

**TO WHAT EXTENT SHOULD ARTWORK BE REFLECTED IN U.S. NOT-FOR-PROFIT FINANCIAL
REPORTS?**

by

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ABSTRACT

This paper discusses the current United States not-for-profit entity financial reporting and disclosure practices for accounting for artwork. U.S. financial reporting standards known as Generally Accepted Accounting Principles (GAAP) are set by the U.S. Financial Accounting Standards Board (FASB). On the FASB website, it states that the FASB “establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP)”. Since the establishment of the FASB in 1973, many additions and amendments to the reporting standards have been made to U.S. GAAP.

The last time a FASB exposure draft was released for the public to comment on about not-for-profit accounting for contributions and collections of art was in 1992. At the time, many of the comment letters argued against recognition and greater disclosure of artwork collections on financial statements due to the complexity of proof of existence and valuation. Twenty-six years later, with enhanced technology and more dependence on private donors, opinions on reporting and disclosure of artwork may have changed because of the benefit that artwork provides to the public. This paper discusses the previous research on the topic of not-for-profit accounting for artwork, current practices in the U.S. and internationally, perspectives of varying users of not-for-profit financial statements, and methods for valuation of artwork. Ultimately, this paper aims to reopen conversations regarding not-for-profit entities, reporting and disclosure of artwork on financial statements.

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I. Introduction

To some, artwork is “priceless”. Yet, at acquisition by an entity, artwork is assigned a value. For example, on November 15, 2017, “Leonardo da Vinci’s ‘Salvator Mundi’ sold ... for \$450.3 Million” (Pogrebin and Reyburn, The New York Times, 2017). In accounting terms, a historical cost is the original cost of an asset, and this value can be recorded on an entity’s balance sheet. Although an individual could claim that the worth of da Vinci’s piece is more or less than \$450.3 Million, it does not change the monetary value that was exchanged for the work of art.

This applies to other assets as well. For instance, a piece of land could be valued at significantly different amounts depending on the user of the land, but is ultimately recorded for accounting purposes at the exchanged monetary amount. These differing perspectives in value could arise, for example, from one business owner finding value in the land being next to a major street or highway, whereas, another viewing it as a disadvantage for the property. Additionally, there may be other features of a piece of land such as trees or bodies of water that are generally appealing to one land owner in the way that a specific genre or medium of artwork would be appealing to some artwork owners and not others. Artwork, as an asset, is similar to land in that the moment the exchange or transaction occurs, the acquisition price represents a current monetary value exchanged for the asset. In other words, the artwork receives a historical cost when purchased. Artwork, as an asset, is treated differently for accounting purposes than land in that land is recorded on the balance sheet at historical cost, whereas, artwork is not included on the balance sheet.

In FASB Statement of Financial Accounting Concepts No. 6, it states “[o]nly assets that are not by their nature used up in carrying out the organization’s activities are capable of providing

economic benefits indefinitely. Gifts of cash, securities, or nonexhaustible property, such as land and art objects, to be added to an organization's endowment or collections are common examples of those types of assets" (32). An asset's useful life is the expected lifespan for which an asset can be used to generate revenue. Both land and artwork have indefinite useful lives because the assets do not have a fixed useful life and continue to bring economic benefits to the owner. Why is it then, that land as an inexhaustible asset is disclosed and recorded on financial statements of not-for-profit entities and artwork is not? Additionally, why is it that U.S. not-for-profit entities fail to record and disclose about artwork as an asset on their financial statements and that U.S. GAAP not require these recordings or disclosures?

In 1990, the FASB released an exposure draft titled Accounting for Contributions Received and Contributions Made and Capitalization of Works of Art, Historical Treasures, and Similar Assets, which consisted of policy changes for works of art, historical treasures, and similar assets. An exposure draft is a document that contains proposed changes for financial reporting and disclosure standards and invites public comments on the proposal changes. Comment letters are responses to FASB exposure drafts from the public and the purpose of the comment letters are to receive feedback about potential financial reporting standard changes. This exposure draft contained policy changes that proposed that not-for-profit entities record and disclose details about artwork. Many of the Comment Letters received argue against requiring not-for-profit entities, such as art museums, to record and/or disclose artwork on financial statements. Some common arguments against the 1990 contribution proposal are "the claim that the cost of capitalizing far outweighs the benefits" (Aviso: American Association of Museums, FASB 116 Doc 1-34, pg. 278-279) and that it would be "extremely difficult to maintain accurate and up-to-date

values due to the sporadic fluctuations of art market values and due to the fact that most museums have such large numbers of objects” (Charles H. MacNider Museum, FASB 116 Doc 1-34, pg. 258-259). One major opposition to extensive reporting and disclosure of artwork information that was expressed in other comment letters is the high costs to value every piece of artwork. Many not-for-profit entities worry that the additional costs that accompany valuation may take away from their funding that is used to preserve their collection. Arguments like these are considered by the FASB in analyzing costs and benefits of implementing proposed changes.

When the FASB considers financial reporting standard changes, they evaluate whether the benefits of the change outweigh the costs. In this case among other considerations, it is important to consider whether recording and disclosure of artwork is: (1) beneficial to the community; (2) enhances the quality of internal controls of museums; (3) allows for better comparability with international not-for-profit art museums. Despite the majority opinion reflected in comment letters against the policy change, several not-for-profit entities like The Huntington and Smithsonian Institution “support full disclosures and maintenance of adequate internal controls over the collection” (Smithsonian Institution, FASB 116 Doc 135-296, 956-978). In addition to disclosure and strong internal controls, KPMG’s comment letter stated that “a description of the nature and size of the collection and information about the nature and size of significant accessions and deaccessions made during the period” (KPMG, FASB 116 Doc 135-296, 979-989) should be included in the financial statements. The disclosure of pieces in a collection on financial statements would help provide a better understanding of the not-for-profit’s assets. The requirement of disclosure would provide more transparency of the not-for-profit entities’ assets to the users of the financial statements.

Currently, there has been little research conducted in the area of accounting for artwork and the recording, presentation, and disclosure of artwork in not-for-profit entities' financial statements. Mainly, Michael O'Hare (2005) researched and interpreted the arguments for and against valuing artwork as an asset as well as the potential methods for valuing artwork and collections. Additionally, Glazer and Jaenicke (1991) conducted research during the time of the 1990 exposure draft. Glazer and Jaenicke (1991) also analyzed a survey that was conducted by The American Association of Museums' National Data Collection in 1989 because it revealed numbers on how many art museums maintain records and file financial statements. Additionally, Glazer and Jaenicke conducted a survey to target the users of financial statements of art museum not-for-profit entities to reveal the 1990 FASB exposure draft opinions of the financial statement users. Therefore, in my thesis, I highlight the relevant points of these articles and how they coincide with my discussion of recording and disclosure of artwork in financial statements.

