



# Valuing History Collections

Assigning a monetary value to a history organization's collections makes the collections appear to be financial assets and is counter to ethical principles espoused by the American Association for State and Local History (AASLH).

This paper addresses what it means for an organization to treat its collections as financial assets and provides guidance for implementing AASLH's position.

## Introduction: History collections, their use and value

History organizations acquire, protect and preserve collections that provide evidence of the past and hold them in trust for the benefit of the public. By conducting research and gaining knowledge about their collections, history practitioners present these objects<sup>1</sup> and their stories in exhibitions, programs, and publications that engage the public in better understanding themselves and their place in the American experience. As the AASLH Statement of Standards and Ethics states:

*History organizations frequently have complex and varied collections. These historical resources—including collections of objects, documents, and other records; built environments, cultural landscapes, historical view sheds, archaeological sites, and other evidence of the past—are the tools through which history practitioners provide meaning to the past and are the bedrock upon which the practice of history rests.<sup>2</sup>*

When a history organization accepts an object into its collection, it does so because the object can be used to further the educational mission of the organization. History organizations prize their collections primarily for their cultural and historical value, and the standards, ethics, and best practices for the field ensure that history collections are maintained for the benefit of the public both today and well into the future.<sup>3</sup>

While acknowledging that some history collections may have significant monetary value, AASLH takes the position that these collections should not be considered financial assets. These collections are resources that are held in trust for the public to directly fulfill an institution's public service mission; consequently, their management entails legal responsibilities and obligations of care<sup>4</sup>. As such, they are unlike typical assets that can be sold for any purpose, mortgaged, or used as collateral for a loan.

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<sup>1</sup> For the purposes of this paper, the word *object* is used broadly to refer to all items in an organization's accessioned collections.

<sup>2</sup> American Association for State and Local History, "AASLH Statement of Standards and Ethics" (revised 2018), [download.aaslh.org/AASLH+Statement+of+Standards+and+Ethics+-+Revised+2018.pdf](https://download.aaslh.org/AASLH+Statement+of+Standards+and+Ethics+-+Revised+2018.pdf).

<sup>3</sup> American Association for State and Local History, Standards and Excellence Program for History Organizations, [aaslh.org/programs/steps](https://aaslh.org/programs/steps).

<sup>4</sup> It has long been recognized that in addition to the duty to properly acquire collections objects, museum trustees have a duty to see that those objects are properly housed and cared for. See *Parkinson v. Murdock*, 183 Kan. 706, 332 P.2d 273 (1958).

Treating collections as financial assets puts the objects at risk, endangering their ability to continue to be used for the public good.<sup>5</sup> AASLH does not endorse the capitalization of collections; that is, assigning a monetary value to a history organization's collections and declaring them as part of the organization's financial assets. AASLH also does not support using proceeds generated from the sale of objects deaccessioned from its collections for operating expenses.<sup>6</sup>

The AASLH Statement of Standards and Ethics states:

- Historical resources should not be capitalized or treated as financial assets.
- History organizations should detail the process for deaccessioning objects from their collections in their collections management policy. Decisions to deaccession should be based on the relationship of the object to the institution's mission, the object's cultural value (i.e., its ability to interpret a larger story), the physical condition of the object, and/or the ability of the institution to continue to care for the object. Under no circumstances should the decision to deaccession an object be made on the basis of monetary value.
- Funds from the sale of collections may be used for the acquisition of collections or the direct care<sup>7</sup> or preservation of existing collections. Funds should not be used to provide financial support for institutional operations. In the case of institutions that accession their contributing buildings and landscapes (cultural and historical assets that are accessible to and interpreted for the public), funds acquired through deaccessioning can be used for direct care and preservation of objects, archives, buildings, archeological sites, and cultural landscapes that provide public benefit as outlined/defined in their collections policy. Institutional policy should distinguish between building maintenance and building preservation.<sup>8</sup>

## Definitions

The following definitions are key to understanding a museum's obligations to its collections:

**Asset:** As understood by an accountant, an asset may be any property owned by an organization and can include objects held in a collection.<sup>9</sup>

**Capitalization:** As an accounting practice, capitalization occurs when an organization records the monetary value of owned property, which can include objects held in a collection, as assets on the assets schedule in its financial statements.

