

APPENDIX C

Tangible Capital Assets Policy

General

It is the policy of the Prince George Public Library to record and account for the tangible capital assets controlled by the Library in the annual financial reports. These include capital assets that are owned and assets under capital lease.

Purpose

The goal of this policy is to ensure that the Library's investment in tangible capital assets is recorded appropriately and accurately. This policy will aid in the achievement of the following goals:

- To meet legislative and policy requirements to establish and maintain asset accounting records. This includes compliance with PS3150.
- To improve the understanding of asset accounting processes by all stakeholders; and
- To apply consistent accounting treatment of asset related transactions.

Scope

This policy applies to all tangible capital assets controlled by all Prince George Public Library departments. Managers of each respective department will be responsible for signing off annually on asset inventories, assisting in establishing estimates of useful life and initial valuations of existing assets, and to ensure that their staff are made aware of any impacts that the TCA implementation will have on their duties (e.g. documenting disposals, and recording appropriate information for new assets).

Tangible Capital Assets

Tangible capital assets are non-financial assets having physical substance that:

- Are held for use in the supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- Have useful economic lives extending beyond one year;
- Are to be used on a continuing basis; and

- Are not for sale in the ordinary course of operations.

Examples of Tangible Capital Assets include buildings, vehicles, furniture, equipment, land, and computer hardware and software.

When to Account For Tangible Capital Assets

A tangible capital asset should be accounted for and recognized in the financial statements when:

- It is probable that future benefits associated with the tangible capital asset will be obtained;
- There is an appropriate basis of measurement and a reasonable estimate of the value of the asset can be made; and
- The asset is in use. Prior to an asset being put into use (for example when it is under construction), it will be recorded in a work-in-progress account.

Tangible Capital Asset Cost

When acquired, tangible capital assets are measured at cost. Cost is the amount of cash paid and/or the fair value of other assets given up in exchange for the asset. It includes all charges, including carrying costs, necessary to place the asset in its intended location and condition for use.

Donated or Contributed Asset Costs

Tangible capital assets that are donated or contributed to the Library must be recorded at fair value as of the date of transfer. If the Library is the donor or transferor, a deemed disposition is recorded at fair value.

Grants and cash donations received to help fund the costs of a capital asset do not reduce the cost of the asset. The amount used from grants and/or cash donations to pay for tangible capital assets will be transferred into operational funds and the asset will be capitalized and amortized in the same way as all other asset purchases.

Asset Types

Asset types and descriptions are provided in the table below:

ASSET TYPE	DESCRIPTION	THRESHOLD (note 1)
Land	<p>Real property in the form of a plot, lot or area.</p> <ul style="list-style-type: none"> Includes all expenditures made to acquire land and to ready it for use where the improvements are considered permanent in nature and includes purchase price, closing costs, grading, filling, draining, clearing, removal of old buildings (net of salvage), assumption of liens or mortgages, and any additional land improvements that have an indefinite life. 	\$0 (capitalize all)
Land Improvements	<p>Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, and which generally decay or break down over time.</p> <p>Land improvements include but are not limited to:</p> <ul style="list-style-type: none"> construction of driveways, parking lots, retaining walls, drop off locations, sidewalks, fencing, patios, water fountains etc. 	\$10,000
Buildings	<p>Buildings include all structures that provide shelter from the elements. It includes betterments to buildings that are owned by the Library.</p>	\$5,000
Machinery & Equipment	<p>An apparatus, tool, device, implement or instrument that uses energy to facilitate a process, function or completion of a task. Machinery & Equipment may also include furniture and fixtures. It may be installed within a building, but is generally capable of being moved and reinstalled at a different location, if necessary.</p> <p>Machinery & Equipment includes but is not limited to:</p> <ul style="list-style-type: none"> Telephone switches/networks, office equipment, audio visual equipment, etc. 	\$1,000
Vehicles	<p>A means of licensed transportation, usually having wheels, for transporting persons or things or designed to be towed behind such an apparatus.</p>	No threshold
Computer Infrastructure	<p>Consists of purchased computer equipment and software (including pooled assets)</p>	\$1,000
Library Collection	<p>The library collection is a pooled asset that consists of those materials that have a useful life exceeding one year. This includes hardcover books, trade paperbacks, e-books, microfilm, and standing orders. This does not include items such as mass market paperbacks, DVD's, CD's, books on CD, magazines, telephone books, or database subscriptions.</p>	\$1,000

Tangible Capital Asset Thresholds

Tangible capital assets should be capitalized according to the thresholds noted in the table in the prior section.

Note 1 – Similar assets that have a unit value below the capitalization threshold but have a material value as a group (such as the library collection) can be combined to create a pool. Examples of assets that can be pooled are library books and computer hardware and software. The pooled capitalization threshold is the same as the single asset type threshold.