With artwork being the largest asset for many not-for-profit art museums, it is important to discuss the financial statement reporting expectations despite the little amount of research conducted solely on not-for-profit financial statement artwork recording and disclosure. Although the research of O'Hare, Glazer, and Jaenicke is pertinent to the discussion of this topic, it is important to consider that circumstances and opinions may have changed since the publishing of these papers. Therefore, it is important to revisit the topic with fresh perspectives. I have conducted interviews, analyzed relevant documents that are used by not-for-profit entities, and gained insight from other research papers that overlap with my topic to best address my thesis question.

In this thesis, I address the question of to what extent should artwork owned by not-for-profit organizations, specifically art museums, be reflected in financial reports under U.S. GAAP. In order to answer this question, I begin by exploring the current U.S. GAAP for accounting for artwork and its criteria for classifying artwork as a collection for not-for-profit entities; I then consider some of the users of the financial statements and how reporting and disclosure impact those groups; I next evaluate guidance and financial statements of not-for-profit art museums in other nations; and lastly I discuss the importance of transparency and disclosure in financial reports and steps to achieving it.

II. Literature Review

Background of Accounting

In this section, I provide definitions of accounting terms and concepts relevant to my investigation.

What Defines an Asset?

According to the Statement of Financial Accounting Concepts (SFAC) No. 6, all assets have three common characteristics:

1. They provide probable future economic benefit by contributing to the organization's cash inflow
2. An organization can receive the benefit and control others' access to it
3. The event or acquisition that signifies the entity's right to the item has already occurred

An asset is something that an entity has rights to and can use to create value. More specifically, O'Hare states "[a]ssets are resources over which an entity has claims or whose use it controls

and with which (in combination with labor and other inputs) it creates value” (O’Hare, 2005, pg. 7). Assets are a component used in measuring the financial health of organizations.

Future Economic Benefit

Although most not-for-profit art museums do not intend to sell artwork that is part of their collection for a profit, it does not mean that the artwork does not provide a future economic benefit. According to the Association of Art Museum Directors (AAMD), only “34% of the 240 art-museum members had free admission to their collections” in 2016 (AAMD, pg. 10). Some of the AAMD museum adult 2016 prices include: Metropolitan Museum of Art, New York (\$25), Los Angeles County Museum of Art (\$20), The Andy Warhol Museum, Pittsburgh (\$20), and Modern Art Museum, Fort Worth (\$10). Some of these museums may have free or special admission prices depending on the day of the week or if it is a holiday but, nonetheless they are receiving admission revenue from individuals. Individuals visit art museums to see the artwork and therefore, artwork provides a future economic benefit to the museums. Even for the museums that do not charge admission fees, many of them still receive benefits from purchases at museum gift shops or cafés. For example, a museum that owns a well-known work, such as Claude Monet’s Water Lilies, will sell hundreds of postcards and other trinkets involving this work in its gift shop. In these ways, a museum’s artwork creates a future economic benefit beyond the potential benefits from the sale of the art.

Control Others’ Access to It

Art museums with full ownership of artwork have the right to use/display, lend, and sometimes sell the art. It is due to these rights that an art museum can control which collection pieces are displayed, moved to storage, placed in conservation, and on loan to other art

museums. The Association of Academic Museums and Galleries (AAMG) defines the role of Collection Manager as the individual who is responsible for “ensuring the overall safety, preservation, maintenance, and documentation for works” (AAMG). This individual and his or her team controls the public’s access to the works of art for a respective art museum’s collection because they decide when to make the works publically available for viewing. Museums possess an economic benefit from this control because they have the right to charge entrance fees to view their collection and produce merchandise involving certain works of art.

There are complex scenarios in which museums do not possess full control of artwork as an asset or have activity restrictions due to the donor’s contribution contingencies. For example, some donors lend their artwork to museums to display and perform conservation efforts on, but still own the asset. In this case, the museum receives economic benefits from visitor entrance fees, but does not have the ability to record or control the asset itself. In other words, the museum’s lack of ownership means it does not have the right to sell the work or record it as an asset. Additionally, with these economic benefits, the museums also incurs conservation expenses and has security liabilities. There are also instances when a museum receives the rights to control the asset over a period of time. A donor may make a contingency in its contribution to a museum that ownership of the artwork will be transferred over a stated period of time rather than full ownership transferred at once. The transition of ownership does not allow the museum to practice full control of the asset until that stated time is over. During the time of transition, the museum still has economic benefits from the ability to display the artwork, but it lacks full ownership rights. Therefore, the museum is unable to recognize the artwork as an asset, but could recognize the economic benefits created by the asset. It may be beneficial for the users of

the museum's financial statements to view a break down the economic benefits created by artwork, given that there are complex scenarios regarding the ownership of artwork.

Acquisition – Entity's Right

Once an artwork is donated to a museum's collection, the museum has rights to the asset. When a museum purchases a work of art from an auction or another museum, the museum acquires the piece and has rights to the asset. There are some instances when a museum displays a piece, but does not have ownership. Additionally, there are some unique situations when a museum gradually receives ownership over a period of time. Once a museum fully owns a work of art, whether it be through acquisition, donation, or gradual transition of ownership, then it meets the criteria of rights to the work of art because there was an event that signified the transition of ownership to the museum.

There are also several types of rights regarding artwork that a museum can possess. For instance there is the right to display, right to practice conservation efforts, right to sell, right to lend, and right to produce merchandise of the artwork. Some museums possess all of the rights to the artwork and some museums only possess a few. In order to record artwork as an asset, the museum needs to control all of the rights to the asset.

Asset Definition & Financial Statement

There are several assets, such as the skills of employees, that are not listed on organizations financial statements. This is because an entity benefits from the asset, but does not own it. O'Hare states that "[a]ssets are not counted when the firm can't sell them" and since a company is unable to sell the skillset of employees, it cannot be represented in financial statements as an asset. Although many not-for-profit art museums do not intend to sell artwork

in their collection, it does not mean that the entity is not physically able to sell the artwork. There are other assets, in addition to artwork, that meet the criteria of an asset and are not recorded. For instance, data meets the criteria of an asset and is not recorded. A potential reason for the lack of artwork recording and disclosure is push back from not-for-profit organizations and the belief that recording updated accurate values of artwork is impossible. Over time, several accounting policies have corrected the requirements for recording and disclosure of some assets like investment securities, but not artwork. A major factor that allows for a change in recording and disclosing requirements is the enhancement of technology. Enhanced technology provides some solutions for the valuation and recording process of complex assets because more advanced museum databases allows for better organization of artwork documentation.

The “Statement of Financial Accounting Concepts (SFAC) No. 5 describes four criteria that, if met, require that an item be recognized, subject to cost-benefit and materiality considerations” (Glazier & Jaenicke, 1991, pg. 30). The FASB SFAC states that the criteria for defining an asset includes:

1. Definitions—The item meets the definition of an element of financial statements
2. Measurability—It has a relevant attribute measurable with sufficient reliability
3. Relevance—The information about it is capable of making a difference in user decisions
4. Reliability—The information is representationally faithful, verifiable, and neutral

Many comment letters stated that artwork meets the criteria of definition and reliability, but is questionable for the two criteria of measurability and relevance.

