LONDON PUBLIC LIBRARY
POLICY

Policy: Tangible Capital Assets
Policy Type: Board Operational Linkage
Policy No: F-AM-01
Effective Date: March 28, 2019 **Revision Date:** March 2023

PURPOSE

The purpose of this policy is to prescribe the accounting treatment for tangible capital assets and to ensure that the London Public Library's ("LPL"/"the Library") investments in land, buildings, collections, furniture and equipment are reflected on the Library's financial statements in accordance with the Public Sector Accounting Board (PSAB) Handbook Section PS 3150. The principle matters 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 require compliance with PS 3150.

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; and
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. (This is also referred to as depreciation).

Available for Use: an asset is ready for productive use; i.e., the day the asset is occupied or goes into operation.

Betterments: are subsequent expenditures on tangible capital assets that:

- Increase service capacity;
- Lower associated operating costs;
- Extend the useful life of the asset; and
- 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; and/or
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.

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***
• Land	Capitalize only
• Buildings - structure	60 years
• Building components :	
Shell (siding, windows, roofing)	20 years

Interiors (partitions, doors)	30 years
Services (HVAC, lighting, communication, plumbing etc.)	20 years
Site works (parking lots etc.)	25 years
• Computer hardware	3 years
• Computer software	3 years
• Collections	7 years
• Library shelving	40 years
• Equipment (including portable)	3 years
• Vehicles	5 years
• Furniture and equipment	7 years

In general, tangible capital assets with a value of greater than $2,500, and which provide an ongoing future benefit, will be capitalized.

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

<u>Valuation</u>

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.

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 the purchase price plus legal fees, land registration fees, transfer taxes etc. Costs 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. The 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 conjunction with the City of London policy, the straight line method of amortization will be used. In the year an asset is available for use, amortization will be expensed at one half the applicable annual rate. However, the method of asset amortization, threshold levels and estimated useful life will be reviewed on an annual basis, with the policy being updated as required.

Capital Leases

Account for a capital lease as acquiring a capital asset and incurring a liability. The Public Sector Guidelines PSG-2 states that the capital asset and lease liability at the beginning of the lease term should be the present value of minimum lease payments.

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.

Works of Art

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

Write-Downs

When conditions indicate that a tangible capital asset no longer contributes to the Library's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the tangible capital asset should be reduced to reflect the decline in the asset's value.

The net write-downs of tangible capital assets should be accounted for as expenses in the statement of operations.

A write-down should not be reversed. (PS 3150.31)

Review

An annual review of the tangible capital assets will be conducted in order to identify and remove the cost and accumulated depreciation for assets that are no longer in use.

INQUIRIES:

Director, Financial Services
CEO & Chief Librarian

KEYWORDS:

Assets, tangible capital assets, PSAB, Public Sector Accounting Board, amortization, capitalization, useful life

RELATED DOCUMENTS:

Ontario Regulation 284/09, Municipal Act, 2001
City of London, Corporate Services Committee Report, June 18, 2013
Public Sector Accounting Board Handbook Section 3150
London Public Library's Sale or Other Disposition of Real Property Policy

DOCUMENT CONTROL:

Approved: October 8, 2009
Reviewed: October 24, 2013 (L13/60.1)
Reviewed: March 28, 2019 (L19/16.2)