Charleston Library Conference

Library Acquisitions Accounting

Rachel Kirk
Middle Tennessee State University, rachel.kirk@mtsu.edu

Rachel Kirk, "Library Acquisitions Accounting" (2009). *Proceedings of the Charleston Library Conference.*
http://dx.doi.org/10.5703/1288284314732

LIBRARY ACQUISITIONS ACCOUNTING

Rachel Kirk *(rakirk@mtsu.edu) - Collection Management & Acquisitions Librarian, Middle Tennessee State University*

Effective library acquisition practices depend on strong accounting procedures. Acquisitions is responsible for properly classifying materials into the correct institutional accounts so that costs are appropriately reported, constant monitoring of material funds, negotiating electronic leases and vendor contracts, and ensuring timely payments.

Good accounting procedures have become increasingly essential in an environment where parent institutions face severe budget crises. Good accounting is a toolbox of practices and techniques that allow librarians to track their monies carefully and effectively plan for future needs. Specifically, good accounting techniques include effective budgeting, monitoring expenses against the budget, complying with institutional procurement policies, controlling costs, and performing periodic reconciliations between library acquisition systems and the parent institution's accounting system.

This presentation begins with budgeting and planning which provides a blueprint of the acquisitions activities for the fiscal year and proceeds through monthly or quarterly assessments and reconciliations, and finally arrives at the day-to day practices that support the "big picture."

As librarians, we typically like to know the rules, authoritative bodies, and best practices that guide our area of expertise. In accounting for acquisitions, good guiding standards range from murky to invisible. Today, I plan to give you a mental framework for considering acquisitions accounting issues.

I am going to start with the government standards that pertain to library acquisition activities. You may be thinking, "What government standards apply to acquisitions?" Well, it depends on the type of library you work in. Public libraries, school libraries and academic libraries (that are part of a state, federal, or municipal government) are governed by the Governmental Accounting Standards Board (GASB), while non-government non-profit institutions are governed by the Financial Accounting Standards Board (FASB). Specifically, nonprofit (nongovernment) is addressed by FASB 117, *The Financial Statement for not-for-profit organizations* which requires: *A statement of financial position, A statement of activities, A Statement of Functional Expenses (*required for voluntary health and welfare Organizations and encouraged for other not-for-profit organizations), *A statement of cash flows*, and *Financial statement disclosures.*

I am much more familiar with libraries operated by government institutions so most of my perspective will derive from those standards. Government libraries whether they belong to public schools, state universities, or municipal as in the case of public libraries are governed by GASB Statements 34 and 35. GASB Statements 34 and 35 also address a plethora of government institutions in addition to libraries so I have picked out some of the sections that deal with libraries. These sections address how to classify and depreciate book expenditures and what to consider as "owned" when licensing databases and other electronic resources. The basic premise of these rules is that books and other library materials are considered assets to the institutions and not expenses. Operating costs like salaries and utilities are expenses (or expenditures in governmental accounting), while purchasing books and other necessary library resources is treated more like an investment in the library (and the university in my case). And it should be as purchasing library resources represent investing in the educational institution. These investments are the working assets of a knowledge organization (as in they are put into use) and considered assets in the institution's consolidated financial statements.

The one downside of being classified as an asset is the requirement to depreciate the asset over time. Each year, the institution must write off a portion of the asset's value as depreciation expense. All depreciation calculations are based on an asset's useful life. What is the useful life of a book? Any answers? It changes based on the book doesn't it? Some books lose their relevance and currency within 2 years. Others such as books in philosophy, English, history, etc. may remain essential to their disciplines for over 100 years. What to do?

I searched library science indexes as well as Google Scholar and found few institutions that publically address this issue. Marquette University has a capitalization and depreciation policy for library books, but it does not specifically state the useful life. The state of Texas's Comptroller's Office has provided the best policy and rationale that I have been able to find so far. According to Chris Colletti at the Texas Office of Comptroller, Texas included librarians' input when they began planning to implement GASB Statements 34 and 35 (Colletti, 2009). The Texas Office of the Comptroller solicited the assistance of university librarians and public librarians as they crafted their depreciation policy, *Depreciating Libraries*. As a result of this dialogue, Texas decided to depreciate library books over 15 years.