Definition

Artwork meets the definition of an asset because it meets the SFAC three criteria of an asset. (1) Artwork creates cash inflow in that visitors of museums pay entry fees to visit the permanent artwork or special exhibitions. (2) Not-for-Profit entities also control the public's access to artwork because the personnel choose when to display pieces and which pieces to hold in storage. (3) The event signifying transition of ownership can either be at auction or the moment when a contribution occurs. Majority of the comment letters concur with the stance that artwork meets the definition of an asset.

Measurability

Measurability for the fair value of artwork would be a less complex amount to determine if all artwork prices were easily comparable or had a pattern for estimated valuation. "A key feature of art auctions is that the items on sale are typically unique, or nearly so. The result is that there will be some ambiguity in the construction of a single index of the movement of prices over time" (Ashenfelter & Graddy, pg. 765). Artwork varies in auction price depending on genre, artist, medium, size, age, and other factors. These factors increase the complexity of valuation for artwork because there is not a specific pattern for determining the estimated value of artwork pieces. Additionally, the art market fluctuates which adds another level of complexity to estimating the value of a unique piece of work.

However, computer science researchers at Stony Brook University attempted to "build a generic model, capable of predicting price of any piece of art to be sold based on a variety of features associated with an artist, auction house and the piece of art itself", and found that a linear regression model performs well "when compared to the auction house estimates"

(Agarwal, Ali, Kolli, Yang, pg. 1 & 28). Additionally, measurability is complicated because not all records of contributions and purchases exist for all artwork of all art museums. This is because many art museums acquired pieces centuries ago and do not have the proper records that contain information about the acquisition or donation. Additionally, many pieces have not changed ownership and therefore, there are no records of recent valuations.

If GAAP required art museums to record and disclose fair valued estimates, technology, like the model developed by computer science researchers, could offer solutions or appropriate methods for determining the current estimated value of works of art. If GAAP required art museums to record and disclose historical cost values and estimates, then acquisition prices, donation values on tax forms, and third party evaluators could be used to determine the historical values. Listing the historical values may be more appropriate for museums because many of the museums do not intend to sell artwork from their collection. This being said, historical values do not display the most current values for the users of the financials. A compromise between these two methods is using historical values on the financials and updating the values after an appraisal. Appraisals typically take place if the artwork is insured for transit or if the piece is believed to have significantly changed in value.

Not all pieces have a historical value on record and although third party evaluators could attempt to estimate an original historical cost for artwork donated without records of historical cost, it may be better to only include pieces after a certain date of ownership. Some international museums, such as the British Museum of Art record all artwork acquired after April 2001 at historical cost. Exhibit 1 shows a portion of the British Museum of Art's balance sheet with artwork listed under heritage assets and Exhibit 2 shows the footnote about the heritage assets.

EXHIBIT 1

Museum Balance Sheet as at 31 March 2017

	Notes	2017 £000s	2016 £000s
Fixed assets			
Tangible assets	7(b)	657,529	684,566
Intangible assets	8	1,972	1,140
Heritage assets	9	89,049	80,573
Investments	10(a)	88,080	79,108
Investment properties	10(b)	24,769	2,128
Investment in subsidiaries	11(a)	1,250	1,250
Total fixed assets		862,649	848,765
Current assets			
Debtors	12	33,149	36,306
Cash at bank and in hand	10(d)	3,490	3,555
Total current assets		36,639	39,861
Creditors: amounts falling due within one year	13	(55,022)	(56,377)

EXHIBIT 2

(d) *Gifts in Kind*

Heritage Assets

The BM accounts for the objects in its collection as non-operational heritage assets, in accordance with SORP Module 18 Accounting for Heritage Assets. A heritage asset is defined as “a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.”

Heritage assets acquired since 1 April 2001

The BM includes donated or purchased heritage assets acquired since 1 April 2001 on the balance sheet at cost or valuation at the time of acquisition. Valuations are performed during the year of acquisition by internal curatorial experts based on their expert knowledge and, where appropriate, with reference to recent sales of similar objects. The cost or valuation is not subject to revaluation because such information can not be obtained at a cost commensurate with the benefit to users of the financial statements.

Relevance

As for relevance, I have not found significant research that indicates donors’ desire for disclosure of artwork collections on financial statements in order to make a donation decision. However, there are reasons that donors and other users of not-for-profit financial statements would be in favor of disclosure or reporting of artwork collections. In the Metropolitan Museum of Art Report of the Chief Financial Officer, the CFO stated that “thanks to generous support from

our donors, the Museum's collection was significantly bolstered this year by several acquisitions of artwork which totaled over \$103 million" (The Metropolitan Museum of Art, pg. 77), which highlights not-for-profit entities' dependence on donors for contributions. Since donors provide a colossal amount of support for not-for-profit entities, it is reasonable to assume that donors care about the financial health and collections of these not-for-profit entities.

Additionally, the Met CFO report revealed that "[g]overnment funding is a critical source of support for the Museums operating and capital needs. In fiscal year 2013, the Met Museum received more than \$24 million in total funding from the City of New York for operating support and energy costs" (The Metropolitan Museum of Art, pg. 77). Since the public contributes to government funding, the public may be interested in the full transparency of the financial statements of these not-for-profit entities. This substantial amount of funding by donors and the government allow for museums to continue their practices and also may sway the opinions of other users of the financial statements if the information were to be disclosed.

Reliability

The reliability of fair value artwork valuation may appear impossible to those with natural skepticism because it is extremely difficult to predict the value that a work of art will sell for with a fluctuating art market. Viewers of the financial statements may not trust an estimated artwork fair value amount because the work was not recently acquired at that amount. Additionally, if the amount reported and disclosed were at historical cost and only after a certain year, like the British Museum, there may still be skepticism because the values are increasingly out of date. This being stated, historical values and updated fair values are better estimates than no values recorded at all.

Similar to the British Museum, the U.S. not-for-profit museums could list artwork as a specially categorized asset to distinctly separate artwork from other non-current assets. If fair value updates were required by GAAP, not-for-profit entities would rely on third-party evaluators for the most neutral and verifiable fair value estimations for artwork. Museums could also update their fair values after receiving valuations for insurance or other instances. Currently, many museums only indicate usage of third-party evaluators if the artwork is being lent to another entity or needing to be appraised for insurance purposes.

What Defines a FASB Collection?

