



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana State Library Commission

*For the Two Fiscal Years Ended
June 30, 2011*

OCTOBER 2011

LEGISLATIVE AUDIT
DIVISION

11-23

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

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Room 277, State Capitol
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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

October 2011

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2011. During the course of the audit we analyzed the financial schedules, reviewed financial records, and tested compliance with selected state laws and regulations. This report contains no recommendations.

We thank the Montana State Library Commission, the State Librarian, and the Library staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana State Library Commission	Donald Allen, Chair	Billings	May 2012
	Richard Quillin, Vice Chair	Whitefish	May 2014
	Bonnie Allen*	Missoula	May 2014
	Colet Bartow**	Helena	
	Marsha Hinch	Choteau	May 2013
	Lee Phillips	Butte	May 2014
	Anita Scheetz	Sidney	May 2012

*Appointed by the Commissioner of Higher Education for the Montana University system

**Serving as alternate for Superintendent of Public Instruction, Denise Juneau

Administration

Darlene Staffeldt, State Librarian

Bob Cooper, Director of Statewide Library Resources

Jennie Stapp, Digital Library Administrator

Kris Schmitz, Central Services Manager

For additional information concerning the Montana State Library Commission, contact:

Kris Schmitz
Central Services Manager
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana State Library Commission

For the Two Fiscal Years Ended June 30, 2011

OCTOBER 2011

11-23

REPORT SUMMARY

The Montana State Library Commission (Library) has the mission to meet the information needs of state agency management and staff, and provide all citizens with access to information created by their government. The Library also supports Montana libraries in delivering quality library content and services to their patrons, and works to strengthen local community public libraries.

Context

To achieve its mission of strengthening local public libraries, the Library operates the Montana Shared Catalog (MSC). MSC is a cooperative project involving more than 100 libraries. The program facilitates access of library users to the collections of member libraries across the state. As administrator, the Library provides access to the shared catalog database server to member libraries on a 24 hours per day, 365 days per year basis. Member libraries pay the Library an annual fee for access to the shared catalog database, for which the Library received \$179,891 and \$239,250 in fiscal years 2011 and 2010, respectively.

Through the Broadband Technologies Opportunities Program, partially funded by the American Reinvestment and Recovery Act, the Library is collaborating with 42 of Montana's public libraries to expand access to free, high-speed internet to 86 percent of the state's population by 2013. The Library will match \$1,829,473 of federal funds primarily with a \$665,000 private donation.

Results

We issued an unqualified opinion on the financial schedules for each of the fiscal years ended June 30, 2011 and 2010. The Library implemented the recommendation from the prior audit. The report contains no new recommendations.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana State Library Commission (Library) for the two fiscal years ended June 30, 2011. The objectives of the audit were to:

1. Determine whether the Library complied with selected state laws and regulations.
2. Obtain an understanding of the Library's control systems to the extent necessary to support our audit of the Library's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the Library.
3. Determine whether the financial schedules present fairly the results of operations and changes in fund balances for each of the two fiscal years ended June 30, 2011.
4. Determine implementation status of the prior audit recommendation.

We addressed objective #1 by reviewing and testing compliance with selected state laws, including the proper spending of Coal Severance Tax funds statutorily allocated to the Library. To address objectives #2 and #3, we focused our audit effort primarily on operating expense transactions, Montana Shared Catalog (MSC) program revenues, use of legislative appropriations, and the related control systems. We addressed objective #4 by determining whether the Library discontinued the recording of deferred revenue in its Enterprise Fund for receipts that have been earned.

Background

Section 22-1-101, MCA, created The Library Commission in 1929. The Library is the focal point for the development and improvement of library services in Montana. It provides general library services to Montana state government and consists of four divisions with a total of 30.5 full time equivalent employees: Statewide Library Resources, Montana State Digital Library, Library Information Services, and Central Services Division.

The Digital Library serves the state by improving the availability and accessibility of data and information regarding Montana's natural resources, providing interactive mapping opportunities, maintaining Montana's field guides, and developing and managing relational database management systems. The Digital Library includes the Geographic Information System Portal and the Montana Natural Heritage Program, which maintains a computerized inventory of Montana's biological resources, emphasizing rare, threatened, or endangered plant and animal species, and biological communities.

In addition to assisting state government, the Statewide Library Resources provides services to public, academic, and specialized libraries throughout the state through the Talking Book Library, Shared Catalog, and Library Development Department. The services provided include, but are not limited to, assisting with information/reference needs, material lending, publications depository, statewide library development, and services for the blind and visually impaired.

The Library Information Services serves the work-related information needs of state government employees, provides backup reference assistance to librarians throughout the state, and provides public access to state publications for Montana citizens. Central Services Division provides overall administrative support for the Library.

Library operations and grants to public libraries are funded by General Fund appropriations, federal assistance, a portion of the Coal Severance Tax, and revenue from contracted services with state and local entities.

