

CLEVELAND PUBLIC LIBRARY

Board Meeting

April 18, 2023

RESOLUTION TO REVISE CAPITAL ASSETS POLICY

WHEREAS, The Library's management recommends revision to the previously submitted Capital Assets Policy, dated June 19, 2014, to include a separate Land Improvements category with a capitalization threshold and useful life consistent with the Buildings/Improvements category, and to describe the effect of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. This is the fourth revision to the original submitted policy dated April 17, 2003 (1st revision May 17, 2007; 2nd revision December 15, 2011; 3rd revision June 19, 2014); now therefore be it

RESOLVED, That the Cleveland Public Library Board of Trustees adopts the attached, revised Capital Assets Policy, effective for the year ended December 31, 2022, and instructs the Library's management to be responsible for implementation and execution of the provisions of this policy and its related procedures.

CLEVELAND PUBLIC LIBRARY CAPITAL ASSETS POLICY

The effective date of this policy is January 1, 2022, authorized by Board approval on April 18, 2023, and represents a revision to the previously submitted policy, June 19, 2014, to include a separate Land Improvements category with a capitalization threshold and useful life consistent with the Buildings/Improvements category, and to describe the effect of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. It is the fourth revision to the original submitted policy dated April 17, 2003 (1st revision May 17, 2007; 2nd revision December 15, 2011; 3rd revision June 19, 2014).

1. The Cleveland Public Library shall maintain a capital asset system, including both tangible and intangible assets. Information within the system will be sufficient to permit the following:
 - a. Preparation of the year-end financial statements in accordance with generally accepted accounting principles.
 - b. Control and accountability for identification and management of assets, both tangible and intangible.
2. The Chief Financial Officer is responsible for the overall management of the capital asset system. Each department or agency head is assigned responsibility for that agency's assets and for working with Financial Services to ensure control of assets and compliance with the Library's goals.
3. **Capital Assets** are defined as both tangible and intangible assets of the Cleveland Public Library with an estimated useful life in excess of one accounting period (one year) and an initial cost equal to or exceeding the category's capitalization threshold. Capital assets' historic cost or estimated historic cost will be carried on the balance sheet of the Library until the asset is retired.

Controlled Assets are defined as both tangible and intangible assets with an estimated useful life in excess of one accounting period (one year) and an initial cost of less than \$5,000.00. Controlled asset's historic cost or estimated historic cost is displayed as an expense of the Library in the year the asset is acquired. The Accounting Manager determines what assets should be controlled with the exception of the Library's collections which are controlled through the Library Automation System.

Tangible Assets are defined as any asset that can be seen and touched; a *hard asset* that has physical properties, such as a building or a piece of equipment.

Intangible Assets are defined as having *all* of the following characteristics:

- a) *Lack of physical substance*: Intangible assets are assets that do not have a physical existence. However, an intangible asset may be contained within an asset having a physical presence, such as computer software contained

on a hard drive. Intangible assets may also be associated with other assets having a physical existence.

- b) *Non-financial in nature*: Intangible assets are non-financial in nature and are not in a monetary form similar to cash or investment securities. Further, they are neither claims or a right to assets in monetary form similar to receivables, nor prepayments for goods or services.
- c) *Useful lives or benefit periods exceeding one or more years*: Intangible assets having a useful life of less than one accounting period (one year) are not subject to the provisions of GASB 51 and should not be considered capital assets for financial reporting purposes nor a controlled asset.

Intangible assets consist of three, broadly-defined types as described below:

1. *Intangible assets generally defined as "software."* Software intangible assets include computer "programming" or "coding language" that provide the necessary instructions for the computer hardware to perform a desired task or series of tasks. Software intangible assets include purchased "off the shelf" software, including all necessary modifications, software specifically developed by an outside contractor, and software developed internally by agency personnel, or acquired through any combination of the above.
2. *Intangible assets associated with real property*: These include "land use rights," generally defined as rights that provide the right to control the use of real property or provide other benefits derived from the real property.
3. *Intangible assets that are not software or land use rights*: Other types of intangible assets are those intangible assets that are not specifically identified in #1 or #2 above. These other types of intangible assets are generally created through the development of intellectual property and include patents, copyrights, and trademarks.

