

## London Public Library

### Tangible Capital Assets Policy

**Effective:** April 20, 2023

**Next Review:** April 2027

#### **PURPOSE:**

To prescribe the accounting treatment for Tangible Capital Assets (TCAs) and to ensure that the London Public Library's (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 principal 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 TCAs, provide accountability over TCAs, and gather and maintain information needed to prepare financial statements.

#### **DEFINITIONS:**

**Amortization:** means the accounting process of allocating the cost less the residual value of a TCA to operating periods as an expense over its Useful Life. (This is also referred to as depreciation).

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

**Betterments:** means subsequent expenditures on TCAs 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 TCA'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:** means 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 asset by the end of the lease term, either at no cost (i.e. ownership is transferred directly) or via a bargain purchase option;
- 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 asset over its life span (i.e. the lease term is at least 75% or more of the economic life of the leased asset); and/or
- c) The lessor would be assured of recovering the investment in the leased asset and of earning a return on the investment as a result of the lease agreement if the present value, at the beginning of the lease term, of the minimum lease

payments, excluding any executory costs, is equal to substantially all (i.e. 90% or more) of the fair value of the leased asset at the inception of the lease.

**Capitalization Threshold:** means the minimum amount that expenditures must exceed (\$2,500) 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.

**Pooled Assets:** means a group of assets having an individual value below the Capitalization Threshold but have a material value when pooled/grouped together. 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.

**Tangible Capital Assets (TCAs):** means 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 held for use in the supply of services, for rental to others, or for administrative purposes; and
- d) Are not held for re-sale in the ordinary course of operations.

**Useful Life:** means the estimate of the period over which a tangible capital asset is expected to be used by the Library. The life of a tangible capital asset, other than land, is finite and is normally the shortest of the asset's physical, technological, commercial or legal life.

**POLICY:**

**1. Capitalization and Asset Categories**

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

<b>Category</b>	<b>Useful Life (years)</b>
Land	Capitalize only
Capital Leases	Lease term
Building Structures	60
Building Components	-
• Shell (siding, windows, roofing)	20
• Interiors (partitions, doors)	30
• Services (HVAC, lighting, communication, plumbing etc.)	20
• Site works (parking lots etc.)	20
Computer Hardware	3
Computer Software	3

Equipment (Including Portable)	3
Furniture & Equipment	3
Library Collections	7
Library Shelving	40
Vehicles	5

In general, TCAs 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, except for capital leases, in order for the asset to qualify as a capital asset.

## 2. Valuation

TCAs should be recorded at cost plus all ancillary charges necessary to place the asset in its intended location and condition for use. Cost also includes the asset retirement cost accounted for in accordance with Asset Retirement Obligations, PS 3280.

### 2.1. 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.

### 2.2. 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; however, directly attributable overhead costs are allowed.

### 2.3. 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.

## 3. Componentization

TCAs 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 TCA.
- b) The value of the components in relation to the related capital TCA.

#### **4. Amortization**

- The cost, less any residual value, of a TCA 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 and based upon the Library's best estimate for the expected usage of the asset, the straight-line method of Amortization will be used. In the year an asset is Available for Use and year of Disposal, 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.

#### **5. 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.

##### **5.1 Lease Term**

Lease term is the fixed non-cancellable period of the lease plus:

- a) all periods covered by bargain renewal options;
- b) all periods for which failure to renew would impose on the lessee a penalty sufficiently large that renewal appears, at the inception of the lease, reasonably assured;
- c) all periods covered by ordinary renewal options during which the lessee has undertaken to guarantee the lessor's debt related to the leased property;
- d) all periods covered by ordinary renewal options preceding the date on which a bargain purchase option is exercisable; and
- e) all periods representing renewals or extensions of the lease at the lessor's option;

Provided that the lease term does not extend beyond the date a bargain purchase option becomes exercisable.

The lease term is considered to be non-cancellable if cancellation is possible only:

- a) upon the occurrence of some unlikely contingency; or
- b) with permission of the lessor; or
- c) upon the lessee entering into a new lease for the same or equivalent property with the same lessor; or
- d) upon payment by the lessee of a penalty sufficiently large that continuation of the lease appears at the inception of the lease, reasonably assured.

## **5.2 Minimum Lease Payments**

From the point of view of the Library, minimum lease payments comprise:

- a) the minimum rental payments called for by the lease over the lease term;
- b) any partial or full guarantee, by the Library or a third party related to the Library, of the residual value of the leased property at the end of the lease term. When the Library agrees to make up a deficiency in the lessor's realization of the residual value below a stated amount, the guarantee to be included in the minimum lease payments would be the stated amount rather than an estimate of the deficiency to be made up;
- c) any penalty required to be paid by the Library for failure to renew or extend the lease at the end of the lease term; and
- d) additional rentals that can be reasonably estimated at inception of the lease (e.g., those that relate to a minimum estimable amount of usage, such as expected school enrolment);

Provided that if the lease contains a bargain purchase option, only the total of the minimum rental payments over the lease term and the payment called for by the bargain purchase option would be included in minimum lease payments.

## **5.3 Disclosure Requirements**

The following information should be disclosed with respect to a Library's leased tangible capital assets:

- a) The gross amount of leased tangible capital assets and related accumulated amortization should be disclosed. Disclosure of leased tangible capital assets and accumulated amortization by major category (for example, land, buildings, machinery) may be desirable.
- b) Liabilities related to leased tangible capital assets should be shown separately from other liabilities. Particulars of liabilities related to leased tangible capital assets, including interest rates and expiry dates, should be shown separately from other long-term liabilities. Significant conditions of the lease agreement should be disclosed, including future contractual obligations, purchase options, terms of renewal and contingent liabilities, and

- circumstances that require or result in the Library's continuing involvement in the contractual arrangement.
- c) The amount of amortization of leased tangible capital assets included in the determination of operating results should be disclosed separately or as part of amortization expense for tangible capital assets. Disclosure should also be made of methods and rates of amortization.
  - d) Interest expense related to lease liabilities should be disclosed separately, or as part of interest on long-term debt.

## **6. Reporting**

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

- a) Cost at the beginning and end 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 TCAs 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.

PS 3150.42 identifies additional information to be disclosed, including:

- a) The amortization method used, including the amortization period or rate for each major category of tangible capital asset;
- b) The net book value of tangible capital assets not being amortized because they are under construction or development or have been removed from service;
- c) The nature and amount of contributed tangible capital assets received in the period and recognized in the financial statements;
- d) The nature and use of tangible capital assets recognized at nominal value;
- e) The nature of the works of art and historical treasures held by the Library; and
- f) The amount of interest capitalized in the period.

## **7. Works of Art**

As per PS 3150.08, works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually. Works of art and historical treasures would not be recognized as tangible capital assets in the Library's financial statements because a reasonable estimate of the future benefits associated with such property cannot be made. Nevertheless, the existence of such property should be disclosed. Works of art or archival records will be recorded, with no cost, date of acquisition, or Amortization.

## **8. Write-Downs**

- When conditions indicate that a TCA no longer contributes to the Library's ability to provide goods and services, or that the value of future economic benefits associated with the TCA is less than its net book value, the cost of the TCA should be reduced to reflect the decline in the asset's value.
- The net write-downs of TCAs should be accounted for as expenses in the statement of operations.
- A write-down should not be reversed. (PS 3150.33)

## **9. Review**

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

This TCA Policy will be reviewed and updated every four years.

### **INQUIRIES:**

Director, Financial Services  
CEO & Chief Librarian