

PSAB/Asset Management

NEWSLETTER NO. 19 CLASSIFICATION OF ASSETS By Bruce Ratford, CMA

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You have now set capitalization thresholds, or at least provisional ones, to try to make the required amount of data collection more manageable, and to capture only assets that are significant in value, not all the small and relatively trivial items. We have also looked at asset pools, as a way to manage large numbers of smaller items that may have a significant value as a group or pool.

Even so, you may well be looking at creating a large data base of items. The number obviously depends on the size of your organization and your choice of capitalization thresholds. However, at least 10,000 items is not unlikely, if your municipality has a full range of administrative and operations departments. For a municipal organization the size of the City of Toronto, the count will likely be hundreds of thousands for the City alone, ignoring the agencies, boards and commissions. (The count is still in progress!)

How then are you supposed to deal with such a cornucopia of varied items and their associated data, so that it becomes manageable, and so that you can obtain meaningful summary information for your statements? You will want to sort and classify the assets into suitable sets and groupings for data management and reporting purposes.

Public Sector Accounting Handbook Section PS3150.40 and 41

Under “Presentation and Disclosure”, (40) “*The financial statements should disclose for each major category of tangible capital assets and in total: (7 items of information)*”

(41) “*Major categories of assets would be determined by type of asset, such as land, buildings, equipment, roads, water and other utility systems, and bridges.*”

The Public Sector Accounting Group’s “[Guide to Accounting for and reporting Tangible Capital Assets](#)” notes (page 27) “*PS3150 does not prescribe specific asset categories. Although that might improve comparability and consistency, there are simply too many variations inherent in prescribing and establishing definitions of capital asset categories.*”

“*Selection of asset categories will be specific to the nature and objects of a particular local government. Because all local governments are not the same, neither will be their categories of capital assets.*” After comparing the different needs of upper and lower tier municipalities, the Guide

continues, “*The following list, although not comprehensive or prescribed, may be a useful starting point in the identification of categories of tangible capital assets:*

- *Land;*
- *Buildings;*
- *Equipment;*
- *Roads;*
- *Water, sewer and other utility systems;*
- *Bridges*
- *Electricity transmission networks;*
- *Communications networks;*
- *Motor vehicles; and*
- *Furniture and fixtures.*

In addition, a local government may decide to recognize a separate category for assets under construction or development, assets removed from service, surplus assets and assets subject to a capital lease.”

Classification of Assets

The issue is a very simple one. Your asset inventories will end up with thousands of items or entries. How will you slice and dice this information for meaningful reporting and easy analysis? The answer is equally simple. You will use some framework for sorting and aggregating the data for reporting purposes.

It would also be helpful to readers of financial statements if all Ontario municipalities reported in a fairly consistent manner, so that one could compare apples and apples, when looking at two different municipalities. If not in municipal financial statements per se, the Ontario Financial Information Return will in itself require reporting by municipalities in a similar format and on a similar basis.

This was an issue raised and researched by the OMBI Treasurer’s Group and by the six OMBI Pilot sites, in order to try to bring some logic and order to what could otherwise be a very chaotic situation, both within each municipality, and if trying to compare the reporting of different municipalities. There was seen to be very little value if every municipality developed its own schema. The result was the development of a very comprehensive structure for classifying tangible capital assets

While Ministry of Municipal Affairs and Housing staff are still drafting the Financial Information Return for 2009 at time of writing, it is a certainty that there will be the requirement to report on tangible capital assets by the eight functional areas currently used (General Government through Planning and Development) and by programs within those functional areas.

The complete OMBI schema is given as Appendix B in OMBI’s “Municipal Guide to Accounting for Tangible Capital Assets, Version 2, Appendices”. This can be accessed on-line at <http://ombi.ca/docs>. The rest of this newsletter will provide an overview of this schema, so that you can understand the rationale behind it, and how to apply it to your own tangible capital assets.

The OMBI Approach

The basis of the approach is very simple. Every asset has two characteristics:

1. What is it, in general terms? and
2. Where is it used, or who has responsibility for managing the asset?

The answer to question 1 determines the *primary asset class* of the asset. Is it equipment, a building, land, etc? The answer to question 2 determines the *functional asset class* of the asset. Who looks after it, or where is it located within the organization?

Summarizing your tangible capital asset valuations and amortization using the resulting matrix will allow you to readily provide useful information to the reader of your financial statements, as well as for your Financial Information Return. Now let us look at each classification variable in turn.

Primary Asset Class

First and foremost, this answers the question, “What sort of asset it is?”, and this is what the listing in the PSAG Guide addresses.

The OMBI schema first divides assets into Infrastructure Assets, which could be looked on as being networks or distribution systems and their associated components, such as roads, water, and sewer. A more detailed definition is provided in the following table, copied from the OMBI Municipal Guide, Appendix A. General Capital Assets are defined as anything that is not infrastructure, such as buildings, yards, equipment, operational plants, and so on. In short, they occupy a single location in space, as opposed to multiple locations.