The provisions of GASB 51 apply to all intangible assets possessing the above criteria **except** for the following:

1. Intangible assets that are acquired or created primarily for the purpose of directly obtaining income or profit (this includes intangible assets that are acquired (either purchased or internally developed) with the intent to resell),
2. Intangible assets resulting from lease transactions that are reported as intangible right-to-use lease assets per GASB Statement No. 87, *Leases*, and
3. Goodwill created through the combination of the government and another non-governmental entity.

Intangible capital assets that are subject to GASB 51 provisions must be classified as capital assets and recognized in the financial statements only if they are *identifiable*. An intangible asset is considered identifiable if either or both of the following conditions are met:

1. The asset is separable, that is, the asset is capable of being separated or divided from the government and sold, transferred, licensed, rented, or

- exchanged, either individually or together with a related contract, asset or liability.
2. The asset arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the government or from other rights and obligations.

GASB Statement No. 87, *Leases*, establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. The implementation of GASB Statement No. 87, *Leases*, results in the Library having to recognize intangible-right-to-use assets in its financial statements for certain leases entered into by the Library for assets such as vehicles, buildings, and equipment. The intangible right-to-use assets are initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, these intangible right-to-use assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying assets. The value of these intangible right-to-use assets is calculated annually during the Library’s financial statement preparation in accordance with generally accepted accounting principles, and accounting for these assets, including amortization, is maintained outside of the Library’s financial system.

The term **General Assets** within the context of this policy includes capital assets and controlled assets, both tangible and intangible.

4. Assets of the Cleveland Public Library are classified as follows:

<u>Category</u>	<u>Threshold</u>
a. Land	\$0
b. Land Improvements	\$100,000
c. Buildings/Improvements	\$100,000
d. Movable Assets	\$5,000
e. Construction in Progress	Major projects, not yet complete
f. Software/Other Intangibles	\$5,000

5. Assets are recorded at historic cost, or if that amount is not practicably determined, at estimated historic cost. Donated intangible assets are recorded at the estimated fair market value of the intangible asset as of the donation acceptance date.
6. **General Assets** (excluding Library Collections) - The **Purchase** of capital assets is subject to approval of the Executive Director, Deputy Director or the Chief Financial Officer. **Transfer** of assets between departments/agencies or removal of assets to storage is initiated by the agency head controlling (having custody of) the asset. **Disposal** of assets is initiated by designated staff members subject to approval of the library administration. Assets are generally disposed of by auction. If a bid for any asset is not received at auction, such assets may be disposed of by direct sale to scrap dealers or by dumping at the discretion of the Accounting Manager or other designated staff members. Specialized methods of disposal

apply to computer hardware that has become surplus or obsolete. Other options include trade in of assets on replacement purchases. This is determined on a case by case basis.

7. **Library Collections** are acquired, transferred and disposed according to procedures defined in the Library’s *Procedures Manual*.

Governments are not required to capitalize works of art, historical treasures, and similar assets if those assets meet certain conditions. Cleveland Public Library considers its Library Collections to fall under this exception category since they are:

- a) Held for public exhibition, education, or research in furtherance of public service, rather than financial gain,
- b) Protected, kept unencumbered, cared for, and preserved, and
- c) With an ongoing annual budgetary commitment to acquire items to replace or enhance the collections.

The circulating library materials are not capitalized because they fail to meet the Library’s useful life and/or capitalization thresholds.

8. With the implementation of GASB 34, depreciation is recorded for capital assets using straight-line depreciation over the useful life of the asset. Intangible assets are amortized over the useful life of the asset. Useful life is defined for each asset class as follows:

<u>Category</u>	<u>Useful Life</u>
a. Land	Not depreciated
b. Land Improvements	15 - 40 years
c. Buildings/Improvements	15 - 40 years
d. Movable Assets	5-25 years
e. Software/Other Intangibles	5-25 years
f. Intangible Right-to-Use Assets	Shorter of the lease term or the useful life of the underlying asset

Intangible assets that have an indefinite useful life should not be amortized. An intangible asset is considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should begin to be amortized (after being tested for impairment in accordance with GASB 42—Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries).