



REPORT TO THE LIBRARY BOARD

MEETING DATE: October 22, 2009

Session:	Public Session
Subject:	Tangible Capital Assets - Update
Prepared By:	Barbara Jessop, David Medd
Presented By:	Barbara Jessop
Purpose of Report:	For Decision: Approval <input checked="" type="checkbox"/>

Recommendation:

It is recommended that this report be received and that the draft Tangible Capital Asset Policy be approved.

Issue:

The purpose of this report is to provide an update on the transition to accounting for Tangible Capital Assets as well as to provide the Library's draft Tangible Capital Asset policy.

Review:

In accordance with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150, all local governments, including the City of London, are required to capitalize assets at historical cost and amortize (depreciate) the assets over their estimated useful life. The changes are to be implemented January 1, 2009 with capital assets and amortization reflected on the 2009 financial statements. Compliance with the new standard is necessary in order to receive an unqualified audit opinion.

The Library's draft policy has been reviewed by KPMG and is attached as Appendix A. Refinements to the policy are expected throughout the implementation phase in order to more finely tailor the policy to the Library's needs and to ensure consistency with the City of London's policy.

Impact of Accounting for Tangible Capital Assets:

Asset inventory and valuation: Inventory and valuation is a one-time exercise to determine the historical cost for all tangible capital assets. Where possible and where the age of the capital asset is identified as being less than seven (7) years (the legislated retention period), historical cost was determined from accounting records. In the absence of historical records, or where the cost and effort required to perform the appropriate research outweighed the benefits, current replacement costs, deflated to the year of acquisition or construction were used. The value was then amortized from the date of acquisition up to December 31, 2008.

Artwork is not recognized as a tangible capital asset in the financial statements. This includes works of art, historical treasures and archival records of all types.

As per the Board's request at its September 22, 2009 meeting, a portion of the asset register listing Library buildings and land is attached as Appendix B.

On-going account requirements and new policies: There will be an on-going requirement to maintain satisfactory asset accounting records, so procedures and processes will be developed and put in place to be able to report accurately on fixed assets. The future acquisition of capital assets will be recorded at actual cost on the balance sheet.

Calculation and charging of amortization expense: Assets will be amortized using the half year rule, except in the case of new construction, when amortization will be calculated the month after the date the building went in to service.

When the financial statements for 2009 are complete, the 2008 statements will be restated to reflect the assets' historical cost, accumulated amortization and net book value (historical cost minus amortization) so that comparisons can be made between the years.

Reported operating results and financial position will be significantly different as a result of these changes. The introduction of the historical cost of fixed assets and associated amortization may result in a surplus on the restated financial statements. Any surplus does not represent cash available for expenditure as it will represent the unamortized cost of the Library's present fixed assets, which will be reduced in future years by amortization expenses.

Next steps:

- The calculation of historical costs and amortization is near completion for most Library major asset categories, with the exception of land and buildings. Some properties are leased, others are owned by the Library, and the City owns the land in some cases. Due to the complexity of 16 varying and unique properties,

the completion of land and buildings is pending further research and calculations by Finance staff as well as additional information required from the City of London.

- KPMG will be conducting an audit of the accounting for Library's tangible capital assets during the week of November 9, 2009.
- Procedures for recording the acquisition, amortization and disposal of tangible capital assets will be developed.
- The policy will be reviewed periodically based on actual implementation results, consistency with the City of London's policy and KPMG recommendations.



LONDON PUBLIC LIBRARY

Governance Ends Policy: # 1.000

Subject: Tangible Capital Asset Policy

Issuing Date: 10/8/2009

Revision Date: 10/8/2009

PURPOSE

The purpose of this policy is to prescribe the accounting treatment for tangible capital assets so that the investments in property, plant and equipment are reflected on the Library's financial statements in accordance with the Public Sector Accounting Board (PSAB) Handbook Section PSAB 3150. The principle issues are the recognition of the assets and the determination of amortization charges. Also addressed are policies and procedures to protect and control the use of all tangible capital assets, provide accountability over tangible capital assets, and gather and maintain information needed to prepare financial statements. Financial Statements for the fiscal year ending December 31, 2009 and beyond will require compliance with PSAB 3150. Comparative figures for 2008 are also required.

DEFINITIONS

Tangible Capital Assets: are non-financial assets having physical substance that:

- a) Are used on a continuing basis in the Library's operations
- b) Have useful lives extending beyond one year
- c) Are not held for re-sale in the ordinary course of operations.