The term “collection” is used to describe artwork, historical treasures, and other similar assets that meet the criteria of an asset but are categorized and reported differently due to other characteristics. Currently, U.S. GAAP is known for allowing art museums to identify their artwork as a “collection” because if it meets the criteria of a collection, then it does not have to be reported or disclosed. The criteria for classifying an asset as a contributed collection item includes:

1. Assets are held for public exhibition, education, or research in furtherance of public service rather than financial gain
2. Assets are protected, kept unencumbered, cared for, and preserved
3. Assets are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections

If classified as a collection, the artwork does not need to be reported or disclosed in the financial statements. In 1978, the “AICPA Statement of Position (SOP) 78-10, paragraph 113, concludes that ‘inexhaustible collections’—a term not defined by the SOP and not used by the FASB—

whether acquired through purchase or contribution, need not be capitalized because of ‘practical valuation problems’” (Glazier & Jaenicke, 1991, pg. 28). Initially, this term of “collections” was established because “[t]he exception made for collection items is not based on their failure to meet a set of specific recognition criteria, but because it is often impractical to determine a value for them—a pragmatic solution developed before the FASB had completed work on its conceptual framework” (Glazier & Jaenicke, 1991, pg. 28). In 1990, it was acknowledged that there was an inability to accurately estimate artwork values.

Twenty-eight years later, opinions may have changed because of the capabilities of technology to estimate and forecast values. Additionally, it is important to note that FASB 958-360-25-2 states that “[w]orks of art, historical treasures, and similar items that are not part of a collection shall be recognized as assets in financial statements” (FASB ASC). This is significant because a single work alone needs to be disclosed and recognized, but not a collection of works. After researching many not-for-profit financial statements, I was not able to find a single United States art museum that records artwork on their financial statements, which leads me to believe that all these entities classify all artwork as a part of a collection.

1. Public Exhibition

Currently, there is not an established set of requirements to define public exhibition for artwork public exhibition according to U.S. GAAP. This means that a museum can classify a work of art as part of a collection without actually publically displaying the artwork because U.S. GAAP does not require museum’s to keep track and publish records of artwork public exhibition. A museum’s collection manager chooses which pieces are on display, in storage, and receiving conservation treatment. With limited gallery space and an abundance of artwork, several pieces

may not be on exhibition for years. With no U.S. GAAP rule that requires a museum to show a piece of artwork to a member of the public, the museum hinders the public from viewing the piece. Many pieces may not be shown on the gallery walls for decades simply because museums have large collections and movement of pieces is risky and costly. In an interview with Jeff Guy, the Director of Finance & Accounting at the Santa Fe Institute, he stated that “many museums are making an effort to digitize their collection for the public”. While viewing artwork from a computer is a vastly different experience than seeing it in person, this idea of online viewing combats the issue of lack of physical public exhibition because it allows the public to have some form of access to these collections. The modern capabilities of technology should result in higher expectations of art museums with public exhibition for the public’s best interest.

2. Assets are Protected and Preserved

While conservation and security of artwork are major priorities of art museums, there are not established standards regarding protection and preservation outlined by U.S. GAAP. Museums control the well-being of cultural masterpieces and yet there are currently no GAAP requirements of testing for internal controls for security and conservation efforts. Although there are organizations such as the American Institute for Conservation of Historic and Artistic Works (AIC) that provide extensive training and set standards for the preservation of cultural property, there is not a required report or disclosure about a museum’s quality of conservation and security.

3. Proceeds from Assets Sold Used for the Collection

When an artwork that is part of an art collection is sold, the revenue generated should be reinvested into the art collection. If the intent of the collected artwork is to be part of a collection

then the accounting standards should reflect this purpose. This ensures that the contributions made to museum collections continue to exist. Although some museums may have internal controls to prevent the sale proceeds from being recorded as a financial gain, GAAP does not clearly state how to account for deaccessioning and protect the capital of the collection. There is currently no collection deaccessioning report that is required for meeting this criteria.

Collection Capitalization

Once classified as a collection, not-for-profit entities have three options for reporting and disclosure. FASB 958-360-25-3 states that a: “NFP that holds works of art, historical treasures, and similar items that meet the definition of a collection has the following three alternative policies for reporting that collection:

- i. Capitalization of all collection items
- ii. Capitalization of all collection items on a prospective basis (that is, all items acquired after a stated date)
- iii. No capitalization.”

U.S. GAAP allows for not-for-profit entities with collections to record the group of assets in any of the three ways listed above, but after analyzing several U.S not-for-profit financial statements, it became apparent that the most common practice is no capitalization. The FASB does not provide extensive guidance for implementing these three methods, but they are options for not-for-profit entities in terms of recording artwork as an asset. The option of three methods increases issues with not-for-profit financial statement comparability. Comparability of financial statements is important for users of the financial statements because it enables users to make

decisions based on differences in values for two entities or based on prior year numbers. The concept of comparability will be further discussed in the importance of comparability section.

What is Deaccessioning and Why is it Important?

Deaccessioning is the process of selling artwork that is part of a collection. A “collection is built up through either purchase or donation, the latter playing a huge role in the case of art museums” (O’Hagan, 1998, 198). Certain pieces of a collection are permanent, but other pieces of a collection may be held for a period of time until it is sold for another piece. Selling artwork becomes controversial, especially when a piece of artwork is sold for purposes beyond acquiring a new piece for an art collection.

For instance, “[t]he June 2009 announcement by Brandeis University’s President that the University intended to sell the entire Rose Art Museum collection triggered an emotional and highly publicized fight to determine the rightful home of 7,000 pieces of art” because the university intended to use the proceeds to compensate for failed investments during the recession, not acquire new artwork (Lanza, 2013, pg. 483). Deaccessioning is important for not-for-profit organizations because it allows them to sell artwork for alternative artwork. However, the action of deaccessioning severely impacts donor-donee relationships, because oftentimes donors give works of art and do not want their donation to be sold to another entity.

Although artwork is not listed on an entity’s balance sheet, it is important to know that when pieces of artwork are deaccessioned from a collection. Currently, U.S. GAAP does not require disclosure of deaccessioned collection pieces. In order to record the deaccessioned transactions properly, it should be recorded as gains or losses when pieces of art are sold and as an expense when pieces of artwork are purchased with this funding. An example is below in

Exhibit 3 of this proper recording is from The Dallas Museum of Art’s 2017 Annual Report. In the case of The Dallas Museum of Art, no pieces in the collection were sold in 2017.

EXHIBIT 3

Change in net assets before change related to collection items not capitalized	2,131,306	21,474,585	830,322	24,436,213
Collection items sold	-	-	-	-
Collection items purchased	<u>(68,000)</u>	<u>(4,298,062)</u>	<u>-</u>	<u>(4,366,062)</u>

https://www.dma.org/sites/default/files/file_attachments/FINAL%20DMA%20FY17%20Audit%20Report.pdf

What is Conservation and Why is it Important?

