

<b>Category:</b>	Finance
<b>Policy Number:</b>	3-5
<b>Policy Name:</b>	Tangible Capital Assets

**Purpose:**

This policy prescribes the accounting and financial reporting treatment of tangible capital assets for the Waterloo Public Library for the purposes of financial statement presentation.

This policy applies to financial results for fiscal years ending after January 1, 2009.

**Definitions:**

**“Accrual Based Accounting”** means a system of accounting that measures the economic impact of transactions and economic events rather than cash flows.

**“Amortization”** is a rational and systematic manner of allocating the cost of an asset over its estimated useful life.

**“Betterment”** is an enhancement to the service potential of a tangible capital asset such as:

- An increase in the previously assessed physical output or service capacity
- A reduction in associated operating costs; an extension of the estimated useful life
- An improvement in the quality of output

**“Capitalization threshold”** is the minimum cost an individual asset must have before it is recorded as a capital asset on the statement of financial position.

**“Cost”** is the amount of consideration given up to acquire, construct, develop or better a capital asset and includes all costs directly attributable to its acquisition, construction, development or betterment, including installing the asset at the location and in the condition necessary for its intended use. The cost of a contributed capital asset is considered to be equal to its fair value at the date of contribution.

**“Disposal”** refers to the removal of a capital asset from service as a result of sale, destruction, loss or abandonment.

**“Fair Value”** is the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.

**“Gain on disposal”** is the amount by which the net proceeds realized upon an asset’s disposal exceeds the asset’s net book value.

**“Historical cost”** means the sum of all costs that were incurred in the past to acquire or better an asset.

**“Loss on disposal”** is the amount by which the net book value of a capital asset exceeds the net proceeds realized upon the asset’s disposal.

**“Net Book Value”** is the capital asset cost less accumulated amortization and any write-downs.

**“Pooled Assets”** are similar assets that have a unit value below the capitalization threshold (on their own) but have a material value as a group. Such assets can be ‘pooled’ as a single asset with one combined value.

**“Residual Value”** means the estimated net realizable value of a capital asset from disposal or trade-in of an asset at the end of its estimated useful life.

**“Tangible capital assets”** are non-financial assets having physical substance that are purchased, constructed, developed or otherwise acquired and are held for use by the Library in the production or supply of goods, the delivery of services or to produce program outputs; have a useful life beyond one year and are intended to be used on a continuing basis; and are not intended for sale in the ordinary course of operations.

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**“Service potential”** is the capital asset’s output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

**“Straight-Line Method”** is an amortization method which allocates the cost of a capital asset equally over each year of its estimated useful life.

**“Useful life”** is the estimate of the period over which a tangible capital asset is expected to be used or the number of units of production that can be obtained from the asset. It is the period over which an asset will be amortized and is normally the shortest of the physical, technological, commercial or legal life. The life of a tangible capital asset may extend beyond its useful life.

**“Library”** means the Waterloo Public Library.

**“Library Board”** means the Waterloo Public Library Board.

**“Write-down”** is a reduction in the cost of a capital asset as a result of a decrease in the quality or quantity of its service potential. A write-down should be recorded and expensed in the period the decrease can be measured and is expected to be permanent.

**The objective of this policy is to outline the accounting treatment for tangible capital assets. In particular, this policy is intended to:**

- Establish accounting policies for tangible capital assets in accordance with *PS 3150- tangible capital assets, PS 3060- Government Partnerships, Public Sector Guideline 2 (PSG-2) – Leased Tangible Capital Assets* and their respective representation on the financial statements effective January 1, 2009
- Establish consistent approach to accounting estimates in areas where measurement uncertainty exists in accordance with *CICA Section 1508 – Accounting for Estimates*
- To ensure consistent, transparent treatment of all tangible capital assets and the reporting of the financial results

**Application and Scope:**

This policy applies to all tangible capital assets owned, purchased, leased and constructed by the Library. Intangible assets are not covered by this policy.

This policy should be read in conjunction with *PSAB Handbook Section PS 3150 and PS Sections 1000 – Financial Statement Concepts, PS 1100 – Financial Objectives, PS 1200 – Financial Statement Presentation, PS 2700 – Segment Reporting.*

**Principles:**

The policy is designed to ensure that the generally accepted accounting principles are reflected in all accounting practices and reflected on the annual financial statements.