Replacements

If the component being replaced has previously been segregated in the asset accounting register as a distinct asset for amortization over its specific expected useful life, then the new component is capitalized and the old component is retired with its residual net book value removed from the accounts.

Betterments

A betterment is the cost incurred to enhance the service potential of a tangible capital asset. Service potential is enhanced if one of the following occurs:

- There is an increase in the previously assessed physical output or service capacity;
- Associated operating costs are lowered;
- The original useful life is extended; or
- The quality of output is improved.

Betterments and replacements include additions to a tangible capital asset or a substitution of a component part of a tangible capital asset. The distinguishing feature between a betterment and a replacement is that a betterment is the substitution of a better component for one currently used. A replacement on the other hand, is the substitution of a similar component.

Repairs and Maintenance

The cost incurred in the maintenance of the service potential of a tangible capital asset is a repair, not a betterment. Ordinary repairs are expenditures made to maintain assets in operating condition; they are charged to an expense account in the period in which they are incurred on the basis that it is the only period benefited. Replacement of minor parts, lubricating and adjusting of equipment, repainting and cleaning are examples of the type of maintenance charges that occur regularly and are treated as ordinary operating expenses.

Write-down/Write-off

A write-down is used to reflect a partial impairment in the value of a tangible capital asset. The carrying value of a tangible capital asset should be written down if it can no longer contribute to the Library's ability to provide service at the previously anticipated level and the impairment is permanent in nature.

A write-off is a 100% reduction in the net book value of a tangible capital asset to reflect the decline in the asset's value due to a permanent impairment.

Once an asset is written down or off, the transaction cannot be reversed. An asset that has been previously written down cannot be written up in a subsequent period. Similarly an asset that has been written off cannot be written on at a later date.

Asset Disposal

Disposals occur when the ownership of a tangible capital asset is relinquished and may occur by sale, loss, destruction or abandonment. Upon disposal of a tangible capital asset, whether by sale, loss, destruction or abandonment, the difference between the net proceeds on disposal and the net book value should be recognized as a gain or loss in the period the transaction to dispose of the tangible capital asset is completed.

Amortization

Amortization is the accounting process of allocating the cost of a tangible capital asset to operating periods as an expense over its useful life in a systematic manner. All Library assets will be amortized using the straight line method which allocates the cost of the asset evenly over its' useful life. In the year of acquisition, and again in the final year of an asset's useful life, one half of a full year's worth of amortization will be expended. The year of acquisition will be determined based on the acquisition date. The acquisition date of a tangible capital asset is the earliest of:

- The date on which the tangible capital asset being constructed is complete and ready to be put into service. In most cases, amortization will begin when capital projects are closed. Therefore, capital projects must be closed in the quarter immediately following the asset being put into service. In cases where the capital project must be kept open, the project will be deemed to be complete and amortization will begin when the certificate of substantial completion is received. For projects that do not receive a certificate of substantial completion, amortization will begin when the asset is available for use;
- The date legal ownership of the tangible capital asset is obtained by the Library; or
- The date the product is received.

Useful Life of a Tangible Capital Asset

The useful life of an asset or part of an asset is the period over which an asset is expected to be used. The estimated useful life of the asset will be established by collaboration between operating departments and appropriate Administrative staff. The information, once compiled, will be incorporated into this policy where possible.

- Useful life is normally the shortest of the asset's physical, technological, commercial or legal life.
- The useful life of a tangible capital asset depends on its expected use by the Library. Factors to be considered in estimating the useful life of a tangible capital asset include:
 - a) Expected future usage;
 - b) Effects of technological obsolescence;
 - c) Expected wear and tear from use or the passage of time;
 - d) The maintenance program in place;
 - e) Studies of similar items retired; and
 - f) The condition of existing comparable items.
- The useful life of an asset should be reviewed on an annual basis. If expectations differ from previous estimates, the change in useful life is to be accounted for as a change in an accounting estimate. Significant events that may indicate a need to revise the remaining useful life of a tangible capital asset include, but are not limited to the following:
 - a) A change in the extent to which the tangible capital asset is used;
 - b) A change in the manner in which the tangible capital asset is used;
 - c) Removal of the tangible capital asset from service for an extended period of time;
 - d) Physical damage;
 - e) Significant technological developments;
 - f) A change in the demand for the services provided through use of the tangible capital asset; and

g) A change in the law or environment affecting the period of time over which the tangible capital asset can be used.

Useful Life Guidelines

The table found in Appendix A includes general guidelines for the useful life of Library assets. Assets are to be looked at on an individual basis when determining initial useful life estimates as well as subsequent adjustments as necessary.