Conservation of artwork allows for the pieces to have a longer useful life. The Metropolitan Museum of Art describes artwork conservation as the process of “[c]leaning, preserving, and occasionally repairing works of art” (The Metropolitan Museum of Art). The American Institute for Conservation of Historic and Artistic Works states that “[r]estoration is actually a type of conservation treatment. It specifically refers to an attempt to bring cultural property closer to its original appearance. The other type of conservation treatment is stabilization, which refers to an attempt to maintain the integrity of cultural property and to only minimize deterioration” (The American Institute for Conservation of Historic and Artistic Works).

It is important to note the differences between stabilization and restoration of artwork for conservation discussion purposes. Some pieces require a greater amount of conservation effort because of the severity of deterioration or age of the piece. It is evident that artwork conservation is a priority of not-for-profit museums, but there are no specific rules that dictate whether a museum meets conservation standards and therefore, can record the artwork as part of the collection. The American Institute for Conservation of Historic and Artistic Works lists recommendations for “caring for your treasures”, but GAAP does not have requirements for

checking whether a museum meets these requirements. This becomes an issue when evaluating whether a not-for-profit meets the second criteria of a collection, “[a]ssets are protected, kept unencumbered, cared for, and preserved”. If standard criteria for conservation does not exist for not-for-profit entities, it is difficult to regulate and enforce expectations.

For paintings, books, photographs, works of art on paper, textiles, glass and ceramics, metal objects, and architecture, the AIC lists suitable environments, handling procedures, displaying painting requirements, and framing and housekeeping guidelines. Yet, these guidelines are not enforced with GAAP standards when assessing whether a collection meets the three criteria that define a collection. Additionally, the Metropolitan Museum of Art states that “[a]ll the works of art in the Museum are cared for a little differently, but there are two things that all of them need. They all need to be kept in a certain air temperature and at a certain level of humidity” (The Metropolitan Museum of Art). The AIC states that “[c]ollection care is one of the three pillars of collection management which, in addition to preservation, includes development (growth, enrichment, etc.) and use (display, research, etc.) of collections” (The American Institute for Conservation of Historic and Artistic Works). Although collection management will not be extensively discussed in this paper, it is important to acknowledge that conservation efforts fall into the larger category of collection management.

Recently, “[c]onservators [have been using] x-ray equipment to examine paintings and see what’s going on under the surface” in order to evaluate the health of a painting (The Metropolitan Museum of Art). With advanced technology, conservation methodology and practices have been enhanced to provide better artwork preservation. With greater technology

available, it is important to enforce conservation standards so that works of art can be preserved for future generations to view.

What Defines a Not-For-Profit Organization and What is a Museum's purpose?

There is no single distinguishing feature that separates not-for-profit entities from for-profit entities, but there are common characteristics. The SFAC Concept No. 4 states that “[t]he major distinguishing characteristics of nonbusiness organizations include: (a) receipts of significant amounts of resources from resource providers who do not expect to receive either repayment or economic benefits proportionate to resources provided, (b) operating purposes that are primarily other than to provide goods or services at a profit or profit equivalent, and (c) absence of defined ownership interests that can be sold, transferred, or redeemed, or that convey entitlement to a share of a residual distribution of resources in the event of liquidation of the organization” (SFAC Con. 4, 1980, pg. 5).

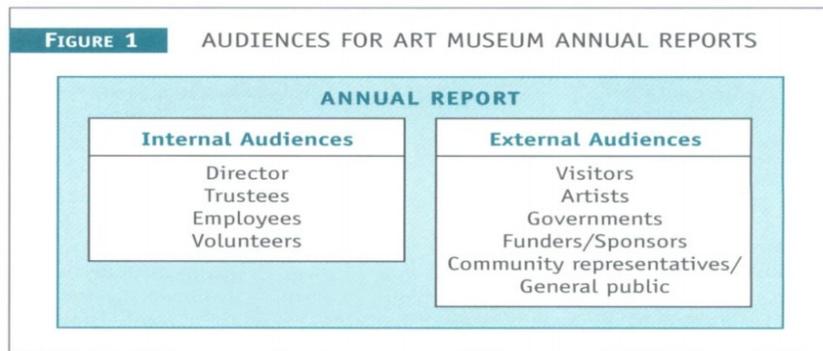
A museum's purpose and practices are in line with these distinguishing features provided by the SFAC. O'Hagan provides insight on the functions of art museums in his paper, *Art Museums: Collections, Deaccessioning and Donations*. O'Hagan states that the most important aspect of a museum is the collection or acquisition process because “it provides the core material for a museum, namely its contents. All other functions are dependent on it, since there can be no conservation, study/research, interpretation/education or exhibition without collections” (O'Hagan, 1998, 197-198). Another important function is preservation or conservation because it “is essential if the material acquired is to be kept intact for present and future generations” (O'Hagan, 1998, 198).

Lastly, education of the collection is important because these museums are meant to acquire, preserve, and educate the public about artwork in their collection. “This can be done when people attend the art museum, by way of guide books, guided tours, written and other exhibition-related information, formal classes and so on” (O’Hagan, 1998, 198). Although all of these functions are expected of not-for-profit art museums, not all museums meet these expectations. O’Hagan makes a point that “it would be expected, though, that the large art museums, especially those that receive government aid, either direct or indirect, would perform all of these functions” because of the support provided by the public through tax funding. (O’Hagan, 1998, 199). Ultimately, the purpose of an art museum is to display historical treasures or artwork for the public.

Users of Not-For-Profit Financial Statements

This section discusses the users of not-for-profit art museums financial statements and the significance of artwork recording and disclosure in financial statements to each group. The purpose of “[f]inancial reporting is ... to be useful for making economic decisions—reasoned choices among alternative uses of scarce resources” (SFAC Concept No. 4, para. 13). Each of these groups has different motives and reasons for desiring or not desiring art museum financial statement information. Exhibit 4 below shows a diagram of internal and external audiences of art museum annual reports.

EXHIBIT 4



Rentschier & Geursen

<http://www.jstor.org/stable/pdf/41064672.pdf?refreqid=excelsior%3A0dca96563d16987f702057a87524ab24>

Donors

Donors are a significant support to U.S. art museums. In fact, “over ninety percent of the art held in American museums has been donated by private individuals” (Follas ,2008, pg. 1781). Donors typically have a strong connection to the artwork that they donate to museums and are cautious and selective when picking a museum for their artwork to be donated to. Many donors give artwork to museums to share the piece with the public and to ensure that the piece receives proper conservation. Beyond knowing that the artwork will receive proper conservation, donors may also donate for receiving benefits from charitable tax deductions. This being said, donors don’t simply give valuable artwork for a tax cut. When donors give artwork to a museum, many want to ensure that it will stay in the museum’s collection because the donor carefully selected the museum. Although it is infrequent, when artwork is deaccessioned for the purpose of cash rather than for the exchange of other artwork, donors become upset. As previously mentioned, when the Rose Art Museum attempted to sell its artwork, the donors filed a lawsuit because the Rose Art Museum was viewed as the “rightful home” for the “7,000 pieces of art” (Lanza, 2013, pg. 483). Through this example, it is evident that donors care about their contributions to not-for-profit entities.