The following principles and goals should be considered when determining the accounting treatment of tangible capital assets and during the procurement activities.

Authority is to be delegated to the appropriate level to enable the Library to meet service requirements while preserving the asset accounting policies and principles.

Efficient, effective and quality service and product delivery through effective asset management practices while meeting the generally accepted accounting principles as set out in the *PSAB Standards* are the responsibility of all managers.

**Tangible Capital Assets:**

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As defined in *PS3150*, tangible capital assets are non-financial assets having physical substance that:

- Are held for use in the production or 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 an accounting period
- Are under control and beneficial ownership of the Library
- Include land, land improvements, buildings, infrastructure assets, furniture and equipment including purchased computer software and hardware and resource materials
- Include spare parts, acquired as part of the same procurement as the original capital asset, will be considered integral to the acquisition of the asset and form part of the total cost of the tangible capital asset
- Are to be used on a continuing basis
- Are not for sale in the ordinary course of operations

**Asset Classes:**

Tangible capital assets will be classified as follows:

- Land
- Land Improvements
- Buildings and building Improvements
- Shelving and furniture
- Specialty and other equipment
- Computer hardware and software
- Resource Materials, Collections

**Capitalization Threshold:**

Tangible Capital Assets that are pooled and have a combined total value of \$50,000 or greater will be capitalized.

Tangible Capital Assets will be capitalized when the individual unit cost meets or exceeds the following thresholds:

- Buildings and building improvements: \$10,000
- Shelving and furniture: \$5,000
- Specialty and other equipment: \$5,000
- Computer hardware & software: \$5,000
- Resource materials: no threshold

Tangible Capital Assets that have a useful life of greater than one year but a per unit cost that is less than the thresholds will be expensed in the year of purchase unless it is an asset that is included in an asset pool. These assets may be tracked for asset management purposes.

All land will be capitalized regardless of cost and land improvements with a unit cost of \$5,000 or greater will be capitalized.

**Pooled Tangible Capital Assets:**

Due to the large financial impact and large numbers purchased, there are certain assets that represent a material pooled asset. The Library will create pools of assets when it believes that the pool of assets represent

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a significant pool of tangible capital assets that has or will have a significant financial impact.

Capital inventory disposal will be accounted for utilizing the First-in First-out (FIFO) method.

**Historical Cost:**

As per *PS3150*, tangible capital assets are to be recognized on the *Statement of Financial Position* as non-financial assets and are to be recorded at cost. In accordance with *GAAP* and to be consistent with the *Financial Statement Objectives* in *PS 1100*, cost is defined as historical cost as it is considered to be the only reliable and relevant information available to appropriately represent the cost of providing services.

Cost is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use.

The cost of a tangible capital asset includes the purchase price of the asset and other acquisition costs such as:

- Installation costs
- Design and engineering fees
- Legal fees
- Survey costs
- Site preparation costs
- Freight charges
- Transportation insurance costs
- Duties and brokerage fees

If a capital asset is donated to the Library, the cost is its fair value at the date of contribution. Fair value of a donated capital asset may be estimated using market or appraised value.

When the Library receives funds from a third party, such as the provincial or federal government, to assist with the construction or purchase of a capital asset, the full cost of the asset should be recorded. The funds received should be recognized as revenue.

**Betterments versus Maintenance:**

Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset. Betterment is a cost incurred to enhance the service potential of a tangible capital asset.

Betterments are expenditures relating to the alteration or modernization of an asset that appreciably prolong the item's period of usefulness or improve its functionality.

The following basic distinctions can be used to identify maintenance and betterments:

- Maintenance and repairs maintain the predetermined service potential of a tangible capital asset for a given useful life. Such expenditures are expensed in the accounting period in which they are incurred.
- Betterments increase service potential (and may or may not increase the remaining useful life of the tangible capital asset). Such expenditures would be included in the cost of the related asset

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Determination of betterments will be undertaken during the annual budget exercise as much as possible in order to determine the impact on the financial statements.

Where a cost cannot easily be differentiated between a repair and betterment, the cost should be expensed in respecting the accounting principle of conservatism.