Library Collection Valuation and Amortization

The library collection of monographs will be valued at cost plus all carrying charges and non-refundable taxes. The amortization will be straight-line over 5 years beginning with 10% in the year of acquisition. Due to the intricacy in establishing a value for discards, an amount equal to the original cost for a given group of annual purchases (e.g. all monographs purchased in 2005) will be deemed discarded in the fiscal year that the final portion of amortization is recorded for that group of purchases. For example, 2005 monograph purchases will be fully amortized in 2010 and, as a result, will be discarded in 2010.

Administration

At the onset of the new treatment for the assets of the Library, the accounting for tangible capital assets involves taking an inventory of exiting Library assets, recording initial valuations of the opening inventory based on actual or estimated costs, determining opening amortization figures, and segregating these figures for 2008 and 2009. New accounts will be set up in the accounting system and incorporated into the financial statements. Budget lines that are impacted by changes to the recording of TCA's will be modified. The budgeting process for 2010 forward will also be impacted by these changes.

Accounting staff works with the managers to ensure that new purchases are correctly recorded according to this policy. Accounting staff will maintain asset listings and, at the end of each accounting cycle, prior to completion of the annual audit, they will provide managers of each department with their respective asset lists. Managers will review the tangible capital assets for existence, impairment, and remaining useful life. The Controller/Accountant is responsible for computing amortization expenses, disposal amounts, write-downs, and assessing useful life estimates along with recording the adjusting journal entries. The auditor will be involved in review of the initial implementation and provide input with valuations and useful life estimates going forward.

With board approval, this document may be revised as needed to reflect unforeseen needs.

Assets - Major Class	Asset - Sub Class	Description	Useful Life (years)	
Capital - Land	Land		infinite	
	Land Improvements		15	
Capital - Building	Building		50	
	Building Improvements		30	
Capital - Furniture	Bookshelves & Book Display - Public	All book shelves and book displays in public areas	20	
	Cabinets - Public	File Cabinets, Metal Storage Cabinets, Other Cabinets in public areas	15	
	Chairs - Public (Pooled)	All chairs in public areas	10	
	Desks - Public	All desks and computer stations in public areas	20	
	Counters	Reference Counter, Work Space Counter, Other Counter	20	
	Tables - Public (Pooled)	Folding tables, non-folding tables, other tables in public areas	15	
	Office Furniture - Staff	Furniture used by staff incl desks, cabinets, shelving, etc (chairs pooled)	varies	
	Other - public	Fish tanks, plant collection, etc in public areas	varies	
	Other - Staff	Safes, etc in staff only areas	varies	
	Capital - Equipment	Audio visual - public	All audio visual items available for the public (eg microfiche stations)	5
Audio visual - staff		All audio visual items used by staff (eg projectors)	5	
Photocopies/fax machines - Public		Photocopiers, fax machines, used by the public	15	
Photocopies/fax machines - Staff		Photocopiers, fax machines, used by staff	5	
Printers - Public		Printers used by the public	5	
Printers - Staff		Printers used by staff	5	
Telecommunications		Switchboard phone system, security system/alarms, etc	10	
Trolleys		Rolling trolleys, book trolleys	6	
Other - Public		Other equipment that meets capitalization threshold	varies	
Other - Staff		Other staff equipment that meets capitalization threshold (eg shredders)	varies	
Vehicles		Cars, trucks, trailers	5	
Capital - Computer Infrastructure		Software - Public	Single use software, other software [NOT ILS software, see 1706]	5
		Software - Staff	Single use software, other software	5
		Monitors - Public (Pooled)	All computer monitors available for the public	3
	Monitors - Staff (Pooled)	All computer monitors used by staff	3	
	PC's - Public (Pooled)	Desktop hardware, laptops, other hardware available for the public	3	
	PC's - Staff (Pooled)	Desktop hardware, laptops, other hardware used by staff	3	
	Integrated Library System	ILS system including software, customizations, initial project mgmt/consulting	10	
	Other - Public	Other public computer components that meet capitalization thresholds	varies	
	Other - Staff	Other staff computer components that meet capitalization thresholds	varies	
	Monographs (pooled)	Hardcover books, trade paperback books	5	
	Standing Orders (pooled)	Materials that the publisher is authorized to supply as updated	5	
Capital - Library Collection	E-Books (pooled)	Purchased electronic books	5	
	Microfilm (pooled)	Rolls of microfilm	50	
	Other	Other collection items that meet minimum capitalization thresholds	varies	
	Big Steel Box	Blue storage bin, steel	20	
	Other - Public		varies	
Capital - Other	Other - Staff		varies	