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Financial accounting and library collections: the bottom line

Abstract

The valuation and depreciation of library collections is an increasing challenge in the context of financial accounting requirements. The depreciation implications of major collection management strategies have become of increasing concern to Deakin University library in regard to accrual accounting reporting procedures. Changes to library collections, such as the transition to online journals, are moving the financial value of library collections from capital to operating budgets. Major collection management projects such as weeding print assets can have unexpected implications for depreciation and library budgets. Gratis publication acquisitions can also significantly affect valuation and depreciation. Many other libraries are facing similar challenges and this paper will incorporate a range of experiences and practices.

There appears to be little consistency across libraries in how collections are valued and accounting procedures can differ greatly across institutions. The seemingly arbitrary and often questionable nature of financial policies in relation to library collections can create problems for libraries when used to inform decision making and budgets. Libraries increasingly need to work in partnership with financial managers to ensure the financial reporting requirements do not result in adverse implications for collections and budgets and that the capacity of the library to meet its strategic objectives is not impeded. This paper explores the issues and challenges facing many libraries and outlines some strategies to assist library managers in dealing with this financial conundrum

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Introduction

Accrual accounting and the financial reporting of public sector assets as found in libraries, museums, parks and cultural heritage facilities have, for some years now, perplexed those responsible for the governance and sound management of these public sector entities. University libraries have responded to the directions of Treasury and the reports of Auditor-Generals that have required library collections be assigned a dollar value, which are then included in the university's statements of financial position. Libraries continue to struggle with the lack of any standards or consistency in assigning dollar values to collections or depreciation methods adopted.

Key papers from the accountants' perspective were published by Garry Carnegie and Brian West in 2003 and 2004, which generated considerable debate across the university library sector at that time. It is difficult to argue with their main contention that

> attempting to recognize … [library and museum collections] at monetary values within the financial reports of public sector organizations is a contrived, imprecise and inappropriate practice that threatens to occlude rather than enable the accountability of public sector institutions and their managers (Carnegie & West, 2003, p. 83).

Accountants have called for the abandonment of accrual accounting for collections of this nature (Maslen, 2004, p. 4). Librarians are naturally sympathetic to this call. It would appear unlikely to happen, at least in the short term. There is much to explore as a sector if university libraries are to effectively manage their information resources and fulfil their core purpose - that is, to support teaching learning and research. Developing meaningful standards that inform sound governance of university library collections is critical.

This paper will look at Deakin University Library's responses to the pressures of assigning an economic value to resources acquired to meet educative and research needs. The accountants' views regarding the efficacy of valuing non-financial resources are presented, coupled with a review of current practice in university libraries. It would appear that sufficient time has still not elapsed to allow voluntary standardisation of valuation and depreciation methods to occur (West & Carnegie, 2004, p.10). The key issues that informed Deakin University Library's way forward may assist other libraries managing the impact of accounting standards for financial reporting.

Deakin University Library: a case study

In 2000, Deakin University responded to a Treasury directive to report the value of their library collections in the University's statements of financial position. The University identified 'library books' as a single asset for financial reporting purposes. The value of books at December 1999 was determined to be $35 million. The straight line depreciation method was adopted for the whole collection, which was considered to have a useful life of ten years. Since that time, additions to the collection have been valued at cost

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for purchased items, while a formula has been used for donations.

At Deakin, the early responses to accrual accounting as applied to public sector assets - more specifically, library collections - are being re-visited. A number of the key early responses included:

Defining the library collection as an asset
'Library books' were treated as one asset for the purposes of the accounts. Textbooks and research materials, books and serials, and perhaps most importantly, the general collection and special collections were treated the same. Different categories would have allowed depreciation rates that more appropriately reflected the life and purpose of different types of resources. Special collections, for instance, are generally acquired with the purpose of being 'safe kept' in perpetuity. The categories of resources that comprise special collections, including rare books and manuscripts, tend to appreciate over time. Therefore, there is a case to separately treat special collections and the general collection. Similarly, there are valid reasons for identifying sub-collections within the general collection that attract different depreciation rates.