Now the question becomes how to depreciate? Luckily, GASB allows institutions to use any form of depreciation as long as it is reasonable. That means that a library can consider all the books purchased within a single year as one asset class and depreciate the whole year's purchases over 15 years.

Why is the issue of classification and depreciation important? Because it is important to correctly record the investments that are made in the library. It is a reflection of the libraries value.

The next topic is how do we budget acquisitions? The financial standards are incredibly vague on this issue. Statement 34 paragraphs 130 (as amended by Statement 41) and 131 say that you should have an annual budget, monitor it, and compare the budget with actual expenditures in a way that it is possible to identify any instances of spending in excess of the legally adopted budget (Kinnersley & Patton, 2005). That's it. Not very helpful. In my quest to find "the right way" or at least a better way, I interviewed Dr. G. Robert Smith, a noted authority in governmental and nonprofit accounting. Dr. G. Robert Smith is an associate professor at Middle Tennessee State University (where I work) and the American Accounting Association's representative on the Governmental Accounting Standards Advisory Council (GASAC). This advisory council (GASAC) "is responsible for consulting with the GASB on technical issues on the Board's agenda, project priorities, matters likely to require the attention of the GASB, selection and organization of task forces, and such other matters as may be requested by the GASB or its chairman" (GASAC. http://www.gasb.org/gasac/gasac.html, 2009). Dr. Smith graciously met with me to discuss how to best budget for library acquisitions in a way that includes inflationary factors. I was trying to create a budgetary model that would include various hypothetical situations that could be applied to many different libraries. Dr. Smith convinced me that it would be more powerful to present our actual commitments adjusted for inflation against a projected flat budget funding from the university.

5 Year Projection for Periodical Budget

Materials $ 1,950,000.00
Assume: Flat budget (no yearly increases or increase for inflation)
Inflation estimates based on prior years change