**Collection(s):** The objects or groups of objects held by a collecting institution such as a museum, historical society, archive, library, botanical garden, zoo, or university. These objects are formally accessioned into the collection, wherein they are protected, cared for, and preserved. They are

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<sup>5</sup> Marie C. Malaro and Ildiko Pogány DeAngelis, *A Legal Primer on Managing Museum Collections*, 3rd ed. (Washington, D.C.: Smithsonian Books, 2012), 417.

<sup>6</sup> "AASLH Statement of Standards and Ethics" (revised 2018).

<sup>7</sup> Direct care is an investment that enhances the life, usefulness, or quality of a museum's collection. This definition was first introduced in the American Alliance of Museums' publication, "Direct Care of Collections: Ethics, Guidelines and Recommendations" (April 2016), [aam-us.org/wp-content/uploads/2018/01/direct-care-of-collections-ethics-guidelines-and-recommendations-pdf.pdf](http://aam-us.org/wp-content/uploads/2018/01/direct-care-of-collections-ethics-guidelines-and-recommendations-pdf.pdf).

<sup>8</sup> "AASLH Statement of Standards and Ethics" (revised 2018).

<sup>9</sup> For a comprehensive discussion of assets, see chapter XII Part 2, "Tax Considerations Relative to Audit Purposes" in Malaro and DeAngelis (2012).

acquired, recorded, and managed solely to further the organization's nonprofit purpose, in pursuit of its mission, and in accordance with its articles of incorporation, bylaws, and collection policies and procedures. These purposes include research, education, interpretation, and/or public exhibition. *Collections management policy*: A collections management policy is an organization's document or documents that outlines the internal policies and procedures used to govern the development and care of the organization's collections and that is approved by the organization's governing authority. This policy is designed to ensure appropriate development, care, preservation, and use of the collections while minimizing potential risks.

*Deaccession*: To remove an object from an organization's collection.

*Direct care*: The AASLH Statement of Standards and Ethics (2018) directs that monies realized from the disposal of deaccessioned collections "may be used for the acquisition of collections, or the *direct care* or preservation of existing collections."<sup>10</sup> Following the guidance of the American Alliance of Museums (AAM), AASLH defines "direct care" as "an investment that enhances the life, usefulness, or quality of a museum's collection."<sup>11</sup> This investment in the direct care of the collections is intended to ensure the monetary proceeds from the disposal of the deaccessioned object are put towards a use that continues to benefit the public and not the organization or any individuals.

*Disposal*: After an object is deaccessioned, a history organization must determine if the object will be retained in a collection other than the accessioned collection, whether its title will be transferred to a third party (e.g., through sale at public auction, transfer or exchange, usually to another public organization) or if the object will be destroyed.<sup>12</sup>

*Governing authority*: The executive body charged with legal responsibility for the historical organization (or its parent organization). This body approves institutional policy. Its title may be, among others, a board of directors, governors, regents, or trustees; an advisory board, council, and/or commission.

*Title*: Title is understood as the legal ownership of property, including museum objects. Title to property can vary in its 1) completeness and 2) quality. For example: 1) When a museum owns an artwork but not the copyright(s) in that artwork, the title is not considered complete because a third party controls a portion of the object (its copyrights). 2) The quality of a title may not be "good" if an object was previously stolen, because under American law a thief cannot convey "good title" in stolen property.<sup>13</sup>

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<sup>10</sup> "AASLH Statement of Standards and Ethics" (revised 2018) (emphasis added).

<sup>11</sup> American Alliance of Museums, "Direct Care of Collections: Ethics, Guidelines and Recommendations."

<sup>12</sup> For details about the disposition of objects from history organizations' collections, see John E. Simmons and Toni Kiser, eds., *Museum Registration Methods*, 6th ed. (Lanham, MD: Rowman & Littlefield, 2020) and Hugh H. Genoways, Lynne Ireland, and Cinnamon Catlin-Legutko, *Museum Administration 2.0* (Lanham, MD: Rowman & Littlefield, 2016), 301-302.

<sup>13</sup> For a more in-depth discussion of title, including issues related to completeness and quality of title, see Malero and DeAngelis (2012), 64-83 and Heather Hope Kuruvilla, *A Legal Dictionary for Museum Professionals* (Lanham, MD: Rowman & Littlefield, 2016), 150-151.

## 1. What are a history organization's assets?

History practitioners view objects in a history organization's collections as cultural and historical resources, held in trust for the benefit of the public, not as financial assets. For accountants, however, assets are anything of value owned by an individual or organization. Assets typically include cash, real property (land, buildings, etc.), and moveable property such as artifacts, documents, or vehicles.<sup>14</sup>

Applying generally accepted accounting principles (GAAP) an accountant may capitalize a history organization's collections as financial assets. However, a history organization does not need to recognize its collections as financial assets if *all* of the following criteria are met:

- A. The collections are held solely for public exhibition, education, or research in furtherance of public service rather than financial gain;
- B. they are protected, kept unencumbered, cared for, and preserved; and
- C. they are subject to an organizational policy that requires proceeds realized from the sale of collections items be used for the acquisition of additional items for the collection, the direct care of existing collections, or both.<sup>15</sup>

## 2. What does it mean for an organization to treat its collection as financial assets?

If collections are considered financial assets, they may be capitalized, encumbered, and/or sold for financial gain. Treating collections as financial assets can endanger a history organization's ability to freely manage its collections and use them for the public benefit.

## 3. What does it mean to capitalize a collection?

Capitalization is an accounting practice that records the value of all of an individual's or organization's possessions as part of its assets on financial statements.<sup>16</sup> When a collections object is capitalized, the object's monetary value is added to the organization's total financial assets.

Some argue that capitalizing collections gives a distorted picture of a nonprofit's financial position. Consider the following:

- Historic House Z (HHZ) has an operating budget of \$2,000 and an annual income of \$1,500.
- Were HHZ to capitalize its collections (which are worth \$3,000), HHZ's annual audit would show that HHZ's assets are \$4,500—its annual income of \$1,500 plus the value of its collections—well above its annual operating budget.
- HHZ wishes to apply to Foundation Y for a grant of \$500, making the argument that HHZ needs the support in order to produce its annual education programs.
- Foundation Y does not look closely at HHZ's annual audit and rejects the request because it sees that the Historic House has sufficient assets to meet its budgetary need.

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<sup>14</sup> These types of non-real estate property are technically called "personal property."

<sup>15</sup> Financial Accounting Standards Board (FASB), "Accounting Standards Update 2019-03: Not-For-Profit Entities (Topic 958): Updating the Definition of Collections," [fasb.org/cs/ContentServer?c=FASBContent\\_C&cid=1176172408217&d=&pagename=FASB%2FFASBContent\\_C%2FCompleteProjectPage](https://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176172408217&d=&pagename=FASB%2FFASBContent_C%2FCompleteProjectPage) (accessed March 22, 2020).

<sup>16</sup> When an organization deaccessions objects and uses the proceeds for things other than acquisitions and the direct care of collections, it does not mean that they necessarily capitalize their collections.

#### 4. What circumstances might lead to history collections being capitalized?

When a history organization is part of a larger entity or parent organization (e.g., university, college, state or local government agency), the parent rather than the history organization may hold legal title to its collections. In these cases, the parent can determine whether the collections are capitalized as in the following:

*Collections held by government agencies:* The legal title to city, county, and state government museums and history organizations collections may be held by the governmental entity rather than by the history organization itself. That these collections are held for the public benefit may be undeniable, but that does not exclude the possibility of the collections being monetized when the government seeks favorable bond ratings and interest rates or resolutions to urgent financial difficulties. Once collections are viewed as financial assets, it becomes easier to argue for their sale when cash is needed. As a result, significant collections from public institutions risk being transferred to private hands, in essence reversing the legacy of collecting that is the foundation of our public museums and depriving local citizens access to a part of the world's cultural heritage.<sup>17</sup>

*Collections held by university systems:* The legal title to collections held by college and university museums are often held by the parent organization (that is, the college or the university). These museums are especially susceptible to pressures to capitalize collections because of their dependence on their parent organizations, which may have institutional priorities beyond the protection of their museums. This situation is intensified by the comparatively high operational costs of museums and perceptions of the significant market value of their collections. As a result, academic administrators and trustees—who often do not have knowledge or experience in the field of museum management—may be tempted to view their campus museum collections as an asset to be used to bolster weak finances or address other non-museum-related needs.<sup>18</sup>

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<sup>17</sup> For an eloquent statement on the value of art to a city, see Steven W. Rhodes, “Supplemental Opinion Regarding Plan Confirmation, Approving Settlements, and Approving Exit Financing,” In re City of Detroit, 524 B.R. 147 (Bankr. E.D. Mich. 2014).

<sup>18</sup> In 2007, the board of Randolph College in Lynchburg, Virginia approved plans to sell four paintings from the Maier Museum of Art to shore up the college's operating budget. The works were sold between 2008 and 2015, prompting strong opposition from museum professional associations including the American Alliance of Museums and the Association of Art Museum Directors, which both issued sanctions against the Maier in 2014.

American Alliance of Museums, “Statement on Deaccessioning of *Men of the Docks* by Maier Museum of Art at Randolph College” (2014), [ww2.aam-us.org/about-us/media-room/2014/statement-on-deaccessioning-of-men-of-the-docks](http://ww2.aam-us.org/about-us/media-room/2014/statement-on-deaccessioning-of-men-of-the-docks).

Association of Art Museum Directors, “Association of Art Museum Directors' Statement on Randolph College and Maier Museum of Art” (2014), [aamd.org/for-the-media/press-release/association-of-art-museum-directors-statement-on-randolph-college-and](http://aamd.org/for-the-media/press-release/association-of-art-museum-directors-statement-on-randolph-college-and).

## **5. What are some of the considerations for a history organization's governing authority regarding capitalization?**

In some instances, the governing authority of a history organization may ask whether the organization's collections should be capitalized. These entities are legally responsible for their institutions and for the protection and nurturing of its various assets, including the collections<sup>19</sup>. Like government agencies or university trustees, nonprofit organization boards often feel compelled to demonstrate a strong financial standing, citing their lawful obligation to steward the collection as one of numerous resources to fulfill the mission of the museum and, in fact, safeguard the survival of the institution. If the collections are defined not as assets for financial gain but as resources held in trust for the furtherance of public service, then the governing authority will steward their protection and preservation in concert with AASLH's ethical principles. Should the organization's governing authority choose to capitalize the collections, the collections may be more easily considered financial assets that can be sold for financial gain, especially when an organization faces budgetary challenges. If the latter is the case, it may be appropriate for the institution to reevaluate its mission, commitment to public trust, and nonprofit status.

## **6. What does it mean to encumber a collection?**

A history organization encumbers its accessioned collection when it uses it as collateral for a loan or bond. Listing the collections on an organization's balance sheet or annual audit makes the value of the collection more readily apparent, especially to financial institutions that may offer the organization a loan. Encumbering the collection jeopardizes it, for if the organization defaults on the loan or fails to make payments or if the loan or bond is called before the balance is repaid, the collection risks being foreclosed on by the lending institution and subsequently sold.<sup>20</sup> If objects are sold to private individuals or institutions, they may no longer be used for the public good. In addition, when an object is encumbered it cannot be deaccessioned, thereby reducing the museum's ability to appropriately develop and manage its collection in accordance with its collection management policy.

## **7. Do deaccessioned objects become financial assets when they are sold?**

The proceeds from the sale of deaccessioned objects are not considered financial assets when they are used to further the organization's educational mission. This is the case when proceeds are used either for the acquisition of new items for the collections or for the direct care of the remaining collections objects. If the proceeds are to be used for direct care, as required by the AASLH Statement of Standards and Ethics, the organization should ensure that policies and procedures are in place to support this action:

1. The collections management policy should define how the proceeds from the sale of deaccessioned objects will be used. It is wise to also include a comparable statement in the organization's financial policy.

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<sup>19</sup> The legal obligations owed by the governing authority to their historical organizations are called fiduciary duties. For a more developed definition of the fiduciary duties owed by these bodies, see Kuruvilla (2016). For an in-depth discussion of the same, see Malara and DeAngelis (2012), 18-20, noting that collections management is a core museum function and with respect to which museum trustees are held to a higher standard of care.

<sup>20</sup> Foreclosure may also violate the organization's deaccessioning policy.

2. If the proceeds are to be used to for the direct care of existing collections, direct care should also be defined within the collections management policy. AAM's Direct Care of Collections (2016) can provide additional guidance.<sup>21</sup>

3. A separate restricted account should be established for the deposit of funds realized from the sale of deaccessioned objects. Depending upon the collections management policy, this fund may be used for acquisitions, the direct care of collections, or both.

It is good practice for an organization to make its collections management policy available to donors as part of the acquisition process as well as to publish it on its website.

## **8. How should your collections be represented in financial documents?**

The Financial Accounting Standards Board (FASB) establishes financial accounting and reporting standards for companies and nonprofit organizations that follow Generally Accepted Accounting Principles (GAAP).<sup>22</sup> These principles, rules, and guidelines should be followed by your financial teams. FASB's<sup>23</sup> regulations align with the American Alliance of Museums Code of Ethics for Museums<sup>24</sup> and the AASLH Statement of Standards and Ethics.

### Requirements for Compliance:

FASB requires that each collection-holding organization disclose its policy for the use of proceeds from the sale of deaccessioned objects. Like AAM and AASLH, FASB also requires that if your museum uses proceeds from the sale of deaccessions for direct care of existing collections (as opposed to restricting those funds solely for the purchase of new acquisitions), that your policy includes a definition of direct care that governs the use of those proceeds. Both of these requirements provide additional information to users of your financial statements and provide clarity about how your organization manages the financial aspect of its collection.

To make sure that your organization's actions regarding the management of financial aspects of your collection align with FASB's definition and recommendation and GAAP rules, you can implement the following policies and practices:

- A. Ensure that your collections management policy clearly states how the proceeds from the sale of deaccessioned collection objects are handled.
- B. If you use deaccession proceeds to care for existing collections, define the term "direct care" within your collection management policy.
- C. Make your collections management policy available to donors, either as part of the acquisition process, or publish it on your museum's website.

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<sup>21</sup> American Alliance of Museums, "Direct Care of Collections: Ethics, Guidelines and Recommendations."

<sup>22</sup> To find out if your organization is following generally accepted accounting principles, you can check with your organization's accountant or financial team.

<sup>23</sup> Ken Tysiac, "FASB modifies definition of 'collections,'" *Journal of Accountancy*, [journalofaccountancy.com/news/2019/mar/fasb-definition-of-collections-201920838.html](http://journalofaccountancy.com/news/2019/mar/fasb-definition-of-collections-201920838.html) (accessed March 22, 2020).

<sup>24</sup> American Alliance of Museums, "AAM Code of Ethics for Museums" (2000), [aam-us.org/programs/ethics-standards-and-professional-practices/code-of-ethics-for-museums](http://aam-us.org/programs/ethics-standards-and-professional-practices/code-of-ethics-for-museums).

- D. Establish a separate restricted fund where proceeds from the sale of deaccessioned objects are deposited. Depending on your collections management and/or financial policies, this fund may support direct care, new acquisitions, or both.
- E. Keep accurate and detailed records of proceeds from the sale of deaccessioned objects and ensure that any expenses charged to the restricted fund comply with your organization's stated definition of direct care.

## **9. If you do not capitalize your collections, will that present a problem for your annual audit?**

No. Neither FASB nor GAAP require that history organizations capitalize their collections if the organization does not use its collections as collateral for loans and uses funds realized from the sale of deaccessioned objects only for the acquisition of additional objects or for the direct care of existing collections.

### **Conclusion**

It is the position of AASLH that history organizations hold collections to further their educational missions and hold them in trust for the public benefit. Collections are prized for their cultural and historical value, not their monetary value. Capitalization can cause collections to appear to be held as financial assets and AASLH states this is counter to its ethical principles. Following the guidance and best practices from within the museum profession, including the ethical standards of AASLH and AAM, the Financial Accounting Standards Board promulgated updated regulations in 2019 that provide guidance on how museums may manage their collections in relation to financial accounting principles. Museums that comply with these updated regulations do not need to recognize collections on their financial statement. While some museums may find capitalization of their collections necessary or beneficial, the updated FASB regulations provide a clear roadmap for those museums who do not wish to capitalize, with guidelines that align with professional ethics, collections care best practices, and mission-first principles.

AASLH thanks the Standards and Ethics Committee for its work to monitor and address ethical issues facing history organizations. From time to time, the Committee advises Council on updates needed to the AASLH Statement of Standards and Ethics and position papers to provide further guidance to history organizations.

This position paper was adopted by Council in May 2020. It replaces the previously titled paper, "Capitalization of Collections."

### **About the American Association for State and Local History**

The American Association for State and Local History (AASLH) is a national association that provides leadership and support for its members who preserve and interpret state and local history to make the past more meaningful. Visit [AASLH.org](https://www.aaslh.org) for more information about membership, continuing education, the association's resource center, and other programs and services.