Librarians are well informed, through an increasing variety of survey data and usage data, of how their collections support teaching, learning and research. This includes the use, by discipline, of different types of resources for current awareness or for historical research and analysis. This knowledge is invaluable when grappling with the issues of depreciation and the useful life of assets.

Assigning a value to donated library materials
Resources added to the collection since 2000 have been assigned values taken from the Monash index initially, and more recently, the Bowker Annual and Periodical Price Index. A formula was applied dependent upon whether the item was accepted for the special collections or the general collection. The accumulated value of all donations is considerable, since Deakin has actively sought donations to add depth to its relatively recent collection.

Yet another quote from Carnegie and West, which has a particular resonance with librarians facing the challenges presented by accrual accounting:

> Present accounting standards applying to public sector entities have caused ma[n]y (sic) public sector managers to be preoccupied with the costly, time-consuming, yet essentially oxymoronic task of assigning financial values to resources that are of a social rather than financial kind. Inevitably, the values thus assigned are often almost completely arbitrary, particularly when the resources to which they are applied are unique, priceless, irreplaceable, not for sale, and never intended to be sold (Carnegie & West, 2003 p.85).

One would have to add that information resources, acquired to support the university's clientele and its strategic imperatives, are acquired for their educative and research value, not on the basis of a market value that is unlikely ever to be realised.

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Depreciation and managing capital assets, including disposal of resources

The composition of all university library collections is changing and changing rapidly. The replacement of print materials with electronic versions providing web access is the prevailing strategic direction evident across the sector. Whether to dispose of or store the lesser used print materials needs careful consideration. Large scale disposal of print materials can have a significant impact on the Library's operating budget. Writing off the residual value of materials less than ten years following their acquisition has not, until recently, influenced the library's processes for withdrawal of material.

Online resources: assets or an operating expense

The scholarly publishing landscape continues to evolve, with new models of access and ownership being tested. Online resources have generally been treated as an operating expense. Where archival access to collections has moved from print to electronic, there remain issues of ownership. Does a model, where payment guarantees perpetual access to a set of journals available electronically, allow those journals to be deemed assets? Certainly, the value of the library collection as a capital asset will diminish.

Electronic resources are now of greater value to the institution in achieving successful outcomes, strategically and financially. The speed of this change has been more rapid than would have been foreseen in the late 1990s or earlier this decade. Since 2003, the total proportion of Deakin University Library's information resources budget expended on online resources has increased from 17% to 47%. Print serials expenditure has halved, while expenditure on online serials has quadrupled. Print book expenditure has remained static. Clearly the demand on the operating budget has increased significantly, while the pressure on the capital budget has decreased.

The early practices adopted by Deakin continue unchanged until recently when several significant factors have called the current methodology into question. The increasing acquisition of online resources and the related increase in discarding activities within the Library have added pressure to the operating budget and increased the cumulated cost of depreciation. Deakin University Library experienced a peak of activity in 2005, which severely eroded the Library's capacity to maintain access to resources at the current level, let alone acquire new resources to support course changes and additions. A backlog of donations that was housed in unsuitable, temporary accommodation was processed, adding to the value of the library's collections. At the same time, a project to withdraw print materials now replaced by electronic resources was undertaken. The intent was to free physical spaces within the campus libraries and create learning spaces better suited the needs of students. The collection management decisions were sound but the financial impact was unexpected. The lack of any meaningful interpretation of the impact of accrual accounting standards on long-standing collection management practices had become critical.

The intent of accounting standards is not to constrain the organisation's capacity to pursue key strategies that are recognised as essential contributors to the success of the enterprise. Unfortunately, this has been the outcome. As a response, Deakin University Library has examined the literature and practices at other universities in an effort to proactively work with the University's Financial Services Division to determine a more effective way forward.