With the art market prices rising, it has become harder for museums to compete with private collectors for artwork. “In recent years, prices for ‘top’ works of art have climbed to four times their actual value, making it very difficult for museums themselves to purchase museum-quality works” (Follas, 2008, 1783). Knowing this change, it is clear that donors will be contributing more of the artwork to not-for-profit entities in the future. Typically, donors monitor financial statements to determine where their gift will make the best impact. Sometimes, “[y]ears of large surpluses could harm an entity's fund-raising efforts if potential donors conclude that the organization doesn't really need their help” and therefore, many museums fear that publishing financial information will decrease their donations (Khumawala & Gordon, 1997, pg. 50). It is due to the fear of decreased contributions that there is major pushback to reporting and disclosure by not-for-profit entities. I was unable to find further research in regards to donors’ responses to not-for-profit entity financial statements.

Artists

Currently, I was unable to find published academic information or research about artists’ view of art museum financial statements.

Art Museums

Art museums borrow artwork from each other in order to show a piece in a new location as a part of a temporary exhibition. In order to show pieces that are not owned by a museum, a museum must contact the owner of the piece. Contacting the correct individual can be difficult if the owner of the artwork is not known. Additionally, a museum would have the same struggle if it were attempting to purchase a piece and did not know the owner. It is due to these reasons that disclosure of artwork within a museum’s collection could assist with the loan of pieces.

Banks

Currently, I have found minimal opinions from banks about the importance of having a more complete art museum financial statement. One of the main arguments is that banks use the art museum's financial statements to help with the process of setting up financial loans. Many bankers have stated that it is not necessary to know the entire disclosure of the collection when considering giving a museum a loan because artwork is not usually placed as collateral. This being stated, the value of the collection is important for other business entities, such as insurance companies.

Insurance Companies

Many museums receive insurance packages for their artwork, collections, or exhibitions. The insurance companies are interested in knowing the value of the art collection as well as other important assets so the correct amount of insurance can be purchased. Insurance companies are interested in the financial health of a not-for-profit organization because they want to ensure that the proper payment for the insurance will not surpass what the entity is capable of paying for.

The Museum Libraries Archive (MLA) article *Insurance for Museum* states “[i]f a museum or gallery were to seek an insurance quotation, the most likely and effective route it would take would be to contact a specialist insurance broker, preferably one that could transact business with Lloyd's underwriters as well as with the many specialist art insurance companies who have their head offices in the London market”(2). With this advice, I contacted a Fin Pro Marsh broker to find out more information about art insurance. I was provided with a UK Fine Art by Hiscox PCA Policy and it states “[w]e will insure your collection anywhere in the world, unless otherwise

stated in the risk details, against physical loss or physical damage which happens during the period of insurance". The Hiscox policies continue to outline the expectations of "reasonable care" for a collection to be a candidate for insurance coverage. The Marsh broker stated that one of the biggest risks that art museums face is "transit damage and poor packing of objects". The policies require reasonable care for the transit of goods, but even with good care, a significant amount of reported damage to museum property results from transit damage. In order to determine the right coverage amounts for artwork collections, the Marsh broker stated that it is a "battle between budget and probably maximum loss" to determine the right insurance policy amount. Museums have to find the right balance between budget and enough insurance for artwork and museum property protection. I was unable to find research on insurance companies' opinions regarding the reporting and disclosure of artwork for not-for-profit entities.

Public

Currently, there is not a significant amount of research that expresses the general public desire to view an art museum's financial statement. Many of the comment letters from 1990 and 1992 are from museums, public accounting firms, and other accountants, which reveals the previous a lack of desire for viewing the collections on the financial statements. This being stated, over the past 26 years, some members of the public may have changed their opinions. Especially when there has been an increase in the amount of tax dollars that are being given to support not-for-profit art museums. Members of the general public could eventually become donors for art museums and knowing more about not-for-profit museums through greater transparency on financial statements could assist these potential donors in their process for selecting a museum that would be able to properly preserve and display their artwork.

Importance of Comparability of Financial Statements

This section discusses the importance of comparability of financial statements, the current accounting practices for U.S. GAAP, the current accounting practices for other countries GAAP, and some of the differences in names for accounting terms.

How do U.S. Art Museums Account for Artwork?

Currently, U.S. GAAP does not require art collections to be recorded, disclosed, or capitalized. In a study of a 1000 museums, “[r]espondents used many different methods to estimate the value of the museum's collection: insurance values (mentioned by 25 percent of the respondents), market value (22 percent), replacement value (10 percent), original or book value (5 percent), and other methods (6 percent). Almost half of the respondents said that they guessed at the value of all or part of the museum's collection. Twenty-one percent of the respondents indicated that current-period acquisitions were capitalized” (Glazier & Jaenicke, 1991, pg. 29). This study shows that U.S. museums are inconsistent in their methods of presenting financial information regarding collections. This inconsistency leads to issues of comparability with U.S. GAAP not-for-profit entities’ financial statements. Comparability is identified in the Statement of Financial Accounting Concepts No. 8 as one of the four enhancing qualitative characteristics. More specifically, SFAC No. 8 describes comparability as “the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items”(SFAC No. 8, pg. 19). By utilizing similar methods for reporting, it increases the users’ ability to distinguish differences between prior year financials and two or more entities’ financial statements.

Although the exposure draft was proposed in 1990 and was heavily disagreed with by large museums, a more rigid GAAP criteria or method for presenting collections would allow for more comparability of US art museums. Currently some museums like The Guggenheim recognize their collection with the value of \$1, whereas other like The Metropolitan Museum of Art record no values on the balance sheet and use the note section to disclose that the museum owns an extensive collection of artwork. Displays of these financial statements are below in exhibit 5 and exhibit 6.

EXHIBIT 5

The Solomon R. Guggenheim Foundation
Statements of Financial Position
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 38,050,409	\$ 20,739,150
Contributions and grants receivable, net	12,543,941	17,243,278
Accounts receivable	773,008	2,047,140
Other receivables	574,584	750,135
Inventories	1,385,371	993,551
Prepaid expenses	954,810	1,060,984
Deferred costs	238,304	309,823
Investments	59,148,628	68,364,759
Property, equipment and leasehold improvements, net	56,965,426	62,079,552
Art collection	1	1
Total assets	<u>\$ 170,634,482</u>	<u>\$ 173,588,373</u>

<https://www.guggenheim.org/wp-content/uploads/2016/05/gen-audited-financials-srgf-2015.pdf>

EXHIBIT 6

The Metropolitan Museum of Art
Statements of Financial Position

June 30, 2016 and 2015 (in thousands)

	2016	2015
ASSETS:		
Cash (Note A)	\$ 7,238	\$ 2,750
Receivable for investments sold	1,735	3,533
Retail inventories, net (Note A)	9,711	10,791
Accounts receivable and other assets (Note B)	21,781	22,810
Contributions receivable (Note C)	144,519	136,866
Split interest arrangements (Notes G and H)	70,131	75,607
Investments (Notes A and G)	3,159,530	3,320,361
Fixed assets, net (Notes A, E, and F)	414,077	429,712
TOTAL ASSETS	\$3,828,722	\$4,002,430

<https://www.metmuseum.org/-/media/Files/About%20The%20Met/Annual%20Reports/2015-2016/Annual%20Report%202015-16%20Audited%20Financial%20Statements.pdf>

The Metropolitan Museum of Art also provides the following note about their artwork collection because it is not included in their assets.