Prior Audit Recommendation

The prior financial-compliance audit of the Library for the two fiscal years ended June 30, 2009, contained one recommendation. The Library implemented this recommendation.

Independent Auditor's Report and Library Commission Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors
Cindy Jorgenson
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Library Commission (Library) for each of the fiscal years ended June 30, 2011, and 2010. The information contained in these financial schedules is the responsibility of the Library's management. Our responsibility is to express opinions on these financial schedules 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 schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the Library's assets, liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Library for each of the fiscal years ended June 30, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor

September 21, 2011

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND BALANCE: July 1, 2010	\$ (445,319)	\$ 128,531	\$ 0	\$ 197,452
ADDITIONS				
Budgeted Revenues & Transfers-In		635,762	1,975,560	179,891
Nonbudgeted Revenues & Transfers-In	257	14,942		164
Direct Entries to Fund Balance	2,922,663	696,869		
Total Additions	2,922,920	1,347,573	1,975,560	180,055
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,836,638	1,274,465	1,975,560	178,461
Nonbudgeted Expenditures & Transfers-Out	(289)	27,866		10,398
Prior Year Expenditures & Transfers-Out Adjustments	14			
Total Reductions	2,836,363	1,302,331	1,975,560	188,859
FUND BALANCE: June 30, 2011	\$ (358,762)	\$ 173,773	\$ 0	\$ 188,648

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND BALANCE: July 1, 2009	\$ (422,122)	\$ 179,756	\$ 0	\$ (1,233)
ADDITIONS				
Budgeted Revenues & Transfers-In		377,530	1,222,129	239,250
Nonbudgeted Revenues & Transfers-In	374	12,307		95
Direct Entries to Fund Balance	2,826,393	562,173		241,821
Total Additions	<u>2,826,767</u>	<u>952,010</u>	<u>1,222,129</u>	<u>481,166</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,850,418	990,858	1,215,198	321,642
Nonbudgeted Expenditures & Transfers-Out	(151)	12,377		(39,161)
Prior Year Expenditures & Transfers-Out Adjustments	(303)		6,931	
Total Reductions	<u>2,849,964</u>	<u>1,003,235</u>	<u>1,222,129</u>	<u>282,481</u>
FUND BALANCE: June 30, 2010	\$ (445,319)	\$ 128,531	\$ 0	\$ 197,452

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Taxes	\$ 257	\$ 14		\$ 164	\$ 435
Charges for Services		104,282		179,891	284,173
Investment Earnings		583			583
Capital Contributions		91,474			91,474
Grants, Contracts, and Donations		412,917			412,917
Transfers-in		41,434			41,434
Federal Indirect Cost Recoveries			\$ 37,332		37,332
Federal			1,938,228		1,938,228
Total Revenues & Transfers-In	257	650,704	1,975,560	180,055	2,806,576
Less: Nonbudgeted Revenues & Transfers-In	257	14,942		164	15,363
Actual Budgeted Revenues & Transfers-In	0	635,762	1,975,560	179,891	2,791,213
Estimated Revenues & Transfers-In	233	636,680	1,979,233	180,000	2,796,146
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(233)</u>	<u>(918)</u>	<u>(3,673)</u>	<u>(109)</u>	<u>(4,933)</u>
	\$	\$	\$	\$	\$
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	\$ (233)			\$	(233)
Charges for Services		(418)		(109)	(527)
Grants, Contracts, and Donations		(290)			(290)
Transfers-in		(210)			(210)
Federal			(3,673)		(3,673)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(233)</u>	<u>(918)</u>	<u>(3,673)</u>	<u>(109)</u>	<u>(4,933)</u>
	\$	\$	\$	\$	\$

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Taxes	\$ 374	\$ 7		\$ 95	\$ 476
Charges for Services		86,880		239,250	326,130
Investment Earnings		620			620
Grants, Contracts, and Donations		302,330			302,330
Federal Indirect Cost Recoveries			\$ 48,432		48,432
Federal			1,173,697		1,173,697
Total Revenues & Transfers-In	374	389,837	1,222,129	239,345	1,851,685
Less: Nonbudgeted Revenues & Transfers-In	374	12,307		95	12,776
Actual Budgeted Revenues & Transfers-In	0	377,530	1,222,129	239,250	1,838,909
Estimated Revenues & Transfers-In	233	382,334	1,258,469	240,000	1,881,036
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(233)</u>	<u>(4,804)</u>	<u>(36,340)</u>	<u>(750)</u>	<u>(42,127)</u>