A sub-class is used to further delineate what sort of asset it is. Is it land, land improvements, buildings, equipment and machinery, vehicles, or a linear asset? This latter applies only to infrastructure. Again, these are defined in some detail in the following table.

To further assist you, OMBI developed a very detailed table that lists almost every type of asset possible, or at least all the ones that the six Pilot Sites had, how they would be classified by Primary Asset Class, and shows which Functional Asset Classes and program(s) where each particular asset type might be found. This can also be found at <http://ombi.ca/docs> in the Municipal Guide, Appendices, Appendix B.

TABLE 1 – PRIMARY ASSET CLASSES (OMBI)

SUB CLASS	GENERAL CAPITAL ASSETS	INFRASTRUCTURE ASSETS
	Tangible capital assets that are not part of the Infrastructure Asset class. Includes, but is not limited to Parks, Recreation facilities, Fire, EMS, Police, Waste Collection and Disposal, Landfill.	Tangible capital assets are composed of linear assets and their associated specific components, generally constructed or arranged in a continuous and connected network. Includes but is not limited to: Transportation Infrastructure (Roads - including cycling lanes, bridges, tunnels, public transit rail line portion only, drainage systems), Utilities (telephone, gas and electrical) and Environmental Infrastructure (water delivery systems, waste water treatment, storm drainage systems).
Land	<p>Real property in the form of a plot, lot or area. 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, and clearing, removal of old buildings (net of salvage), assumption of liens or mortgages, and any additional land improvements that have an indefinite life. The costs associated with improvements to land are added to the cost of the land if those improvements can be considered permanent (such as re-grading or filling of the land)</p> <p>Excludes forests, water and other mineral resources and land held for resale (a separate non-financial asset). General Capital - Land includes land for administrative buildings, parks, playgrounds, fields, open space.</p>	Land as defined in the General Capital asset class that is associated with infrastructure. Includes land under roads and land associated with road allowances, sewage treatment plant sites, pump station properties, etc
Land Improvements	Land improvements consist of betterments, site preparation and site improvements (other than buildings) that ready land for its intended use, which generally decay or break down over time. Land improvements that are removable	Land improvements as defined in the General Capital asset class that are associated with infrastructure. Examples include but are not limited to: parking lots for water/waste water sites, driveways through such sites; site improvements such

	<p>and can degrade or deplete over the course of time through use or due to the elements, should be separately capitalized and their value amortized over the useful life of the improvement.</p> <p>General capital land improvement examples include but are not limited to: landfill site development, construction of driveways, parking lots, retaining walls, bike paths in parks, drop off locations, sidewalks, fencing, patios, water fountains, outdoor swimming or wading pools, ball diamonds, soccer fields, irrigation systems, tennis courts and the like.</p>	<p>as grading at works yards whose purpose is to serve as a base for maintaining Infrastructure.</p>
Buildings	<p>General capital buildings include all structures that provide shelter from the elements which function independent of an infrastructure network. Includes capital and betterments to general capital buildings that are owned by the municipality. Examples include but are not limited to: EMS stations, bus transit facilities, sport and recreation facilities, office buildings, fire/police stations, libraries, pavilions, change rooms, park washrooms & concession buildings, band shells, ticket kiosks, crematoriums, chapels, mausoleums, waste depots, recycling facilities.</p>	<p>Buildings as defined in the General Capital asset class that are associated with infrastructure. Examples might include: wastewater treatment control buildings, water supply buildings, buildings in works yards dedicated to Infrastructure maintenance, rail transit facilities.</p>
Machinery & Equipment	<p>An apparatus, tool, device, implement or instrument that likely uses energy (for ex. human, electrical, hydraulic fuel, or thermal) to facilitate a process, function or completion of a task. Machinery and 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 need be (that is, it is not permanently affixed to or integrated into the building or structure in which it resides).</p>	<p>Machinery & Equipment as defined in the General Capital asset class that is associated with infrastructure.</p>

Vehicles	A means of transportation, usually having wheels, for transporting persons or things or designed to be towed behind such an apparatus. Includes automobiles, trucks, trailers, motorcycle, boats, etc.	Vehicles as defined in the General Capital asset class that are associated with infrastructure.
Linear Assets		The Linear Assets subclass applies only with Respect to the "Infrastructure" class and has no counterpart in the "General Capital" class. Linear assets are assets generally constructed or arranged in a continuous and connected network. "Infrastructure - Linear assets" includes connected : 1. surface systems such as roads, sidewalks, bridges, drainage ditches, street lights, and transit rail lines; and 2. underground systems such as water distribution pipe systems, wastewater collection pipe systems, manholes, catch basins, and storm drainage collection systems and tunnels.
Capital Work-In - Progress	The cost of tangible capital assets under construction, constructed or in an uncompleted process of acquisition by the municipality, and that are not yet in service	

(from OMBI, "Municipal Guide to Accounting for Tangible Capital Assets", Appendix A)

City of Winnipeg's Asset Classes

The City of Winnipeg's 2006 Financial Statements were presented in full compliance with PS3150. The City classifies its tangible capital assets as follows:

- General:
 - Land
 - Buildings
 - Vehicles
 - Computers
 - Other
- Infrastructure
 - Plants and Facilities
 - Roads
 - Underground and Other Networks
 - Bridges and Other Structures
- Assets Under construction

Note the similarities with the OMBI primary classes. Most other schemas are also similar in terms of separating out infrastructure assets, and the specific classes used.