**Amortization of Tangible Capital Assets:**

Amortization of tangible capital assets reflects the cost of utilizing the tangible capital asset in providing services. The cost of property, equipment and other capital assets is essentially a long-term prepayment of an expense in advance of the use of the asset. As the economic service life of the asset expires, the cost of the asset is systematically allocated to operations as an expense called “amortization”.

Periodic amortization expense should be an allocation of the historical cost of the asset less expected residual value, if applicable, to operations in proportion to the economic benefits received each period from the use of the asset.

The cost of the tangible capital asset, less any residual value, is amortized over its useful life in a rational and systematic manner appropriate to its nature and use.

Land has an unlimited estimated useful life and will not be amortized.

The amortization of the costs of tangible capital assets is accounted for as expenses in the statement of operations. Amortization expense is an important part of the cost associated with providing services, regardless of how the acquisition of tangible capital assets is funded.

The service life of an asset should be determined on a basis that is linked with the expiration of the economic benefits.

Amortization of constructed assets will commence starting the fiscal year following the year that the tangible capital asset is put in service.

Amortization of purchased assets that meet the capitalization threshold shall be recorded at a minimum annually commencing the fiscal year following the year that the asset was put into service.

For pooled assets, where purchases and disposals affect the pool balance throughout the year, the amortization calculation may be based on the estimated pool balance rather than actual.

**Determination of Useful Life of a Tangible Capital Asset:**

Useful life is the estimate of the period over which a tangible capital asset is expected to provide services. The life of a tangible capital asset may extend beyond its estimated useful life. The life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial and legal life.

The useful life of a tangible capital asset depends on its expected use. Factors to be considered in estimating the useful life of a tangible capital asset include:

- Experience with similar assets through use
- Expected future usage

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- Effects of technological obsolescence
- Expected wear and tear from use or the passage of time
- The maintenance program
- Studies of similar items retired
- The condition of existing comparable items

Generally, the useful lives will be utilized for the asset classes. However, the determination of the useful life of any particular asset must be done based upon the factors listed above. As a guideline assets should be amortized over the following life spans:

- The original cost of land is not amortized
- Land Improvements: 10 to 25 years
- Buildings: 20 to 30 years
- Shelving and furniture: 10 to 30 years
- Specialty and other equipment: 8 to 15 years
- Computer hardware and software: 3 to 10 years
- Resource materials: 2 to 10 years
- Betterments: over the useful life of the asset to which the improvement was made or the useful life of the betterment if significantly shorter

Estimated useful life spans for the Library's asset classes are outline in Appendix A, attached.

**Amortization Method:**

As a general principle, the Library will utilize a straight-line method of amortization based on original life for all tangible capital assets except in conditions where it would be deemed more appropriate to use a different method. The Library Board shall approve any alternative methods considered.

The straight-line method of amortization is based on the assumption that an asset provides equivalent service or value for its use each year of its life. Straight-line depreciation has a constant amount of depreciation recognized per time period.

Tangible capital assets shall be deemed to have no residual value for purposes of calculating amortization. For items that have been fully amortized, any eventual sale proceeds received shall be recorded as a "gain on sale of asset". Any costs related to the disposal of a fully amortized item shall be recorded as a "loss on disposal of asset."

**Review of Amortization Method and Estimate of Useful Lives:**

The amortization method and estimate of the useful life of the remaining unamortized portion of a tangible capital asset should be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated.

Significant events that may indicate a need to revise the amortization method or the estimate of the remaining useful life of a tangible capital asset include:

- A change in the extent to which the tangible capital asset is used
- A change in the manner in which the tangible capital asset is used
- Removal of the tangible capital asset from service for an extended period of time
- Physical damage

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- Significant technological developments
- A change in the demand for the services provided through use of the tangible capital asset
- A change in the law or environment affecting the period of time over which the tangible capital asset can be used

**Impairment of Assets (Write-Downs of Tangible Capital Assets):**

*PS 3150 – Tangible Capital Assets* states that when conditions indicate that a tangible capital asset no longer contributes to an organization'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 the tangible capital asset will be accounted for as an expense in the statement of operations and cannot be reversed. Consequently, the decision to write-down an impaired asset could have a significant impact on the annual surplus or deficit. It is important to note, however, that this is simply a timing difference. Eventually, the impairment of the asset will be reflected on the statement of operations, which is upon disposal.

