Trillium Public Library

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The board is accountable to the community for the library's financial affairs. The board must ensure adequate controls are in place to manage finances and see that the library has adequate resources to deliver service and fulfill its mission. This policy sets out the board's financial practices.

Section 1: Accountability

1. Financial year

   The financial year of the Trillium Public Library shall terminate on the 31st day of December in each year.

2. Bank accounts

   In accordance with the ***Public Libraries Act,*** R.S.O. 1990, c. P44 s. 15(4b), the treasurer will open an account or accounts in the name of the library board in a chartered bank, trust company or credit union approved by the board.

3. Signing officers

   a) The board shall appoint at least three signing officers, one of which will be the treasurer.
   b) All cheques or other orders for the payment of money in the name of the Trillium Public Library Board shall be signed by any two signing officers.
   c) The CEO shall be the signing officer for contracts with vendors and granting agencies.

4. Budget

   a) The board, with the assistance of the treasurer, shall develop an annual operating budget showing potential revenue from all sources (province, local, donations, self-generated) and proposed expenses for library operations.
   b) The board, with assistance of the treasurer, may prepare a long-term capital budget which supports the library's approved long-term goals.
   c) The Annual Operating and Capital budgets shall be approved at a meeting of the library board.

5. Estimates

   a) In accordance with the ***Public Libraries Act,*** s. 24(1), the board shall submit to council, annually on or before the date and in the form specified by council, estimates of all sums required during the year for the purposes of the board.
   b) The board will provide sufficient information to support the estimates.

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Section 2: Financial Responsibilities of Chief Executive Officer (CEO)

1. The Library CEO will be the treasurer for the library board, working with the library bookkeeper to maintain and report on library finances. **(see Note 1)**

2. The CEO will submit a copy of the audited financial statement to the provincial Ministry responsible for libraries as part of the requirements to complete the Public Library Operating Grant (PLOG) application, if required or upon Ministry request.

3. The CEO is authorized to operate the library within the approved library budget and shall authorize payments of all invoices and payroll within the budgeted amounts.

4. The CEO may apply for, and bind, any grants deemed appropriate for the operations of the library.

5. The CEO may accept donations of cash, in-kind, or materials to support the operations of the library.

Section 3: Financial Monitoring

1. The board monitors the finances to ensure that the ongoing financial position of the library is consistent with the priorities approved by the board. The board shall monitor the monthly financial report as prepared by the treasurer, at each meeting.

2 In accordance with the ***Public Libraries Act,*** s. 24(7), the accounts of the board shall be audited, by a person appointed under section 296 of the ***Municipal Act,*** S.O. 2001, c. 25 and submitted to the council annually on or before the date specified by the council.

3. An audit may also be undertaken, upon the death, resignation, dismissal or other termination of the treasurer of the board, and at such other times as the board shall direct.

Section 4: Authorization of Reserve Accounts

1. The CEO may authorize the annual roll-over of any unused funds or interest into an Operating Reserve Account. The library reserve accounts may not include annual provincial funding (PLOG or Pay Equity Downpayment) which must be spent on library services in the fiscal year received.

2. The library reserve accounts will be held by the library and will be credited with any interest earned on the fund balances. (**see Note 2**)

3. Board resolution is required when requesting or recommending Council-held reserves be accessed, such as funds in the Development Charge reserves. The Finance Department and/or Council shall approve such requests, according to the municipal by-law.

Section 5: Funds from the Disposal of Assets

1. The Board wishes to ensure that the disposal and sale of non-capital surplus assets is fair and transparent.
    a. Items held on the Municipal ledgers shall be turned over to the municipality for disposition.

    b. Items expensed under the library budget shall be held on the library ledger, and therefore funds from the sale of disposed assets shall be returned to the library accounts. Disposal of these items falls under OP-18. Library collection materials are exempt from this policy and will follow OP-04.

Section 6: Tangible Capital Assets (see Note 3)

The library will follow the *Municipal Tangible Capital Assets Policy*, with the following library-specific guidelines and exceptions:

1. Responsibility

The Municipality will compile and maintain records and prepare reports for specific tangible capital assets related:

- Land and Land improvements for the library space
- Buildings and Building improvements for the library space

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

2. Threshold

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

- 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.

3. Useful life

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. As a guideline, assets should be amortized over the following life spans:

- Shelving: 25 years
- Furniture: 10 years
- Specialty and other equipment: 10 years
- Computer hardware 3 years:
- Computer software (office): 3 years
- Computer software (ILS): 10 years
- Resource materials, collections: 7 years

4. **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.

Related Documents:

Trillium Public Library Board. ***BL 01– Board By-laws***
Trillium Public Library Board ***OP-04 – Collection Development***
Trillium Public Library Board ***OP-18 – Purchasing/Procurement of Goods and Services***
Municipal Act, S.O. 2001, c. 25
Public Libraries Act, R.S.O. 1990, c. P44

✎ **Editor's Notes**: (for information and the text is not to be included in your own library policy)

Note #1 - With respect to financial services, a Library Board has several options.

