Policy 3.1

Tangible Capital Assets Policy

PURPOSE

The purpose of this policy is to prescribe the accounting treatment for tangible capital assets so that the investments in property 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 assets, provide accountability over tangible capital assets, and gather and maintain information needed to prepare financial statements.

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. The asset category "Building Improvements" falls under this category. Building improvement expenditures are commensurate to tenant improvements involving a betterment of a tangible capital asset owned by a municipality (i.e. building).

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 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.

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.

eResources: or electronic resources include both databases and digital collections, which corresponds with the CULC[1] definition. Databases are purchased via subscription or license, usually on a year by year basis. Digital collections are entire works in electronic format for which the Library pays a one-time purchase price, although there may be ongoing associated hosting fees.

Group Assets (pooling): have an individual value below the capitalization threshold but have a material value as a group.

Impairment: is a condition whereby an asset's market value falls below its book value and the value reduction is expected to be permanent (e.g. damage), resulting in a write-down of the asset's value and recording of a loss.

Net Book Value: is the asset value minus the accumulated amortization of the asset.

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

POLICY

1. **Capitalization and Asset Categories:**
Tangible capital assets should be capitalized (recorded as a fixed asset on the balance sheet) according to the following:

Asset Category	Useful Life	Threshold
Furniture and Equipment	10 years	$1,000 pooled
Computer Hardware	5 years	$1,000 pooled
Automotive	3 years	$1,000
Shelving	20 years	$1,000 pooled
Building Improvements	10 years	$1,000 pooled
Computer Software	1 year	$1,000 pooled
Collections	7 years	pooled

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

2. **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.

[1] CULC – Canadian Urban Libraries Council

a) 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, and any other direct costs of getting the asset into condition necessary for its intended use, net of any trade discounts or rebates.

Other direct costs may include software if included with the physical capitalized equipment, and warranty costs for the first year only, if included in the acquisition price. Costs that will not be capitalized include training and maintenance unless these costs cannot be separated from the acquisition cost.

b) Capital Leases

Refer to the Definitions section of this policy on capital leases. Capital leases will be accounted for as a tangible capital asset with an equivalent liability.

c) Donated or Contributed Assets

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

d) Collection

Accounting for collections will be performed as follows:

- All costs associated with the acquisition of library collection materials, net of any supplier discounts, will be capitalized as an asset, with the following exceptions:
  - eResources (refer to Definitions section)
  - Periodicals
  - Binding of periodicals
  - Shipping
  - Processing
  - Refundable taxes

- Collection assets are assumed to have a useful life of seven (7) years;
- Donations of rare library materials valued at $2,000 or more will be capitalized. All other donations of library materials will be expensed in the year of acquisition. Valuation will be based on estimate or appraisal by a qualified, independent appraiser;
- Fully depreciated library collections having a life of eight (8) or more years will be removed each year from the financial records by reducing the pooled asset account for the recorded, pooled value of the items along with a corresponding amount from the accumulated amortization account;
- Library collections are considered disposed and removed from the asset pool, when weeded due to poor condition, redundancy, lack of interest or similar reason, or if they are lost or stolen;

- Disposal of library collections will be based on the list price per item from the year that the item was purchased minus the average supplier discount rate for all formats multiplied by the number of items disposed (List Price Methodology);
- Library collections for which an insurance claim settlement is received for loss or damage will be recorded depending on the situation, as follows:

  <u>Items lost and claim settled by replacement of items</u>
    - o Items will be disposed of using the List Price Methodology in the year of loss, with any net book value being recorded as a loss in the Statement of Operations
    - o Replacement items will be recorded in the collection at their replacement cost in the year of acquisition;

  <u>Items lost and claim settled by cash</u>
    - o Items will be disposed of using the List Price Methodology in the year of loss, with any net book value being recorded as a loss in the Statement of Operations
    - o The cash settlement will be recorded as a gain in the Statement of Operations
    - o The two items above will be netted and shown as a resulting net gain or loss;

  <u>Items damaged and claim settled by cash</u>
    - o An impairment charge will be made for the collection items based on the List Price Methodology, pro-rated by the number of years estimated to have been lost (i.e. reduction in the life of the asset)
    - o The cash settlement will be recorded as a gain on the Statement of Operations
    - o The two items above will be netted and shown as a resulting net gain or loss.

3. **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 for a full year.

Tangible capital assets are amortized based on their estimated useful lives as noted in this policy section 1 using the following methods:

Asset Category	Amortization method
Furniture and Equipment	Declining balance
Computer Hardware	Declining balance
Automotive	Declining balance
Shelving	Declining balance
Building Improvements	Declining balance
Computer Software	Declining balance
Collections	Straight line

4. Reporting

PS 3150.40 requires that the financial statement 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-down in the period
e) The amount of amortization in the period
f) Accumulated amortization at the beginning and end of the period
g) Net carrying amount at the beginning and end of the period

5. **Safeguarding Measures**

a) All Library employees that use and care for assets must ensure that reasonable safeguarding measures are in place at all locations where these assets reside to prevent damage to or the loss of such assets. In addition reasonable and appropriate measures are necessary to identify, track or tag the physical existence and location of all assets. Periodic verification to the existence and condition of assets should be conducted.
b) Any assets considered surplus or scrap or otherwise disposed of should be removed or redeployed in accordance with the *Surplus Asset/Redeployment Disposal* Procedure. This procedure ensures that the appropriate people in the Finance Department are notified and the asset disposed of is accounted for in accordance with PSAB.

6. Intangibles not capitalized

The library manages and controls various works of art and non-operational historical cultural assets including artifacts, paintings and sculptures located at branch sites and public display areas.

These assets are not recorded as tangible capital assets and are not amortized. Library staff will maintain an inventory of these assets for the purposes of disclosure and insurance.

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