“ Collections – In conformity with accounting policies generally followed by art museums, the value of the Museum’s collections has been excluded from the Statement of Financial Position, and gifts of art objects are excluded from revenue in the Statement of Activities. Purchases of art objects by the Museum are recorded as decreases in net assets in the Statement of Activities. Pursuant to state law and Museum policy, proceeds from the sale of art and related insurance settlements are recorded as temporarily restricted net assets for the acquisition of art” (The Metropolitan Museum of Art).

After analyzing several art museum financial statements including: The Museum of Modern Art (The MoMA), The Metropolitan Museum of Art (The Met), The Art Institute of Chicago, and The Dallas Museum of Art (The DMA), it became apparent that collections were excluded from the balance sheet and sometimes a brief explanation of the collection was

disclosed in the notes. Currently, U.S. Art Museums do not record or provide extensive disclosure about their collections on their financial statements.

How do other countries account for artwork?

After analyzing some international not-for-profit art museums, it became apparent that several countries required not-for-profit entities to include art as an asset on their balance sheets. For instance, the British Museum lists their art collection from April 2001 onward as a “Heritage Asset” on their balance sheet. The British Museum views the artwork as a heritage asset because it is the community’s asset, not just The British Museum’s artwork. In the notes of The British Museum’s financial statements, it states that “valuations are performed during the year of acquisition by internal curatorial experts” and “valuations [are] not subject to reevaluation”(The British Museum of Art, pg. 23). A display of The British Museum’s financial statement is below in exhibit 7 and exhibit 8.

EXHIBIT 7

The British Museum Account 2016-2017

Consolidated Balance Sheet as at 31 March 2017

	Notes	2017 £000s	2016 £000s
Fixed assets			
Tangible assets	7(a)	658,155	685,405
Intangible assets	8	1,972	1,140
Heritage assets	9	89,049	80,573
Investments	10(a)	88,080	79,108
Investment properties	10(b)	24,769	2,128
Total fixed assets		862,025	848,354

EXHIBIT 8

(d) *Gifts in Kind*

Heritage Assets

The BM accounts for the objects in its collection as non-operational heritage assets, in accordance with SORP Module 18 Accounting for Heritage Assets. A heritage asset is defined as “a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.”

Heritage assets acquired since 1 April 2001

The BM includes donated or purchased heritage assets acquired since 1 April 2001 on the balance sheet at cost or valuation at the time of acquisition. Valuations are performed during the year of acquisition by internal curatorial experts based on their expert knowledge and, where appropriate, with reference to recent sales of similar objects. The cost or valuation is not subject to revaluation because such information can not be obtained at a cost commensurate with the benefit to users of the financial statements.

Capitalised heritage assets are not depreciated because they are deemed to have indefinite lives, but are subject to impairment reviews where damage or deterioration is reported.

Heritage assets acquired before 1 April 2001

The BM has not capitalised heritage assets acquired prior to 1 April 2001. This is because comprehensive valuation, as illustrated below, would not provide a meaningful figure for users of the financial statements and the cost of doing so is not commensurate with the benefits to users of the financial statements.

Historic cost – while it may be possible to assign a cost to items purchased within a financial year, historic cost quickly becomes obsolete and meaningless, not only because of general price movements where markets for similar items do exist, but also because of changing opinions about attribution and authenticity, subsequent research into objects that reveals new value, the emergence of new information about the provenance of an item or changes in taste.

Valuation – attempting to value heritage assets acquired historically raises a number of further conceptual concerns. Valuation of heritage assets is complicated by the nature of many such assets. They are rarely sold and often have a value enhanced above the intrinsic through their association with a person, event or collection, there are a very limited number of buyers, no homogeneous population of assets on the market, and imperfect information about the items for sale. In contrast with many commercial assets, therefore, there is seldom an active market to provide indicative values of similar objects. This makes materially accurate valuations impossible to achieve for many heritage assets.

<https://www.britishmuseum.org/pdf/BM-report-and-accounts-2016-2017.pdf>

What are some differences in artwork accounting across countries?

In the United States, the term collection is used to describe a group of historical treasures or pieces of artwork that meet the three GAAP criteria for not-for-profit accounting. Additionally, U.S. GAAP allows for the not-for-profit entity to have the choice to capitalize, partially capitalize, or not capitalize the collection. The not-for-profit entity also has the ability to choose to what extent artwork is record and disclosed on their financial statements.

In other countries such as New Zealand and the United Kingdom, artwork is also referred to as a collection, but more specifically, a “heritage asset”. In the UK, the Financial Reporting Standard (FRS) 30 defines a heritage asset as “[a] tangible asset [as one] with historical, artistic,

scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture”(5). This definition is similar with the United States definition of a collection, except that in New Zealand and the UK, it is defining one work of art rather than a body of work. Additionally, FRS 30 states that “[t]he FRS retains the recognition and measurement requirements in FRS 15 which require heritage assets to be reported as tangible fixed assets in the balance sheet where information is available on cost or valuation”(4). This differs from US GAAP in that US GAAP does not require heritage assets or collections to be reported as tangible fixed assets in the balance sheet. Not only does FRS 30 require heritage assets to be reported, but also disclosed. FRS 30 states “[a]n entity’s financial statements should contain an indication of the nature and scale of heritage assets held by the entity”(6). The changes to FRS 30 were recently changed and enforced in June 2009.

How do the FASB and GASB differ in terms of recording art collections?

In addition to analyzing U.S. FASB GAAP, I also considered analyzing the decisions made by the U.S. Government Accounting Standards Board (GASB). Currently, GAAP does not state that artwork should be recorded at a certain value. This differs from the GASB rulings in that GASB .102 states that “[c]apital assets should be reported at historical cost”(GASBS 34, 18, as amended by GASBS 72, 79). Additionally, U.S. GASB .103 states that “the term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets” (GASBS 34, 19). As for the depreciation of capital assets, GASB .104 states that “[c]apital assets should be depreciated over their estimated useful lives unless they are inexhaustible, are intangible assets with indefinite useful lives... [i]nexhaustible capital

assets such as land and land improvements should not be depreciated” (GASBS 34, 21; GASBS 42, 9; GASBS 51, 17). After reading US GASB criteria, artwork would classify as an inexhaustible capital asset and it would be reported at its historical cost. Why is it that capital assets, such as artwork, are reported as historical cost according to US GASB and not US FASB GAAP?

Arguments Against the Recording and Disclosure of Artwork on Financial Statements

From reading several comment letters, interviewing professionals, and analyzing research, it is evident that many groups and individuals feel that estimating the fair value of a collection of art for the purpose of financial reporting is nearly impossible. The major argument is that estimating the current value of a work of art is extremely difficult due to the complex pricing of art and fluctuation of the art market. Additionally, art museums would incur high costs for having to hire third party evaluators to value each piece in a collection. This would be extremely costly and time consuming for museums that have thousands of pieces. With saving funds from being spent on valuation of pieces, the money could be spent on acquiring more pieces or conservation efforts.

There were not many comments made about historical values as reported values. As for disclosure, several museums expressed security concerns if they were forced to disclose the size of their collection and internal controls of their museum.

Arguments in Favor of Recording and Disclosing Artwork in Financial Statements

From analyzing several comment letters, research papers, and international art museum financial statements, it is apparent that U.S. GAAP can improve its transparency regarding the reporting and disclosure of not-for-profit financial statements. A few comment letters concurred

with the 1990 and 1992 exposure draft suggestions because their museum met the suggested standard changes for reporting and disclosure. This being stated, these museums were smaller in size when compared to larger museums such as the Met and the MoMA.

Although there would be a cost to museums for having to record historical values and update with fair value amounts, the benefit brought to the public and potential donors would outweigh the cost. It is important to analyze the aggregate costs and benefits when determining the best solution because if only the art museums costs and benefits are being analyzed, then of course it would be impractical to make changes to the standard. After noting the benefits, such as greater transparency for contribution decision making, that recording of artwork brings to other users of the financials, it is evident that changes to the standard need to be discussed.

It is apparent that other countries are changing their accounting standards to stay in the forefront of accounting reporting and disclosure. After analyzing several international art museum financial statements and international accounting standards, it is clear that changes are being made in the realm of accounting for contributions and collections of art. The U.S. FASB should consider reevaluating its stance on accounting for contributions and collections of artwork to ensure that not-for-profit financial statements are being displayed with the best amount of transparency.

Suggested Methods for Valuation of Artwork

There are four main suggested methods for valuation of artwork in my thesis: historical cost, fair value, technology model estimation, and no valuation. Recording at historical value is a method currently enforced by accounting standards in the UK. Essentially, a not-for-profit entity would record artwork with a collection at historical cost. Not all of the artwork in the collection

would be included in the fixed asset value because some historical cost information is not available. A note would explain the included amounts and the excluded amounts from the asset category. Recording at fair value would be ideal, but is nearly impossible and extremely costly according to research. Third party individuals would be assessing the collection to determine the fair value amounts each year and this would be an extremely costly process for art museums if it were required every year. This being stated, if fair value updates were required when an entity possess the update from insurance valuation, then it would be a far less costly and time consuming process. It is also important to acknowledge that fair value updates could be performed if the entity felt that the artwork's value materially changed. The technology model estimation would be an option that heavily relies on technology rather than human perception of artwork value. This option would depend on further research on the precision of the model. Lastly, no valuation would be a continuation of the current U.S. GAAP practices. It does not enhance the current transparency of artwork reporting and disclosure. Additionally, maintaining the same contribution practices hinders the U.S. from being in the forefront of accounting policy changes.

III. Research Method

In order to study the arguments for and against artwork being reported and disclosed on not-for-profit entities' financial statements, my thesis conceptually views performed research and proposed methods with the intent to compare different viewpoints of the current accounting practices. Some of the forms of research gathered include:

1. US FASB GAAP Exposure Drafts and Comment Letters

2. FASB GAAP (U.S.)
3. Other countries' GAAP
4. U.S. Art Museum Financial Statements
5. International Art Museum Financial Statements
6. Interview with Previous Art Museum CFO
7. Interview with Fin Pro Insurance Expert
8. Academic Papers

IV. Analysis

Sometimes, things that once seemed impossible can be attainable with time. Over the past twenty-six years, our society has changed. With the assistance of technology, many common practices have been modified because of the opportunity for greater efficiency and accuracy. It is time to reopen the topic of artwork reporting and disclosure so that discussion can lead to changes. The reporting and disclosure of artwork at fair value may not be practical or worth the cost, but following in the footsteps of other countries and reporting and disclosing historical values would be attainable and of value to the users of not-for-profit financial statements. With the rise of museum dependency on private donors, these donors will be evaluating a museum's current collection and its conservation more closely. Donors are interested to know if their work of art will be properly preserved and on display for the public. Additionally, donors deserve to know the details about conservation efforts before making a contribution and they deserve to know if their piece will sit in storage or be on the gallery wall. Without transparency, these donors will be taking a leap of faith with the museums.

Many museums have extensive database systems that record the details of each acquisition and contribution. If U.S. GAAP enforced similar standards to the UK GAAP, then the historical cost of works of art could be gathered from these databases. This data would only be recorded after a certain year and only if the information was known. Having these standards would also increase the quality of documentation procedures by not-for-profit entities. It is important to keep track of significant details of cultural assets for the public's best interest.

As for the capitalization of collections, I believe that museums should strive to capitalize their collections. Knowing that many of the works of art in the future will be donated by private donors due to the rise in prices of art, museums will have less expenses to spread out because they will not be acquiring as much art through purchases.

Ultimately, if the goal of the FASB is "to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors, and users of financial information" then it is time to improve the accounting standards relating to not-for-profit contributions and collections (FASB).

V. Conclusion & Implications

Change is never easy, but with the right end goal in mind, it is worthwhile. Although changing the U.S. GAAP will take several years to send out another exposure draft, analyze comment letters, reevaluate the draft, and eventually enforce the new standards, it is worth the difficulty if it improves the accounting standards for financial accounting. Knowing that other countries are on the forefront of change with not-for-profit accounting, it is time for the U.S. to reevaluate its previous stance. There will be push back from the not-for-profit entities because it

will require a great deal of effort to change their current accounting practices, but ultimately, it should enhance their ability to compare financial statements with domestic and international entities. Additionally, it will improve the museum's ability to communicate its financial health with the users of the financial statements because of increased transparency.

This change will also provide benefits to the public and potential donors. These users view more transparent financials, ultimately allowing them to make decisions with greater clarity.

VI. Call to Action

Twenty-six years ago, the last U.S. GAAP exposure draft was published regarding contributions and accounting for collections of artwork. The U.S. needs to reevaluate its stance in order to offer the greatest amount of transparency and comparability to the users of financial statements. I believe that the U.S. FASB can make amendments to U.S. GAAP that would create benefits for donors, internal users of financials, insurance companies, and other entities. If you agree with my stance, I urge you to write to the U.S. FASB so that our accounting policies can evolve to fit with the changes that have been made in our society over the last two decades.

VII. References

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