Periodicals Budget adjusted by inflation	Notes on Inflation Factor	Inflation Factor	Base Year	Year One	Year Two	Year Three	Year Four	Year Five
Base Budget			Year Ending 2009	Year Ending 2010	Year Ending 2011	Year Ending 2012	Year Ending 2013	Year Ending 2014
$ 1,950,000.00		**0.00%**	$ 1,950,000.00	$ 1,950,000.00	$ 1,950,000.00	$ 1,950,000.00	$ 1,950,000.00	$ 1,950,000.00
Periodical Payments								
Ebsco								
Ebsco (EJS)	Estimate to be the same	No increase	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,500.00
Ebsco Renewal Invoice	Estimate for renewal titles & adjustments,	11% inflation, 7%service fee	$ 1,006,899.00	$ 1,099,686.00	$ 1,297,629.48	$ 1,531,202.79	$ 1,806,819.29	$ 2,132,046.76
Ebsco Campus School & Finney	2009 price plus 10% inflation & 6% service		$ 3,000.00	$ 3,480.00	$ 3,688.80	$ 3,910.13	$ 4,144.74	$ 4,393.42
Directs								
American Chemical Society	2009 price + 5% inflation and no service fe	5.00%	$ 48,255.00	$ 50,667.75	$ 53,201.14	$ 55,861.19	$ 58,654.25	$ 61,586.97
Berkely Electronic Press	Periodicals (Estimated increase of 3%)	8.00%	$ 2,865.00	$ 2,950.95	$ 3,187.03	$ 3,441.99	$ 3,717.35	$ 4,014.73
Blackwell/John Wiley	Periodicals (Estimated increase of 8%	8.00%	$ 95,067.00	$ 102,672.36	$ 110,886.15	$ 119,757.04	$ 129,337.60	$ 139,684.61
Cerebral Cortex	Now included in Oxford Package	5.00%	$ 1,946.70	$ -	$ -	$ -	$ -	$ -
Chronicle of Higher Education	2009 Invoice plus 5% inflation	5.00%	$ 6,290.00	$ 6,604.50	$ 6,934.73	$ 7,281.46	$ 7,645.53	$ 8,027.81
Duke Periodicals - going direct vs. Ebsco	2010 estimate, 6% inflation			$ 3,000.00	$ 3,180.00	$ 3,370.80	$ 3,573.05	$ 3,787.43
Elsevier	2009 price + 5% inflation (price cap per cor	5.00%	$ 456,470.00	$ 479,293.50	$ 503,258.18	$ 528,421.08	$ 554,842.14	$ 582,584.24
Emerald	Ending contract. Assume 6%		$ 87,212.00	$ 87,212.00	$ 92,444.72	$ 97,991.40	$ 103,870.89	$ 110,103.14
JAMA	Includes 10% increase over 2009 price	10.00%	$ 2,250.00	$ 2,475.00	$ 2,722.50	$ 2,994.75	$ 3,294.23	$ 3,623.65
NAPC & Proquest Microform	Microform estimated to be 10% over 2009	10.00%	$ 16,949.00	$ 18,643.90	$ 20,508.29	$ 22,559.12	$ 24,815.03	$ 27,296.53
Miscellaneous Direct Periodicals	Includes 10% increase over 2009 price	10.00%	$ 8,467.80	$ 9,314.58	$ 10,246.04	$ 11,270.64	$ 12,397.71	$ 13,637.48
MIT COGNET	Literacy Studies 16% increase from PY usec	16.00%	$ 2,430.00	$ 2,818.80	$ 3,269.81	$ 3,792.98	$ 4,399.85	$ 5,103.83
National Bureau of Economic Research	2009 price + 5% inflation estimate	5.00%	$ 750.00	$ 787.50	$ 826.88	$ 868.22	$ 911.63	$ 957.21
Nature	2009 price + 10% inflation	10.00%	$ 11,000.00	$ 12,100.00	$ 13,310.00	$ 14,641.00	$ 16,105.10	$ 17,715.61
Oxford 2008	Oxford 2009 plus 7% inflation	7.00%	$ 26,604.00	$ 28,466.28	$ 30,458.92	$ 32,591.04	$ 34,872.42	$ 37,313.49
Proquest/CSA (Culture Grams)	Periodicals (Estimated increase of 5%)	5.00%	$ 3,026.00	$ 3,177.30	$ 3,336.17	$ 3,502.97	$ 3,678.12	$ 3,862.03
Sage	Reduced package in 2009. 8% increase ove	8.00%	$ 45,571.00	$ 49,216.68	$ 51,677.51	$ 54,261.39	$ 56,974.46	$ 59,823.18
Science (Committed publication to the faculty)	2009 price + 10% inflation	10.00%	$ 6,999.00	$ 7,698.90	$ 8,468.79	$ 9,315.67	$ 10,247.24	$ 11,271.96
Serials Solutions Marc Records	PY Increase was 10%. Used 10% increase fc	10.00%	$ 16,302.00	$ 17,932.20	$ 19,725.42	$ 21,697.96	$ 23,867.76	$ 26,254.53
SPARC	2009 price + 5% inflation	5.00%	$ 5,400.00	$ 5,670.00	$ 5,953.50	$ 6,251.18	$ 6,563.73	$ 6,891.92
Total Estimated Periodical Costs			$ 1,855,253.50	$ 1,995,368.20	$ 2,246,414.03	$ 2,536,484.81	$ 2,872,232.11	$ 3,261,480.54
Remaining Total			$ 94,746.50	$ (45,368.20)	$ (296,414.03)	$ (586,484.81)	$ (922,232.11)	$ (1,311,480.54)

Here it is. While the sheer number of numbers on this document may be overwhelming and hard on the eyes, I need to point out some specific features. The first is that I applied an average inflation rate based on increases from the prior year. For print periodicals, I budgeted the inflation factor based on ….. average of the last 2 years. The second is that I accounted for one-time purchases, monograph continuations, serials provided by an agent, and electronic resources separately. The third is that I kept my budgeted funds the same for each year based on a flat budget estimate (which is very realistic, if not optimistic for some libraries). The fourth issue is that I account for hosting fees for one time purchases as continuations. GASB Statement 34 allows us to capitalize cost associated with making the resource available for use. Access fees meet this definition.