Functional Asset Class

The functional asset class identifies what program or activity controls and uses the asset, and who or where is responsible for the asset.

This is largely self-explanatory. The functional asset classes to be used are the general programs and functional areas as defined in the Ontario Financial Information Return (FIR). Appendix B in the *Municipal Guide to Accounting for Tangible Capital Assets* indicates the likely functional areas where each type of asset may be found. Appendix A-08 of the OMBI Reference Guide lists the functional areas and their corresponding programs.

The OMBI table shows the eight functional areas, and the generic programs within each. This would be a minimum. You may choose to break these down further for internal reporting. For example, Governance might be split into Council, Mayor’s Office and Clerk’s Department. The level of granularity will be your choice.

It is reproduced here for your reference, and for the information of any non-Ontario readers.

TABLE 2 – FUNCTIONAL ASSET CLASSES (OMBI)

Functional Area	Corresponding Operational Areas
GENERAL GOVERNMENT	GOVERNANCE CORPORATE MANAGEMENT PROGRAM SUPPORT
PROTECTION OF PEOPLE AND PROPERTY	FIRE POLICE CONSERVATION AUTHORITY PROTECTIVE INSP/CONTR EMERGENCY MEASURES PROVINCIAL OFFENCES ACT OTHER
TRANSPORTATION	ROADWAY WINTER CONTROL TRANSIT PARKING STREET LIGHTING AIR TRANSPORTION OTHER
ENVIRONMENTAL SERVICES	SANITARY SEWER SYST STORM SEWER SYSTEM WATERWORKS SYSTEM WASTE COLLECTION WASTE DISPOSAL RECYCLING OTHER

HEALTH SERVICES	PUBLIC HEALTH SERVICES HOSPITALS AMBULANCE SERVICES AMBULANCE DISPATCH CEMETERIES OTHER
SOCIAL/FAMILY	GENERAL WELFARE ASSISTANCE ASSISTANCE TO AGED CHILD CARE OTHER SOCIAL HOUSING
RECREATION & CULTURE	PARKS RECREATION PROGRAMS REC. FAC.-GOLF/MARINE/SKI REC. FAC.-OTHER LIBRARIES CULTURAL SERVICES OTHER
PLANNING & DEVELOPMENT	PLANNING & ZONING COMMERCIAL INDUSTRIAL RESIDENTIAL DEVELOPMENT AGRICULTURE. & REFORESTATION TILE DRAINAGE, SHORELINE ASSISTANCE OTHER

As mentioned earlier, you will be required to report on your tangible capital assets in the revamped FIR for 2009. Just how is still under discussion and review. Even so, it is certain that this will be using the same activity breakdown that you currently use for reporting capital revenues and expenditures (current Schedule 52). Then too, as we move more towards total costing for activities, you will need to have tangible capital asset financial data for the programs for which you have to determine total costs. If you have to do this breakdown for some programs, which, incidentally, are the TCA-rich ones, you might as well do it for the rest of your assets.

As we will discuss in a future newsletter, when in doubt, break things down into smaller classes, or functional activities, as it is much easier to add two items together, than to try to split something into two separate parts later. Think of egg yolks and egg whites going to make an omelette. Then contemplate trying to identify the egg whites in a prepared omelette.

Summary

The Ontario Financial Information Return will require you to report on your tangible capital assets in certain ways. One of these is certain to be by functional area and programs within each area. Reporting by asset type has yet to be decided.

There is no prescribed way as to how you classify your tangible capital assets for reporting in your financial statements, so that you could use whatever breakdown might be meaningful to your potential

readers, as long as there is full disclosure. If you choose to use classes markedly different from the three listings or schemas given in this newsletter (PSAG Guide, OMBI Guide and City of Winnipeg), you would do well to discuss your approach with your auditor beforehand. Just in case he/she is not comfortable that you will be providing full disclosure.

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The functional asset class table shows the full range of potential municipal programs, many of which are likely provided by agencies, boards and commissions that your municipality may have. If it hasn't already, this will probably raise for you the question as to what happens with respect to your ABCs? Our next newsletter will look at consolidations, or how you might report for your agencies, boards and commissions with respect to tangible capital assets.

For more information and resources regarding tangible asset management, go to [PSAB/Asset Management](#), or contact:

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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.