An overview of the literature

The relationship between accounting practices and public heritage collections such as library collections has been the subject of an increasing volume of literature both in Australia and overseas since changes in accounting requirements were introduced in the 1990's. Prior to these changes, libraries generally did not record their collection as an asset but treated acquisitions as an expense item in the year of purchase. Library collections were only valued for insurance purposes and these valuations had little impact on library budgets or collection management decisions. Accrual accounting, for the first time, was being applied to non-commercial organisations, including libraries. As a result, many government libraries had to value their collections and record them as assets in annual reports for the first time. The resulting challenges and difficulties led to a surge in scholarly articles and papers that dealt with the subject more frequently from the accounting perspective and less frequently from the library management perspective.

Ryan (1998) identifies the motivations that underly the pressure to change public sector accounting procedures in the 1990's. Political and economic factors including: the need for accountability, reliable costing of products and services, and evidence of 'efficiencies', are identified as key drivers. Accounting procedures are acknowledged as far from neutral and resulting in far reaching and often unforeseen implications: 'accounting methods determine the manner in which items are both reported and measured. Decision making on the basis of this information often involves the allocation of resources, and/or management reporting of performance'(Ryan, 1998 p. 534).

Accounting researchers have critiqued the changes from an accounting perspective. Carnegie and Wolnizer (1996), Stanton and Stanton (1997,1998), Barton (2000) and Carnegie and West (2003, 2004) have all questioned the accounting validity of the changes. Fundamental questions include whether public heritage collections such as library collections should be viewed as an asset or not, whether they should be valued, how they can be valued and whether or not they should be depreciated. Criticism of the application of accrual accounting standards to public heritage collections such as libraries is a recurring theme through the literature based on both accounting principles and the difficulties of practical application. The social role of heritage collections, the conflict between social good and value maximisation, and the difficulties in reliable valuation are all cited. Barton (2000, p.234) concludes that 'public facilities should be recognised as assets held in trust by the government and appreciated for the non-financial cultural benefits they provide to society'. West and Carnegie point out that:

> The essential task in operationalising accrual accounting abides in assigning money values to 'future economic benefits' and then subsequently apportioning those benefits into 'expired' (expense) and 'unexpired' (asset) categories. It is an almost wholly abstract process and its outputs are 'fictions' in the sense that they are generally not empirically verifiable (2004, p.11).

A survey in 2003 (CAUL, 2003) highlighted the different practices of universities in financial reporting of the library collections of Australian universities. These differences have been used by scholars as evidence of the unsuitability of applying accrual accounting to library collections. It is argued that the lack of consensus between institutions is not reflective of differences in the collections themselves, but reflective of the differences in how they are being treated for accounting purposes (West & Carnegie, 2004, p.10-11). West and Carnegie (2004) also identified wide diversity when they compared the financial statements of Australian universities from their annual reports. Their study identified that the 'chaotic margin of accounting examined here is characterised only by haphazardness: a case of "anything goes" '(West & Carnegie, 2004 p. 12).

The literature identifies a clear need for agreed standards. West and Carnegie (2004) point out that this agreement may only come when sufficient time allows a process of voluntary standardisation to occur or when sufficient time allows the accounting regulations to be developed through a process of research, preparing draft documentation, inviting comment, obtaining consensus and issuing regulatory statements. They argue, however, that 'the difficulties of operationalising conventional accrual accounting are so manifest as to render its suitability doubtful' (2004, p.11) and conclude that accrual accounting is an inappropriate accounting technique for the majority of public sector entities.