While everyone is aware that inflation consumes a larger and larger portion of our budgets each year, it is difficult to appreciate the cumulative effect of inflation each year without looking at the calculation. For the purposes of this calculation, I have assumed that all materials are being renewed for five years at constant interest rates. I have collapsed all the material costs into three major categories for simplicity.

Here is the effect of inflation on flat budgets over a five year period. As you can see, about 1/4th to 1/3rd of your library's purchasing power disappears due to inflation over five years if your materials budget is not adjusted upwards to cover it. While you may need to tweak this example for your own institutions, I think it could be a powerful visual aid in explaining the need for materials budget increase to funding sources.

But what if your college, university, municipal government simply cannot give you more money? What are your options? Generally, you have three: negotiation, cancellation, and consortial purchasing and/or resource sharing.

Negotiation might include agreeing to longer contract terms to limit the inflation factor. It may mean keeping the electronic resource but subscribing to fewer seat licenses. Another possibility is going from a site license to individual seats. Sometimes it means performing cost benefit analysis of the resource compared to a similar resource. Are you familiar with cost-benefit analysis?

> Cost benefit analysis is the quantification of the total social costs and benefits of a policy or a project, usually in money terms. The costs and benefits concerned include not only direct pecuniary costs and benefits, but also externalities , meaning external effects not traded in markets. These include external costs, for example pollution, noise, and disturbance to wildlife, and external benefits such as reductions in travelling time or traffic accidents. Cost–benefit analysis is often *used to compare alternative proposals. If the total social benefits of an activity exceed total social costs this can justify subsidizing projects which are not privately profitable.* If the total social costs exceed total social benefits this can justify preventing projects even when these would be privately profitable.
>
> (Oxford Dictionary of Economics - Online, 2009)

Comparison of similar resources requires estimating the benefits to the users or constituents as well as delineating the costs over the estimated useful life (in this case the life of the contract). Benefits to users might include number of titles, subject coverage, ability to cooperate with existing library technology, ease of access for remote users, technical support, perpetual access, availability of training, and intuitive interface design. More categories of benefits than this list exist. When generating categories for comparison, make sure to list all attributes that you consider essential in your mission to provide access to these sources and the specific needs of the faculty, staff, and students that require them.

Costs include direct costs such as the price of the subscription, purchased content, and access fees. Indirect costs include factors such as the time electronic resource librarians spend integrating the resource into the library's catalog, federated search program, an A to Z list or Serials Solutions product, technical support as well as training or retraining reference and instruction librarians. Consider also the cost of time needed to prepare all of the purchase requisitions, contracts and related paperwork necessary to sign a contract at your institution. Good technical support and easy integration of a resource into the library's electronic collection saves valuable and scarce time that can be used to further the library's mission more effectively. This savings of time should be estimated in terms of money to assist in clarifying the decisions.

An example of cost benefit analysis in comparing two similar resources is included here. The direct costs are the easiest to enumerate. The more difficult challenge is to quantify your indirect costs. Do not be afraid to make educated estimates. Ask the people who work most closely with the product to give their best approximation for how long it takes them to support the product. Let them think about it long enough to let all kinds of specific memories come back to them and come up with a realistic estimate. Remember, there are no perfect estimates. Talking through the issues that are included in the estimate allow for a more robust consideration of the alternatives and may spur colleagues to remember other important factors for consideration. Title counts are relatively easily done through Serials Solution's overlap analysis or Microsoft Access's de-duplication query.

