purchase.
- Supplementing: means “in addition to” and “does not replace” county, municipal or regional library funding that has been appropriated or allocated for the same purpose.
- Friends are encouraged to supplement and not supplant library funding
- Once the Friends supplant library funding, it could be a slippery slope.

# Friends Recouping Sales Tax for Purchases

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- NC allows certain nonprofits to have sales tax that they have spent on purchases refunded semiannually on direct purchases of tangible personal property and services used to carry on their nonprofit work
- Situations in which the Friends are eligible to have sales tax refunded on qualifying purchases and services:
  - Friends pay the vendor or provider directly (cash, check, credit card, online purchase)
  - Friends reimburse an individual
  - Friends pay an invoice submitted to the group by the library and pay full amount including taxes
- Situations in which the Friends are NOT eligible to have sales tax refunded on qualifying purchases and services:
  - Friends give the library money (cash or check)—like a grant—library does purchasing and gets the sales tax refund

**CAVEAT: Never give the Friends' bank account access, credit card information or online account user IDs/passwords to the library staff!**

# Friends Operational Funding

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- Friends need money and should budget funds yearly:
  - To manage the organization (e.g., website creation and maintenance, insurance, meeting costs)
  - To recruit, retain, recognize members (e.g., brochures, recruitment events, awards)
  - For upfront expenses for events/fundraisers
  - For ongoing expenses related to books sales (e.g., supplies, posters, marketing, storage, boxes, manpower, facility rental, insurance)
  - To capitalize on opportunities (e.g., new grant that requires a cash match or that requires funds spent be reimbursed rather than be given in advance)
  - To carry the organization through lean times (e.g., COVID)—akin to a reserve or savings fund
  - To celebrate special occasions (e.g., National Friends of the Library week)
  - To celebrate/thank library staff (e.g., luncheon, gift cards, small gifts)
  - For staff salaries and benefits if employed directly by the Friends (rare, but some do)

# Friends Funding the Library

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- Give money directly with written instructions for how and when the money may be spent (e.g., summer reading program supplies, purchase movie license, purchase STEM kits, etc.) This is like a grant.
- Get a list of specific needs from the library, purchase those items directly and pay the supplier/vendor
- Have the library purchase the agreed-upon items and submit an invoice to the Friends for reimbursement.
- Set up an endowment (similar to a trust fund). The principle remains intact and funds are given out from the interest earned on a schedule.

**Caveat:** If the Friends pay vendors directly or reimburse library for purchases, the Friends can recoup the sales tax

# Friends Funding the Library

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- For purchases of needed/wanted:
  - Materials
  - Supplies/kits
  - Furnishings
  - Equipment
  - Books
  - Subscriptions
  - Software
  - Licenses, etc.
- For expenses related to programs:
  - Bags, SWAG and rewards for summer reading participants
  - Refreshments for programs
  - Materials (e.g., containers, soil, plants for a gardening program)
  - Speaker honorariums
  - Speaker per diem expenses

# Friends Funding the Library

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- For expenses related to projects (e.g., the installation of a meditation garden)
- To help defray expenses of the volunteer program
  - Pay for background checks
  - Provide recognition awards
  - Provide refreshments for volunteer recognition events
  - Provide t-shirts or vests
  - Provide name tags
  - Provide volunteer management software
- For things that grant funding may not be spent on, but which are desired (e.g., refreshments)

# Special Situations

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- Library's fiscal year is July 1 to June 30. Around May 1<sup>st</sup> most financial officers instruct staff to curtail spending. Library may ask Friends to purchase something during this period (e.g., Summer Reading Material needed on July 1<sup>st</sup>).
- The library has not budgeted for money needed to match a grant. An opportunity arises and the library asks the Friends to meet the required cash match.
- The library has a budget to buy books. The patrons who read the new best sellers complain bitterly that there are never enough copies, but the library manager has only allocated a certain amount for new best sellers. The Friends may step in and provide funds to purchase the extra copies.
- The library suddenly has a demand for a 3D-printer, but there is no money in the budget for one. The library has staff capable of running this printer and asks the Friends to purchase one.
- The library hears that a NY Times best-selling author is speaking in a nearby county. They would like to have this author speak, but there is no money in the budget to cover the cost. They ask the Friends to cover the expenses.

# Special Situations

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- Providing scholarships to the library staff
  - The governmental entity (county, municipality, regional library) controlling the library may or may not have an employee benefit where the employee is reimbursed all or part of the cost of an educational or training program. If such a program exists, the Friends should not supplant this funding with their own scholarship program for library staff.
  - If the governmental entity does not have such a program, the Friends may institute one.
- Providing “gifts” to the library staff
  - The governmental entity (county, municipality, regional library) controlling the library may or may not have a policy regarding gifts to employees. There is a concern that “gifts” may create a “conflict of interest” situation.
  - Friends should know what these policies are and adhere to them if they exist.



# Friends Funds—Other Possible Uses

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- Friends may provide funds to another organization or jointly fund projects that align with their bylaws/mission:
  - A conference, workshop or speaker (e.g., on literacy, reading, freedom to read)
  - Sharing a booth at community event.
- Donation to Friends designated for a specific purpose
  - If a Friends group receives a donation and the donor stated that the funds were to be used for a specific purpose (e.g., books for the children's library), the Friends are obligated to ensure that the funds are used for that specific purpose (donor intent)
- If Friends' members are concerned about how Friends' Board spends (or doesn't spend) the organization's funds, the bylaws generally have a clause about a called special meeting where this can be discussed.

# Best Practice Advice for Library and Friends

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- Know and understand your respective organizations.
- Know, understand and respect each other's operational requirements.
- Libraries should give Friends their “wish list” for things to be funded a month or so before the start of the Friends' new fiscal year. Chances are their fiscal year will be different from the library's. The “wish list” may need to be reviewed mid-year.
- Friends are nonprofits and should be transparent regarding their operations and finances. They have a fiduciary responsibility to their donors to account for the funds.
- Library should account for Friends funding as a “fund account” on their financial reports and should share these reports with Friends
- Friends should do everything possible to separate their operations from the library (e.g., sales, mail, collecting membership applications, managing a web page, etc.)

# Problems are Solved With Teamwork

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## TEAMWORK

Coming together is the beginning.

Keeping together is progress.

Working together is success.

- Henry Ford



## Resources/References

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Fundraising Through Friends Groups

<http://www.lehmannstrobel.com/articles/fundraising-through-friends-groups/>

When Friends Go Rogue by Sally Garner Reed

<https://www.friendstnlibraries.org/wp-content/uploads/LJ-Hotline-When-Friends-Go-Rogue-23Oct2017.pdf>