The impact of these differing practices on the sound governance of libraries is rarely discussed in the literature. The accounting debate, as interesting as it is, provides little assistance to library managers grappling with the practical implications of operating under accrual accounting standards. The scholarly literature, from the library perspective, is surprisingly small given the implications accrual accounting has for library managers. A number of practical papers were produced in the 1990s to assist libraries facing the immediate need to value collections. Carpenter (1991), Christianson (1992), Marman (1995) and Cram (1997) all examine the issues of asset valuation and depreciation and provide definitions and methodologies relating to initial valuation, asset acquisition, asset disposal and revaluation. Disparity is evident in the methodologies recommended and the issues identified, far from being resolved, have become more complex. This is particularly true in an era of transition from print to online collections. Cram points out that: 'valuation of

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collections appears not to be an issue that is being addressed in depth by library managers, nor is there a generally accepted methodology for valuing them as assets' (1997, p.377). These comments are still largely valid almost 10 years later.

An overview of practice

The 2003 CAUL survey on Library valuation (CAUL, 2003) provided an overview of the methodologies used by libraries in Australia. Wide disparities were revealed in the way libraries were accounting for additions to the collection and depreciating them. Depreciation rates for library collections were shown to range from no depreciation to over fifty years. One institution was found to expense all additions. Other institutions distinguished between undergraduate texts and research materials and applied different rates of depreciation. It was not surprising, therefore, that accumulated depreciation varied significantly across institutions.

West and Carnegie's 2004 paper presented the findings of a survey which compared the annual report financial reporting statements for a range of universities. Their findings revealed little consistency in approaches to asset categorisation, asset valuation, acquisition and depreciation. The initial valuations of library collections were found to largely be based on 'deemed' costs, but these were found to have been derived in different ways. Straight line depreciation was the most common method chosen. However, little consistency was found with the decisions on what to depreciate and the assigned rates of useful life. Reported depreciation carrying values were found to show significant variations that appeared more related to accounting decisions than the true value of the library collections. Financial comparisons between institutions, one of the purported benefits of accrual accounting, were argued as being almost impossible given the variations.

Deakin University Library conducted a 2006 survey into university libraries' current practices in relation to collection valuation and depreciation. The survey updated results from the earlier CAUL survey and sought additional information including valuation methods for donation, methods of recording prepayments, whether depreciation was recorded centrally or against the budget centre, whether electronic resources were recorded as capital or non capital and library management issues resulting from accounting practices. Fourteen libraries responded to the survey providing data from all states of Australia and covering institutions of varying demographics. Earlier survey findings were substantiated with significant variations still apparent in the way libraries valued additions to collections and calculated depreciation. Few patterns could be identified with accounting practices still found to be seemingly localised and subject to individual institutional interpretations of accounting standards.

Donations were found to be treated diversely with some libraries including them in the collection valuation whilst others were not assigning them a value. The libraries that included donations in collection valuations were using methodologies ranging from average market prices, half average market prices, to only valuing large donations such as those acquired as part of the

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Cultural Gifts Program. Most universities used external valuers for only their rare books or special collections. Wide differences were evident in depreciation rates and the useful life assigned to different material types. Some institutions did not depreciate their collections at all whereas others were depreciating collection assets at up to 30%. One institution was in the process of moving to expensing all commonly used collections. A few libraries indicated that they were currently reviewing their depreciation rates. The majority of institutions were found to record collection depreciation centrally against the institution's operating budget, but a few were recording it against the library's operating budget.

Some library information resources budget allocations were found to be divided between capital and non capital, but for others no distinction was made, with the library able to expend funds as required to meet its clientele's needs. Electronic resources were found to be treated differently across institutions. Some institutions were classifying all electronic resources (leased or owned) as operating, some were classifying only leased as operating, while one institution treated all electronic resources as capital. A difference was also identified in the way libraries treated prepayments. Some libraries recorded all purchases in the year the expense occurred, while others recorded prepayments in year the resource was acquired. One library only had to record prepayments separately for serials over a certain dollar threshold.

The 2006 survey also aimed to explore the issues facing library managers in relation to accrual accounting guidelines. Some of the issues the survey identified include:

- Where depreciation was recorded against the operating budget of the library, issues were identified in managing large-scale weeding and discard projects, which could have adverse financial implications. For one library, this was a particular problem in collection management projects arising out of the move from print to online journals.