Cost-benefit analysis allows librarians to go back to the negotiating table with valuable feedback to vendors. In addition, librarians are better prepared to negotiate about features that are most important to the services they deliver and those that they would be willing to give up for a lower price. Providing a rationale for why a resource better meets your needs gives vendors a chance to tailor their products or tailor their pricing options. What tends to happen in situations where we don't use a thorough cost-benefit approach is that we (or at least the librarians at MTSU) become intoxicated with the interesting possibilities of all the new features. Many times those features, no matter how interesting and impressive, do not address the current and manifest needs of our faculty and students. Sometimes we even spend time that we cannot afford promoting these new features and integrating them into instruction courses. If we stand back and try to quantify the hours spent promoting, training, instructing users, we can appreciate that the process is expensive and maybe too expensive given our staffing. As an academic librarian, I would like to see the acquisition and collection development process move to identifying and systematically addressing the instruction and resource related needs and then find the best resources using cost-benefit analysis and away from a starting point of "What's on sale?" or at any rate, "What is out there? and how to we afford it in addition to what we already spend. We need to move from away from a vendor driven process and towards an institutional needs process. This statement is not meant to be a criticism of vendors. They are doing their jobs. But they can do a better job for us if we have a deeper understanding of the resource needs of our programs and our constituents. We need to articulate those needs and ask the vendors to fill those needs instead of asking them "what do you have?" and then asking ourselves, "How does it fit with our existing resources?" and then "How do we pay for it on top of everything else?"

Again, the current and more entrenched practice is based on "what can we afford?" more than "what do we really need?" I call it the "shopping at Sam's club mentality." As acquisitions librarians, we tend to look for good deals. And maybe our collections are not as balanced as they should be because the good deals are more likely to occur in some subject areas more than others. Using a cost-benefit model to assess potential resource acquisitions would discipline our collection development.

At this point, I have to confess that my own collection development activities and my perception of the collection development team that I chair tend to focus our efforts on preserving the status quo and making changes only when we have to support new programs, to upgrade our level of access when feasible, to take advantage of deals based on “the more you buy, the greater the discount”, or to fix problems. Everyone knows that it is hard to manage and stay on top of the basics. We do it this way because we are trying to preserve the resources that we have and increase it when we get the chance. It is a blend of preservation and opportunism as opposed to a systematic design to meet the resource needs of all the departments.

Back to our strategies to controlling costs, cancellation represents the second option. Cancellation is such a dirty word, isn’t it? It evokes images of angry faculty members protesting the library’s actions, nasty editorials in the local newspaper, as well as actually processing the cancellations from an acquisitions point of view. One method of cancellation is to send lists of periodical titles to departments and ask them to rank the periodicals in terms of importance. Another variation is to ask the department to cut a certain dollar number from the list of titles that are purchased on behalf of that department. Neither of these methods is very popular with teaching faculty or with librarians.

I have come to see periodical cancellation as a necessary, if unpleasant, ongoing responsibility of librarians to ensure that the periodicals stay relevant for the university’s changing needs. With the current costs of periodicals, many organizations simply cannot afford to keep collecting titles that are not being used. I do offer a strategy to lessen the pain.

It is not a perfect plan and you will be able to spot the flaws. I will address them as I come to them. My colleague at MTSU, Beverly Geckle, the serials librarian and I created a limited cancellation list. We decided certain parameters that would make it easy to target expensive, rarely used materials. Our parameters were 1) the title was accessed electronically less than 25 times in the past 12 month period and 2) the title costs at least $200.00 per year. Beverly ran the usage statistics with Serials Solutions. We had a beginning list of close to 300 titles that represented close to $240,000. We intended to ask the faculty representatives to share these lists with their colleagues and ask how they felt about cancelling them. We ultimately did not have to carry out this plan. A variety of factors including stimulus funds saved us. However, we had started to discuss this possibility with our faculty representatives and they were surprisingly supportive. They understood that we do not want to pay for expensive materials that are not being used.

