NEWSLETTER NO. 25

WORKS OF ART AND HISTORICAL TREASURES - AND HISTORICAL BUILDINGS AND VILLAGES

By Bruce Ratford, CMA

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How far and wide-ranging are works of art and historical treasures? A Picasso or a mediaeval suit of armour obviously fits the concept, but what about the many historical or pioneer villages in Ontario, or the operating early street cars at Fort Edmonton? What about the heritage court house that has been renovated and upgraded, and is now and administrative building? How should they be accounted for?

This newsletter will take a more critical look at the concept of art and treasures, recognizing that a soapstone carving may be a proud acquisition for one person, and just an attractive paper-weight to another.

NOTE: This is an issue that came up at the Fall Workshops, which we have been asked to address. The reality is that relative to the other assets that your municipality has, these items are generally of insignificant value, a.k.a. peanuts, and should only be addressed AFTER you have dealt with your major facilities and networks, and if you have the time to spare. If you are the CFO for a historical village, then these assets are your core business, and the foregoing caveat does not apply.

Public Sector Accounting Handbook PS3150.08

"*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 government 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 (see paragraph PS3150.42(e))*".

The PSAB Municipal Guide notes that "*In many cases, it is not even possible to put a value on these types of assets – they are priceless. While some art work and historical treasures can be duplicated, they can not be replaced. Duplicates would rarely have the same intrinsic value as the original*". (page 16)

Cultural, aesthetic or historical value - but otherwise useless?

These are assets that are retained indefinitely for their intrinsic and intangible qualities, and only a philistine would use them simply to fill a blank wall or as a paperweight. In these latter examples, they could in fact be treated as a tangible capital asset as the philistine has bought a very expensive wall covering or treatment, and desk organizer, respectively.

Seriously, these are assets that are effectively useless in that they have no operational utility. Alternatively, these assets might not be used at all, as to do so would risk destroying them. They are strictly for display, or in the private world, they may be stored for capital appreciation. These are not recognized as tangible capital assets, but reported in a separate note.

How do you account for them?

Since it is unlikely that your municipality has an active acquisition program, this question relates to works of art and historical treasures that you already have, and to any donations that you may receive in the future. A donor will likely want a receipt for such a donation recorded at fair value for tax purposes, but you are not obliged to record the donation in your operating accounts at all, as it is not recognized as a tangible capital asset. If your municipality purchases an item, you will of course expense it in the year of acquisition at the consideration paid.

Per PS3150.42(e), you are required to record their existence in a note to the financial statements. For simplicity, it would be easiest and appropriate to indicate their value for insurance purposes.

The PSAB Manual makes it quite clear that any expenditure for preservation, cleaning and restoration should be expensed in the period incurred, as maintenance. A "betterment" in this context would be a travesty that would effectively destroy the value of the piece, no matter how well intentioned.

If you are dealing with an art gallery or museum that is charging admission, one might argue that the works of art and treasures are the inventory of a commercial operation that exists for the purpose of exhibiting such artifacts. This approach may be tenable if the collection is continually changing through acquisitions, dispositions and transfers of individual assets.

If the collection is permanent, the more cogent argument is that the object is cultural preservation, education, entertainment, research, etc. Admissions go towards funding the expense of housing and maintaining them. Thus they would not be recognized as tangible capital assets in your municipality's financial statements because a reasonable estimate of the future (economic) benefits associated with such property, collectively and especially individually, cannot be made.

What about that old streetcar? - steam locomotive? – grist mill? – early settler's house? Or the old court house that is now an administrative building?

These are also historical treasures, especially if the machinery is operational, as one can appreciate the historical value of the item, but also experience it. At the same time, they involve substantial expense in addition to any acquisition cost, and typically require major overhauls. How should they be accounted for?

Your historical buildings and your operating machinery can and probably do provide services. Visitors walk through and use the historical buildings in your pioneer village, they can board and ride the streetcar, the locomotive pulls a train, and the grist mill grinds grain. The recycled building is as actively used as the day it was built, albeit for different purposes. Each provides services and benefits, even though it might be 180 years old or more, in whole or in part, and the services and benefits provided may differ form the original ones.

However, there is a major and fundamental difference between these types of historical "treasures" and the ones discussed in the previous section. You may clean and restore a painting or a suit of armour, and other than to return the item to looking like new, it has not been changed in any way whatsoever. Looked after, it will last for ever, - and still has no functional utility.

Buildings and equipment do have a life span, and if not maintained, will become derelict or inoperable. While some historical value may remain, the functional utility will be gone. Further, while they are definitely worth preserving in perpetuity for their cultural, aesthetic or historical value (PS3150.08), they are also held for use in the production or supply of goods and services, perhaps rental to others or for administrative purposes (PS3150.05(i)), and this utility is perhaps also a key attribute of the asset. A common benefit is for education and for tourism purposes.

In some cases, the buildings have been moved to their present location, either intact, or sometimes in pieces. In a few cases, the current building is a faithful reproduction of an original, or a careful restoration, such as where the interior was gutted by fire, but the shell was saved. They may have electricity, indoor plumbing, smoke alarms and sprinklers and other modifications, so that a "19th century structure" satisfies a 21st century building code. Expressed another way, the location may be original, the structure may be original, or a rebuild faithful to the original, the interior as well, but there have likely been substantial betterments carried out to make it usable and operable in its present form.

The gristmill probably has new pulleys, belts and axles, even if the stones are original. The streetcar and locomotive have probably been completely rebuilt at least once, with numerous parts replaced, as required for even minimum on-going performance. Thus the 75-year-old tram that has a 30-year life expectancy is still going strong, and will, for a number of years to come.

In every case, the asset is in service and providing benefits long past the standard life expectancy for such an asset, substantial benefits in the case of a recycled building. So how should one account for it?

There are two schools of thought. First, the asset is old, and worth preserving, so it must be a historical treasure, and is to be recognized in the financial statements as such. Any benefits or revenues derived from the operation of the asset are deemed to be generated to offset to the costs of maintenance and preservation, in whole or in part.

Alternatively, the asset can be viewed as an operating asset with a finite lifespan, but an asset that is also of some historic interest and one which one wants to try to preserve. The asset may not be 100% original. The asset also provides or can provide a measurable benefit stream, as long as it is maintained, as opposed to just preserved. This would suggest it is a tangible capital asset, and could be recorded in asset inventory. The historical cost would be minimal, but the expenses incurred to give it a new lease on life and to keep it operational would qualify as a betterment, and they would be amortized over its **current** life expectancy.

Which approach is more appropriate for a particular asset may be a question of which is paramount – historical authenticity or utility?

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Our next newsletter will look at another area that is specifically excluded, natural resources, and discuss how you deal with large plants and animals. What about trees and polar bears?

For more information and resources regarding tangible capital asset management, go to PSAB/Asset Management or contact:

Dan Cowin
Executive Director
MFOA
dan@mfoa.on.ca
Tel: 416-362-9001 x 223

Andy Koopmans
Executive Director
AMCTO
akoopmans@amcto.com
Tel: 905-602-4294 x 26

NOTE: This Newsletter is published to assist you with your implementation of tangible capital asset accounting and with related matters. The Public Sector Accounting Handbook is the only authoritative primary source on matters relating to GAAP, and you should consult with your auditor to resolve specific issues that you may have.