

Financial Accounting and Record-keeping

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LIKE MANY ASPECTS OF ADMINISTRATION, FINANCIAL MANAGEMENT IS A matter of utmost discernment—but, when standardized, it facilitates earnest and transparent stewardship of our libraries' physical resources. Developing routine ways of executing and reporting business processes is the most sustainable method for an administrator to balance service to theological mission with service to financial wealth—"to serve God and money" (Matt. 6:24).

Robust financial management in theological libraries requires both macroeconomic and microeconomic analysis and documentation. At the broader, macroeconomic level for the library, the entire ecosystem of the library community environment is at hand, including historic and ideological precedents for preserving and investing in specific assets (e.g., prestigious

geographic locations for facilities, proximity to denominational archives), systems (LC/Pettee/Dewey), and even workflows (in-house acquisitions and cataloging). Many of these idiosyncratic commitments force theological libraries today to “live beyond their means,” using a gradual draw on their institutions’ endowments to afford business-as-usual. Financial accounting in higher education is more relaxed than in the corporate world. While a hard-boiled financial auditor may provide gloomy outlooks for the institution as a whole, it is the theological library administrator’s charge to responsibly steward what resources remain available at present. Note: all examples in this chapter originate from the Gardner A. Sage Library at New Brunswick Theological Seminary (NBTS) where the author is the library director (chief administrative officer).¹

At the microeconomic level, financial accounting involves reference to two principal asset types: fiscal resources and human resources. For accounting purposes, fiscal resources are classified as either budget resources (e.g., reserves, investments) or operating resources (e.g., tuition income, interest on endowments). Operating resources or the operating budget is what theological library administrators manage day-to-day.

Some generally accepted accounting principles should undergird the financial accounting of the theological library’s operating budget, including precedents for accurate representation, consistency, full disclosure, relevance, timeliness, and verifiability. Accurate representations are neutral and free from error. Consistent accounting is executed in a routine, predictable way. Full disclosure provides enough information for stakeholders to make prudent decisions. Relevant accounting includes all details that could impact decision-making. Timeliness ensures that accounting documentation is made available when the data is still actionable. When all of the library’s records can be confirmed as accurately represented, they are considered verifiable.

These accounting principles are generally applied whenever you record transactions and events, or adjust capital assets (discussed later). The fiscal year at NBTS is July to June instead of January to December, as is common in business. The usefulness of credit varies with the academic lifecycle; in North American schools on two-semester schedules, there is a substantial lull in revenue from May until August when student tuition monies begin to be received for the fall semester. Regardless of when a

financial event occurs, a standard order should be applied. The most common approach is the first-in, first-out cost flow assumption; provided that a due date has not passed and funds are available, the first expense incurred should be the first expense paid.

There are two main overlaps between fiscal resources and human resources—times when individuals carry special importance as either fiscal assets or as liabilities.

Macro-stakeholders such as board members, corporate donors, and alumni are certainly a form of social wealth that can translate to fiscal wealth upon donation and estate bequests. Micro-stakeholders, including current students (FTEs) and faculty/staff, can be forms of fiscal wealth and liability. Tuition monies paid by students are assets. Scholarships given on students' behalf and faculty/staff salaries are clear liabilities. Library resource subscription costs vary according to the present quantity of matriculated users (FTEs), so students, faculty, and staff are all fiscal liabilities in the library's financial management.

Theological librarianship also necessitates thinking beyond the macro and micro to the financial costs and benefits to resource sharing through consortia. For comparatively large institutions (such as Princeton Theological Seminary) dedicated to exhaustive collection development in theological subjects (especially biblical studies), this means sharing resources in biblical studies will be more of a cost than a benefit. For small institutions (like NBTS, committed to robust collection in the Reformed tradition and preservation of the unique Dutch Reformed ephemera), resource sharing will be more of a benefit than a cost.

Financial accounting involves accountability. Accountability to the institution requires the library administrator execute library operations with fiduciary integrity; administrators are fully responsible for the accounting they report and the records they keep. Depending on location, they may be legally and professionally liable for their library's accounting practices. Transparency is also critical for accountability to library staff. Administrators should keep staff well-informed about the library budget's sub-accounts relevant to their positions. Budget reports should be made available on a regular basis throughout the year, and staff should be included in annual budget proposal planning. At the institutional level, accountability also refers to the ethical investment of fiscal resources. Given the Christian ethic that guides all NBTS activity, special attention is given to avoid any

investments that support or benefit from the arms trade, alcohol manufacturing and distribution, and private prisons.

Communication is key to effective financial reporting. A robust apparatus such as Microsoft 365 allows for reliable and consistent financial documentation with Microsoft Excel, Word, and PowerPoint. With this suite of applications, one can record debits and credits, compare them with worksheets from the seminary accountant or business office, and generate charts and graphs to share with library staff, donors, accreditors, and the administration in charge of budget proposal review.

There is a symbiotic relationship between the institution's finances and the library's finances. Budget reports are often prepared by the institution's business office for all departments within the institution. For example, reports on Sage Library's finances come from the chief financial officer at NBTS. Reports may be readable in a variety of formats. Standard monthly reports will typically display seven columns: three columns for activity from the most recent month and four for the year overall, including variance and actual. By observing when continuing costs are incurred for monthly and annual expenses, the library budget manager (usually the library director) can anticipate when funds will need to be available in the future. The greater care the library budget manager takes with financial reporting throughout the year, the easier the annual budget proposal preparation process should be. Library budget proposals may be presented in stages to a dean, provost, or president, but will ultimately be closely considered by the institution's chief financial officer in its business office.

Frequency of budget reporting varies among institutions. At NBTS, the chief financial officer distributes financial statements to budget managers, including the library director, on a monthly basis, whereas trustees receive quarterly reports. A theological library administrator should review recorded transactions at least once monthly; you cannot react effectively to irregularities if you are not promptly aware of them. Within the first two weeks after an erroneous accounting entry is made is the ideal period for disputing and correcting contractual charges from library vendors. Administrators with professional and paraprofessional direct reports are encouraged to include library staff not only in budget report review for specialized accounts, but also in annual budget planning.

Many institutional budgets are organized into unrestricted and restricted funds. Besides tuition revenue and donations, there are two types of restricted funds from which library expenses may be paid directly. The first is interest income from the NBTS endowment. This income is generally restricted to expenses very directly associated with student benefit, such as scholarships. The second comes from reserves, including interest income from reserves money and reserves money itself. The source of the extant reserves was the sale of valuable NBTS real estate to its neighbor, Rutgers University. A percentage limit is set by the board of trustees for how much may be spent from reserves without further consultation and approval by the board. When endowment and reserves monies are not being deployed to necessary expenses, they are otherwise invested in a portfolio array that includes US Treasury bonds, stocks, and mutual funds.

Sage Library's finances are also directly tied to both the reserves fund and the endowment fund. Specifically, the McDonnell Fund for medieval literature. The McDonnell Fund originates from the estate of a patron benefactor. It operates as a temporary, restricted fund. It is restricted because spending from it is primarily limited to the interest on the principal sum, and the expenses must pertain to medieval studies as outlined in the bequest. It is temporary because the opportunity to spend the interest has a two-year window, after which any interest remaining at the end of the second fiscal year is transferred to the general endowment.

Some library assets are expected to appreciate while others depreciate. Anticipating resources' future value is necessary when deciding how to record transactions in the general ledger and whether to "capitalize" them. Capitalizing expenses allows the institution to recognize the expense over a longer period of time than the date when a cost incurred. Assets such as modern library construction are capitalized for forty years—the expected longevity of the construction before major repairs or renovations will be necessary. Historic library building construction may have monetary value beyond its immediate usefulness as a functioning library.

For example, the Sage Library last appraised for nineteen million dollars but, in various ways, was deemed priceless or incalculable by the appraisal firm. Insurance is maintained at five million—a figure NBTS could use to construct a functional but less beautiful and historically significant library. So, the build-

ing is an asset that is expected to appreciate due to its historic and aesthetic qualities. However, the \$500,000 that was raised through donations to complete repairs and necessary maintenance and install an accessible ramp in 2016 is expected to depreciate. Large expenses such as the building renovation, a new boiler (\$40,000), and even labor costs for recent shelving are capitalized. Building expenses can be depreciated over a forty-year period, since a building can be expected to survive forty years of use. By contrast, purchases of the latest technology, including computers, are set to depreciate every three years due to expected obsolescence. Institutions use a variety of accounting approaches for book inventories. When the book inventory was maintained as a capital asset, anticipated depreciation was estimated based on shelf life and copyright expirations. At NBTS, the book inventory was written off years ago, so its balance sheet is now zero.

At NBTS, purchases under \$1000 are automatically considered expenses; they are debited from the operating budget and are not capitalized. Asset transactions may be capitalized for a one-year period by recording them as a pre-paid account. This approach is relevant for research database subscription annual fees that may be paid in full but divided by twelve so that they affect the operating budget ledger at an equivalent rate each month. The library director submits invoices and receipts to the business office manager who records these entries electronically using Blackbaud software. The chief financial officer then analyzes and approves them on an ongoing basis.

At all levels of financial management, responsible documentation or record-keeping is critical. Record-keeping is not the same as record retention; records must be kept accurately, but many financial records need not be permanently retained. The thoroughness of record-keeping varies according to libraries' budgets for personnel and automation. Digital record-keeping with cloud hosting is an excellent way to retain and preserve critical financial information. Some institutional workflows may necessitate a print-based culture, so there would be an added expense of paying someone to scan and organize documents that are born and processed in print.

Records retention schedules vary due not only to requirements of regional/national governments and accreditation agencies but also to a library's provision for physical/digital space. At my institution, physical records continue to be kept for two years

in locked file cabinets in the business office. Seven years' worth are kept in archival storage (which happens to be housed in the library).

Financial management, accounting, and record-keeping are usually absent from library and information science and theological education. Yet these processes are central to the effectiveness of any theological library administrator. If you are interested in exploring these topics further, consider a basic course in accounting from a nearby college or online. By all means, use colleagues as resources, too. If you have library-specific financial questions, ask a director from your regional or national theological library association. If you are new to administration and seek to understand the record-keeping approach you inherited, you could ask your predecessor about how records were kept. For issues where library and institutional finances intersect, dialogue with your chief financial officer, bursar, business office, or even the external auditor/consultant most familiar with your context. When routinized, documented, and well-understood, financial accounting and record-keeping can be marvelous lenses through which to celebrate the intellectual wealth you administer.

Notes

- 1 NBTS Chief Financial Officer Kenneth Termott is an invaluable conversation partner in all financial matters in my management and reporting of the Sage Library's finances. Special thanks go to Kenneth for his support in clarifying terminology and workflows useful for this chapter.