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	\$ (233)		\$		(233)
Charges for Services		(1,420)	\$	(750)	(2,170)
Grants, Contracts, and Donations		(3,384)			(3,384)
Federal			\$	(36,340)	(36,340)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(233)</u>	<u>(4,804)</u>	<u>(36,340)</u>	<u>(750)</u>	<u>(42,127)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Statewide Library Resources</u>
Personal Services	
Salaries	\$ 1,634,953
Other Compensation	1,875
Employee Benefits	560,422
Personal Services-Other	(627)
Total	<u>2,196,623</u>
Operating Expenses	
Other Services	1,636,048
Supplies & Materials	753,122
Communications	82,496
Travel	139,877
Rent	359,498
Repair & Maintenance	273,636
Other Expenses	98,049
Total	<u>3,342,726</u>
Equipment & Intangible Assets	
Equipment	<u>69,829</u>
Total	<u>69,829</u>
Grants	
From State Sources	419,464
From Federal Sources	252,958
From Other Sources	18,474
Total	<u>690,896</u>
Other Post Employment Benefits	
Other Post Employment Benefits	<u>3,039</u>
Total	<u>3,039</u>
Total Expenditures & Transfers-Out	<u>\$ 6,303,113</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 2,836,363
State Special Revenue Fund	1,302,331
Federal Special Revenue Fund	1,975,560
Enterprise Fund	<u>188,859</u>
Total Expenditures & Transfers-Out	6,303,113
Less: Nonbudgeted Expenditures & Transfers-Out	37,975
Prior Year Expenditures & Transfers-Out Adjustments	<u>14</u>
Actual Budgeted Expenditures & Transfers-Out	6,265,124
Budget Authority	9,028,088
Unspent Budget Authority	<u>\$ 2,762,964</u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 91,333
State Special Revenue Fund	570,848
Federal Special Revenue Fund	1,958,371
Enterprise Fund	<u>142,412</u>
Unspent Budget Authority	<u>\$ 2,762,964</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Statewide Library Resources
Personal Services	
Salaries	\$ 1,630,546
Other Compensation	3,325
Employee Benefits	535,212
Personal Services-Other	381
Total	<u>2,169,464</u>
Operating Expenses	
Other Services	1,451,410
Supplies & Materials	179,752
Communications	80,412
Travel	92,310
Rent	366,068
Repair & Maintenance	264,004
Other Expenses	103,409
Total	<u>2,537,365</u>
Equipment & Intangible Assets	
Equipment	44,016
Total	<u>44,016</u>
Grants	
From State Sources	589,140
From Federal Sources	16,325
Total	<u>605,465</u>
Other Post Employment Benefits	
Other Post Employment Benefits	1,499
Total	<u>1,499</u>
Total Expenditures & Transfers-Out	<u>\$ 5,357,809</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 2,849,964
State Special Revenue Fund	1,003,235
Federal Special Revenue Fund	1,222,129
Enterprise Fund	282,481
Total Expenditures & Transfers-Out	5,357,809
Less: Nonbudgeted Expenditures & Transfers-Out	(26,935)
Prior Year Expenditures & Transfers-Out Adjustments	6,628
Actual Budgeted Expenditures & Transfers-Out	5,378,116
Budget Authority	6,811,468
Unspent Budget Authority	<u>\$ 1,433,352</u>
UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 264,320
State Special Revenue Fund	52,681
Federal Special Revenue Fund	1,056,591
Enterprise Fund	59,760
Unspent Budget Authority	<u>\$ 1,433,352</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Library Commission
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2011

1. Summary of Significant Accounting Policies

Basis of Accounting

The Library Commission (Library) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the Library records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the Library incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Library to record the cost of employees' annual and sick leave when used or paid.

The Library uses accrual basis accounting for its Proprietary (Enterprise) fund category. Under the accrual basis, as defined by state accounting policy, the Library records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the Library receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The Library uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Library State Special Revenue Funds include allocations of Coal Severance Taxes, Natural Resource Information System contracts with state and private entities, and other private donations.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Library Federal Special Revenue Funds include the Library Services and Technology Act grants, Natural Resource Information System contracts with federal entities, and Broadband Technology Opportunities Program funded by the American Recovery and Reinvestment Act.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the Library finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Library Enterprise Funds include the Montana Shared Catalog.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The Library has authority to pay obligations from the statewide General Fund within its appropriation limits. The Library expends cash or other assets from the statewide fund when it pays General Fund obligations. The Library's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2010 and June 30, 2011.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balance in the Enterprise fund is a correction of an error from a previous period.

MONTANA STATE
LIBRARY COMMISSION

COMMISSION RESPONSE



B-1

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October 7, 2011

RECEIVED

OCT 11 2011

LEGISLATIVE AUDIT DIV.

Ms. Tori Hunthausen, Legislative Auditor
Legislative Audit Division
Room 135, State Capital
Helena, MT 59620

Dear Ms. Hunthausen:

I would like to thank the Legislative Audit staff for their assistance and work performed on the State Library Commission Financial-Compliance Audit for the two fiscal years ending June 30, 2011. The rapport they established with our personnel made the effort efficient and time effective.

We are pleased with your issuance of an unqualified opinion without any audit recommendations on the financial statements. I assure you that we will continue to strive to improve the fiscal management of the State Library and always value the input from your staff.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,

A handwritten signature in black ink, appearing to read "Kris M Schmitz". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Kris M Schmitz
Central Services Manager