- The split between capital and non capital was identified as a growing issue for some libraries: 'the capital versus operational division of our acquisitions budget is proving more problematic every year as shifting funds from one to the other is not an easy internal process.' This issue, for some libraries, was found to be limiting the ability to develop the electronic resources collection as required.

- Pressures on operational budgets were also identified as an issue: 'we are also concerned that with the move to more electronic resource purchasing our acquisitions budget will become more and more "operationalised" instead of being seen as a separate, annual and relatively stable capital allocation'.

- Difficulties in managing accrual accounting local procedures, including prepayments, caused one librarian to comment 'accrual accounting is a total pain'.

- Changes in depreciation methodology were also identified as

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impacting on the value of the University's assets. Those libraries moving to expense more parts of the collection identified concerns raised by their university's financial services divisions.

The Way Forward

In response to the issues identified in this paper, Deakin University Library is currently working closely with the University's Financial Services Division on a way forward. There is still a need for further policy and procedural development but some of the current actions and discussions are outlined below.

Towards the end of 2005, the University agreed to remove the deemed value of the Library's Special Collections from the value of the library collection to which depreciation applies. This is common practice amongst universities with special collections. Special collections consist of a variety of material regarded as rare, valuable, vulnerable or fragile, or of particular relevance and importance to Deakin University. The inclusion of an item in these collections indicates an intention by the Library to preserve the item for an indefinite time, by placing it in optimal storage conditions and under strictly controlled access. The Library has arranged for an external valuation of the special collections to determine an agreed value for this enduring asset.

Concomitantly, the Library and Financial Services Division are reviewing how straight line depreciation may be applied to different categories or types of resources, addressing questions regarding the useful life of materials, the purpose and the value of items added to the collections. Although practices at other universities provide alternatives, they do not provide any real methodology for determining the 'useful life' of items. Is the useful life for 'duplicate texts' five years? Do donations added to the general collection have a value? Do any resources in the general collection have a life extending beyond twenty years? What should be considered of research value and what is its life? What are the implications for collection management decisions? A ten percent depreciation rate does not prevent a library from retaining an item for fifty years. Unfortunately, removal of an item before it has reached its useful life does have a financial impact. Take care with texts where new additions appear each year and judge those donations wisely! The increasing move to electronic journals and electronic books by scholarly publishers, coupled with users' preferences for online access, is leading the Library to question the long term value of print items.

Finally, what will be the impact of the decreasing value of capital assets on the university's overall financial position? Although some institutions consider online resources that are 'owned in perpetuity' capital assets, most institutions treat all online resources as an operating expense. This is on the basis that access is provided by a third party vendor and may be subject to the effects of technological change, financial stability of the vendor or changes in models of publishing. Reporting the library collection as a capital asset needs to be carefully managed by the library and the institution's financial services division.

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The discussions can be robust, but are critical.

Conclusion

The literature, case study and comparative survey data outlined in this paper reveal the clear need for more consistent and effective standards for the valuation and depreciation of library collections. Libraries need to work more proactively with finance divisions to explore the impact of collection management and accounting practices on their institutions. Librarians can contribute to the process of voluntary standardisation of accounting practice by collaboratively identifying preferred practices and working closely with financial divisions to influence local practices and ultimately the regulatory agencies.

This paper has also identified a range of collection management and budgetary planning issues that accrual accounting practices can inadvertently create for libraries. These issues are becoming more complex as the transition from print to online collections continues and libraries increasingly review their print collection management activities. Carnegie and West point out that accounting is far from a neutral activity but ‘needs to be understood as a pervasive sociological and institutional practice which has the capacity to precipitate a re-understanding of what is being accounted for and a reallocation of scarce resources’ (2003, p.85). As such, accounting practices should be of vital interest to all library managers. To be strategic, librarians need to be strongly aware of the implications accounting practices have for collections. Individually and as a profession, librarians need to actively question, review, challenge and influence the critical decisions regarding the value, purpose and useful life of collections.

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