You may have some objections at this point. Let me say ahead of time that I agree with most of them. Just because a journal is rarely used in one 12 month period does not mean that it will not be used heavily in the next year. I know. Just because a journal is rarely used in one year does not mean that it has not been highly used in the last three years. I agree. We omitted many titles from consideration that may not be used because they did not meet the $200.00 threshold. Yes, that is correct. Our rationale is that we are also short on staff and it is less labor intensive to cancel one $1,000 title than it is cancel 20 titles that cost $50 each. We did not consider print titles because we have no way to measure their usage, but cancelled online periodicals based on 25 uses or less. An unfair standard? Yes, it is. Especially since we know that usage of our print periodicals has dropped significantly. Otto Von Bismarck once remarked that “politics is considered the art of the possible” (1867). An effective periodical cancellation is an art of the feasible. As we eventually convert our print titles to online, we will track their usage as well. And perhaps cancel when appropriate. As I mentioned, this periodical cancellation strategy is offered as an alternative to the more painful and drawn practices that include all titles, all departments, and sometimes all faculty. It also has one more advantage. Because you are dealing with a less exhaustive list of titles, it is possible to allow all faculty members to see all 300 titles up for elimination. Faculty become aware of title cancellations outside their own discipline. In addition, faculty have the opportunity to alert the library when important interdisciplinary titles are up for cancellation. In all cases, the library intended to keep titles where the cancellation was contested based on current curricular or scholarly needs.

We have now discussed negotiation and cancellation as tools for dealing with financial crises. The third action that can be used in concert with the previous two is increasing consortial purchasing. I know that this idea is not new. However the recent merger of Nellinet with Lyrasis/Solinet creates a potential block of purchasing power that is unprecedented and should be utilized to create wide scale savings.

My last topic is performing reconciliations. Reconciliations allow librarians to make sure that the acquisitions information in their integrated library system (Voyager, in our case) agrees with the information that resides in the accounting system of the parent organization. Why is this important? Because the information should be the same in both systems. You are responsible to the parent organization to make sure you have details that support your account balances while you probably track and record your information in the integrated library system.

In essence, account reconciliation is the process of comparing departmental account records to the reports generated from FRS to verify the accuracy of each (2009, University of Arizona, http://www.fso.arizona.edu/fso/deptman/16/1630reco.html. At MTSU, I have an accounting assistant prepare the reconciliation every month. I used to do the reconciliation myself each month, but I was lucky enough to hire someone with a degree in math. I review her work quarterly and she lets me know if there are unusual transactions or missing information on a daily basis.

The frequent reconciliation process forces us to do two things. It forces us to participate in a constant dialogue about how different acquisitions should be classified and recorded. It also helps us monitor account activity and make needed corrections quickly. Just last month, September 2009, TBR hit our books account with a journal entry for over $25,000. We noted it immediately and started asking the university's accounting department for details. It turned out that the journal entry should not have hit the library book account and it was reversed. Catching problems like that is more likely to happen and more likely to be resolved if it occurs within the same month.

Works Cited

Colletti, Chris. 2009. Conversation. Texas Comptroller of Public Accounts. Fiscal Management.

A Dictionary of Economics. John Black, Nigar Hashimzade, and Gareth Myles. Oxford University Press, 2009. Oxford Reference Online. Oxford University Press. Middle Tennessee State University. 23 October 2009 http://www.oxfordreference.com/views/ENTRY.html?subview=Main&entry=t19.e611

GASB. 2005. Chapter 7- Statement No. 34, Basic Financial Statement – and Management Discussion Analysis – for State and Local Governments. *Governmental accounting research system [electronic resource]*

Kinnersley, R. & Patton, T. 2005. GASB Statements 34 and 41. *The CPA Journal.* March 2005. http://www.nysscpa.org/cpajournal/2005/305/essentials/p20.htm

Marquette University. Comptroller's Office. 2006*. Capitalization, Inventory, Depreciation and Retirement of Property, Buildings, and Equipment* http://www.marquette.edu/comptroller/documents/CapitalizationandDepreciationofProperty_R5.doc.

The non-profit resource center. 2005. *Analysis of FASB 117*. (http://www.1800net.com/nprc/index.html)

Smith, Dr. G. Robert. 2009. Conversation. Middle Tennessee State University. Department of Accounting. Murfreesboro, TN 37132.

The Texas Office of the Comptroller. 2005. *Depreciating Libraries.* https://fmx.cpa.state.tx.us/fmx/spa/meetings/2005/05/depreciat_librari.pdf

Von Bismarck, Otto.Remark, Aug. 11, 1867

University of Arizona. 2009. Financial Services Office . *16.30 Account Reconciliation* at http://www.fso.arizona.edu/fso/deptman/16/1630reco.html.