Amortization: is the accounting process of allocating the cost less the residual value of a tangible capital asset to operating periods as an expense over its useful life. (Also referred to as depreciation.)

Betterments: are subsequent expenditures on tangible capital assets that:

- Increase service capacity
- Lower associated operating costs
- Extend the useful life of the asset
- Improve the quality of the asset.

These costs are included in the tangible capital asset's cost. Any other expenditure would be considered a repair or maintenance and expensed in the period in which the expense was incurred.

Capital lease: is a lease with contractual terms that transfer substantially all the benefits and risks inherent in ownership of property to the Library. One or more of the following conditions must be met:

- a) There is reasonable assurance that the Library will obtain ownership of the leased property by the end of the lease term
- b) The lease term is of such a duration that the Library will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span.
- c) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement.

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Capitalization threshold: is the minimum amount that expenditures must exceed before they are capitalized and are reported on the balance sheet of the financial statements. Items not meeting the threshold would be recorded as an expense in the period in which the item was purchased.

Group Assets (pooling): have an individual value below the capitalization threshold but have a material value as a group. Although recorded in the financial systems as a single asset, each unit may be recorded in the asset sub-ledger for monitoring and control of its use and maintenance. Examples could include computers, furniture and fixtures, small moveable equipment, library books etc.

Useful Life: is the shortest of the asset's physical, technological, commercial or legal life.

POLICY

Capitalization and Asset Categories:

Tangible capital assets should be capitalized (recorded in the fixed asset sub-ledger) according to the following thresholds per year:

Categories	Useful Life	Thresholds
• Land	Capitalize only	All
• Buildings	60 years	\$50,000
• Building components :		
Shell (siding, windows, roofing)	20 years	\$20,000
Interiors (partitions, doors)	15 years	\$10,000
Services (HVAC, lighting, communication, plumbing etc.)	20 years	\$10,000
Site works (parking lots etc.)	25 years	\$10,000
• Computer hardware	3 years	\$10,000 (pooled)
• Computer software	3 years	\$5,000 (pooled)
• Collections	7 years	pooled
• Library shelving	40 years	\$5,000 (pooled)
• Equipment (including portable)	3 years	\$5,000 (pooled)
• Motor vehicles	5 years	\$10,000 (pooled)
• Furniture and equipment	7 years	\$10,000 (pooled)

The Library must have legal title to the assets in order for the asset to qualify as a capital asset.

Valuation

Tangible capital assets should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use.

LONDON PUBLIC LIBRARY

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1.1 Purchased assets

The cost is the gross amount paid to acquire the asset and includes all non-refundable taxes and duties, freight and delivery charges, installation and site preparation costs etc., net of any trade discounts or rebates.

The cost of land includes purchase price plus legal fees, land registration fees, transfer taxes etc. Costs would include any costs to make the land suitable for intended use such as demolition and site improvements that become part of the land.

1.2 Acquired, Constructed or Developed Assets

The cost includes all costs directly attributable (e.g. construction, architectural and other professional fees) to the acquisition, construction or development of the asset. Capitalization of general administrative overheads is not allowed.

1.3 Donated or Contributed Assets

The cost of donated or contributed assets is equal to the fair value at the date of construction or contribution. Fair value may be determined using market or appraisal values. Cost may be determined by an estimate of replacement cost.

Componentization

Tangible capital assets may be accounted for using either the single asset or component approach. Whether the component approach is to be used will be determined by the usefulness of the information versus the cost of collecting and maintaining information at the component level.

Factors to consider when determining whether to use a component approach include:

- a) Major components may have significantly different useful lives and consumption patterns from those of the related tangible capital asset.
- b) The value of the components in relation to the related capital tangible capital asset.

Amortization

The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use. (PS 3150.22)

Amortization should be accounted for as an expense in the statement of operations. A record is still required for assets still in use, but already fully amortized. Amortization does not commence until the asset is available for use. In the year an asset is put into service, amortization will be expensed at one half the applicable annual rate.

LONDON PUBLIC LIBRARY

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In conjunction with the City of London policy, the straight line method of amortization will be used. In the year an asset is put into service, half of the applicable amortization is expensed. However, the method of asset amortization, threshold levels and estimated useful life will be reviewed on a regular basis as London Public Library further develops its understanding of PSAB reporting requirements.