The Library should write down the cost of a tangible capital asset when it can demonstrate that the reduction in future economic benefits is expected to be permanent. A write-down of an asset is generally more desirable than a change in amortization method since those decisions are policy decisions affecting prior accounting periods.

Conditions that may indicate that the future economic benefits associated with a tangible capital asset have been reduced and a write-down is appropriate include:

- A change in the extent to which the tangible capital asset is used
- A change in the manner in which the tangible capital asset is used
- Significant technological developments
- Physical damage
- Removal of the tangible capital asset from service
- A decline in, or cessation of, the need for the services provided by the tangible capital asset
- A decision to halt construction of the tangible capital asset before it is complete or in usable or saleable condition
- A change in the law or environment affecting the extent to which the tangible capital asset can be used

The persistence of such conditions over several successive years increases the probability that a write-down is required unless there is persuasive evidence to the contrary.

When the tangible capital asset no longer contributes to the Library's ability to provide goods and services, it would be written down to residual value, if any. This would be appropriate when the Library has no intention of continuing to use the asset in its current capacity, and there is no alternative use for the asset.

In other circumstances, it will be necessary to estimate the value of expected remaining future economic benefits. Where the Library can objectively estimate a reduction in the value of the asset's service potential to the Library, and has persuasive evidence that the reduction is expected to be permanent in nature, the tangible capital asset would be written down to the revised estimate of the value of the asset's remaining service potential.

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**Disposals:**

Under PS3150, the difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset should be accounted for as a revenue or expense in the statement of operations.

Disposals of tangible capital assets in the accounting period may occur by sale, trade-in destruction, loss or abandonment. Such disposals represent a reduction in the Library’s investment in tangible capital assets, regardless of how that investment is reported.

**Capital Leases:**

The determination of a capital versus an operating lease needs to be undertaken in all leasing situations.

This section is designed to assist the Library in determining whether or not the lease of tangible capital assets meets the definition of a capital lease. If a capital lease meets the definition below, the asset must be capitalized and reflected as an asset on the financial statement.

A leased tangible capital asset is defined in *Public Sector Guideline 2 (PSG-2)* as follows:

*“A leased tangible capital asset is a non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease by a government for use, on a continuing basis, in the production or supply of goods and services. Under the terms and conditions of the lease, substantially all of the benefits and risks incident to ownership are, in substance, transferred to the government without necessarily transferring legal ownership.”*

A tangible capital asset procured and financed meeting the definition of a capital lease must be capitalized in the same manner as all other tangible capital assets and follow this policy.

**Document Record:**

June 2010	Initial Release
May 2014	Reviewed
June 2019	Reviewed

**Appendix A**

The City of Waterloo will compile and maintain records and prepare reports for the following tangible capital assets related to the Library:

- Land
- Land improvements
- Buildings and Building improvements

The Library will compile and maintain records and prepare reports for the following tangible capital assets:

- Shelving and furniture
- Specialty and other equipment
- Computer hardware and software
- Resource materials, collections

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**Useful life:**

Estimates of useful life will be determined based on reasonable assumptions and in consideration of such factors as outlined above. The estimated useful lives shown here are intended to apply to assets in new condition. When used assets are acquired the estimated useful lives should be reduced based on the age and condition of the asset.

Asset categories are assigned useful lives as follows:

- Shelving: 25 years
- Furniture: 10 years
- Specialty and other equipment: 10 years
- Computer hardware: 3 years
- Computer software (Office): 3 years
- Computer software (HRIS; ILS): 10 years
- Resource materials, collections (*pooled asset*): 7 years

**Pooled Assets:**

Resource materials, collections.

Individual items of resource materials in collections have a unit value below a reasonable capitalization threshold on their own but have significant material value as a group. Resource materials in the asset pool include books (hardcover, softcover) and audio visual materials (compact disc, dvd, multimedia kit, etc.)

Electronic resources, magazines and other periodicals are not included in this asset group as their useful life is typically less than one year as individual items are renewed by annual subscription or replaced by more current issues.