The Library CEO may also be the Treasurer of the Board and look after the finances themselves

The Library CEO could be the Treasurer of the Board but use the services of a paid bookkeeper for day-to-day work.

As another option, the Library Board may enter into a service agreement with the municipality to have the municipal staff handle financial services such as for accounts payable, accounts receivable, payroll, bookkeeping or other accounting services. Remember that where the municipality handles these financial services, financial authority still rests with the Library Board. Service relationships with the municipality should be documented in a Memorandum of Understanding (MOU).

- If the Library Board uses the services of the municipality, there must still be a separate bank account in the name of the library board (as outlined in the *Public Libraries Act*). The Ministry will use this specific bank account to deposit any provincial funding for the library (e.g. Public Library Operating Grant, Pay Equity Downpayment funding).
- If the Library Board uses the services of the municipality, the Library CEO can still be the treasurer for the library board, especially if they are the one presenting the financial statements at the library board meeting.

With respect to **Budgets**, some libraries insert a Finance Committee into the process. For example, a draft budget is prepared by the CEO and Library Finance Manager (or other) and presented to the board's Finance Committee who then review the information and subsequently recommend the draft budget to the library board.

Note #2 - With respect to Reserve Accounts, the *Public Libraries Act* is silent. However, the Ministry has posted the following information at http://www.mtc.gov.on.ca/en/libraries/act_q_a.shtml#LibraryFinance :

> **31. May a library have a reserve fund?**
> The *Public Libraries Act* is silent on the subject of reserve funds. While it is common practice for municipalities to hold library reserve funds, library boards do have authority to have reserve funds under the *Municipal Act*.

Some libraries hold their own Reserve Funds/Reserve Accounts in their own library bank/financial institution accounts. Some libraries transfer the designated Reserve money to the municipality for holding on behalf of the library, for example, to be held as a Technology Reserve Fund or a Capital Reserve Account.

The municipality would be expected to hold any Development Charges fees collected on behalf of the library and deemed for a specific capital purpose such as building a new branch. Where Development Charges cover specific collection costs (as allowed by the provincial legislation), this money may be requested through the annual estimates process or through a specific process outlined by the municipality.

A few municipalities have instituted local resolutions stating that any local funds which the library received through the estimates process, which are unspent at the end of the financial year, should be returned to the municipality's accounts. This is a local decision. In our sample policy, we assumed that the library holds their own Reserve Accounts and that one of them is an Operating Reserve Account resulting from accumulated year over year surpluses (revenues over expenditures) which reside on the balance sheet.

Note #3 – Many libraries use the **Tangible Capital Assets policy** of the Municipality. However, it is becoming apparent that some of the threshold levels are too high for the library – or that many of the details within the Tangible Capital Assets policy do not apply to the situation in libraries.

A library could include the issue of Tangible Capital Assets as a section within the Finance policy (to hold the topic in one document). You could reference using the municipal/county policy and then include exceptions (as we have shown in our sample). Alternatively, you could have a section for Tangible Capital Assets and then add an appendix to cover tangible capital assets (as we have provided over the next five pages)

Appendix A: Alternative Tangible Capital Assets

(Adapted from the Tangible Capital Assets policy of the Waterloo Public Library)

Purpose:

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

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: a) An increase in the previously assessed physical output or service capacity b) A reduction in associated operating costs; an extension of the estimated useful life or c) 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 the accounting period of one year and are intended to be used on a continuing basis; and are not intended for sale in the ordinary course of operations. (as defined in Public Service Accounting Board/PSAB – PS3150)
"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.
"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.

Appendix A (continued)

Objectives

The objective of this policy is to outline the accounting treatment for tangible capital assets. This policy is intended to establish accounting policies for tangible capital assets in accordance with Public Sector Accounting Board (PSAB) Asset Management practices as outlined in [Newsletter #8] and 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,

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.

Asset Classes and Responsibility

The Municipality will compile and maintain records and prepare reports for specific tangible capital assets:

- Land and Land improvements (used by library)
- Buildings and Building improvements (used by library)

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

Capitalization Threshold

Tangible Capital Assets that are pooled and have a combined total value of $50,000 or greater will be capitalized. 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 a significant pool of tangible capital assets that has or will have a significant financial impact

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

Appendix A (continued)

Historical Cost:

As per PSAB/PS3150, tangible capital assets are to be recognized on the Statement of Financial Position as nonfinancial 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 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

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”.

Appendix A (continued)

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.

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: a) Experience with similar assets through use b) Expected future usage c) Effects of technological obsolescence d) Expected wear and tear from use or the passage of time and e) 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: 25 years
- Furniture: 10 years
- Specialty and other equipment: 10 years
- Computer hardware 3 years:
- Computer software (office): 3 years
- Computer software (ILS): 10 years
- Resource materials, collections: 7 years

Note: 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.

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.

Appendix A (continued)

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.”

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, the removal of the tangible capital asset from service for an extended period of time or physical damage.

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, significant technological developments, physical damage or removal of the tangible capital asset from service.

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.

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.