Capital Leases

Account for a capital lease as acquiring a capital asset and incurring a liability.

Reporting

PS 3150.40 requires that the financial statements should disclose, for each major category of tangible capital assets and in total:

- a) Cost at the beginning of the period
- b) Additions in the period
- c) Disposals in the period
- d) The amount of any write-downs in the period
- e) The amount of amortization of the costs of tangible capital assets for the period
- f) Accumulated amortization at the beginning and end of the period and
- g) Net carrying amount at the beginning and end of the period.

Method for determining initial cost of each asset category:

A master list of assets was created. Non-pooled assets still in use past their normal amortization period were still recorded.

Works of art or archival records will be recorded, with no cost, date of acquisition, or amortization.

Valuation:

Where possible and where the age of the capital asset was identified as being within seven (7) years (legislated retention period) historical cost was determined from accounting records. In the absence of historical records, or where the cost and effort required to perform the appropriate research outweighed the benefits, current replacement costs, deflated to the year of acquisition or construction, were used. The Statscan Non Residential Building Construction Price Index (NRBCPI) was used for the deflation of buildings and the Statscan Consumer Price Index (CPI) was used for all other assets. In the absence of historical records, valuations for buildings were provided by R V Anderson Associates as part of their valuation of City of London assets. A consistent method of estimating the



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costs was applied except where it could be demonstrated that a different method would provide a more accurate estimate of the cost.

Future capital assets will be recorded at cost. Contributed capital assets will be recorded at fair value at the time of contribution.

LONDON PUBLIC LIBRARY BOARD
ASSET CATEGORY - LAND and BUILDINGS

APPENDIX B

Asset ID	Asset Description	Location	Acreage Source: City of London Realty Services AC=43,560 SF	Roll Number	Zoning Information	Building Square Footage
Beacock Branch	1280 Huron St., Plan 77 PT Lot 4	London	3.02 AC	39 36 030 741 17900 0000	NF1 (Neighbourhood Facility Zone)	12,560
Byron Branch	1295 Commissioners W, Plan 563 PT Lots 107 & 127	London	0.425 AC	39 36 070 290 06000 0000	NF1 (Neighbourhood Facility Zone)	12,000
Carson Branch	465 Quebec St, Plan 304A PT Lots 21, 22	London	0.291 AC	39 36 030 030 02300 0000	NF1 (Neighbourhood Facility Zone)	2,930
Central Branch	251 Dundas St	London	1.75 AC	39 36 060 040 09000 0000	DA1 D350 (Commercial-Downtown Area)	188,179
Crouch Branch	550 Hamilton Rd, Plan 395 Lot 3	London	.28 AC	39 36 050 190 02200 0000	NF1 (Neighbourhood Facility Zone)	11,322
	548 Hamilton Rd, Plan 395 Pt Lot 2	London	7529 SF (.17 AC)	39 36 050 190 02400 0000	NF1 (Neighbourhood Facility Zone)	-
	63 Sackville St, Plan 395 PT Lot 84	London	5774 SF (.13 AC)	39 36 050 190 02100 0000	NF1 (Neighbourhood Facility Zone)	-
East London Branch	2016 Dundas St, Plan 18 PT LTS 1 & 2	London	2.550 AC	39 36 030 320 18500 0000	CF1 (Community Facility Zone)	5,868
Glanworth Branch	2950 Glanworth Drive	London	0.252 AC		NF1 (Neighbourhood Facility Zone)	320
Lambeth	7112 Beattie St.	London	.0250 AC		CF1 (Community Facility Zone) CF2	2,657
Landon	167 Wortley Rd, Plan 343 Bk C Pt Lots 4,5	London	0.233 AC	39 36 060 190 08400 0000	BDC (Business District Commercial Zone)	7,040
Masonville	30 North Centre Rd	London	1.007 AC	39 36 020 403 90000 0000	CF1 (Community Facility Zone)	13,200
Westmount	3200 Wonderland Rd S, Con 2 Pt Lot 36	London	1.540 AC	39 36 080 050 16002 0000	CSA6(1) (Community Shopping Area Zone)	14,602
Notes:						
Cherryhill Branch	LEASED	London				10,225
Northridge	LEASED	London				2,170
Pond Mills	LEASED	London				6,790
Sherwood	LEASED	London				12,742
Jalna	CITY OWNS LAND	London	0.965 AC			11,200