

# PSAB/Asset Management

## NEWSLETTER NO. 8

### What are Tangible Capital Assets?

by Dan Cowin, Executive Director, MFOA

This Newsletter deals with the issue of describing the nature and characteristics of assets in general and tangible capital assets in particular. Future Newsletters will deal with issues related to the aggregation of assets into an asset inventory and the nature of the information that you might wish to collect with regard to tangible capital assets.

The PSAB Handbook (PS 1000.35) states that assets are “economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.” According to PS 1000.36, assets have three essential characteristics:

- (a) They embody a future benefit that involves a capacity, singly or in combination with other assets, to provide future net cash flows, or to provide goods and services;
- (b) The government can control access to the benefit; and
- (c) The transaction or event giving rise to the government's control of the benefit has already occurred.

PS 1000.37 states that something is **NOT** an asset of the government if it lacks one or more of the essential characteristics.

The PSAB Handbook distinguishes between financial and non-financial assets.

#### *Financial Assets*

PS 1000.39 states that financial assets can be used to discharge existing liabilities or finance future operations. They are not for consumption in the normal course of operations.

PS 1000.40 identifies each of the following as financial assets:

- (a) Cash;
- (b) A realizable asset that is convertible to cash;
- (c) A contractual right to receive cash or another financial asset from another party;
- (d) A temporary or portfolio investment;
- (e) An investment in a government business enterprise or government business partnership;
- (f) A financial claim on an outside organization or individual; or

- (g) An inventory or item for sale that meets the criteria in FINANCIAL STATEMENT PRESENTATION, paragraph 1200.051.

### ***Non-Financial Assets***

Non-financial assets include everything else, including tangible capital assets, and other assets such as prepaid expenses and inventories of supplies.

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

- (a) Are normally employed to deliver government services;
- (b) May be consumed in the normal course of operations; and
- (c) Are not for sale in the normal course of operations.

Tangible capital assets are a subset of non-financial assets.

### ***Tangible Capital Assets***

PS 3150.02 states that “tangible capital assets are a significant economic resource managed by governments and a key component in the delivery of many government programs.” The PSAB Handbook states that tangible capital assets:<sup>1</sup>

- (a) 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;
- (b) Have useful economic lives extending beyond an accounting period;
- (c) Are to be used on a continuing basis; and
- (d) Are not for sale in the ordinary course of operations.

Tangible capital assets include such diverse items as roads, buildings, vehicles, equipment, land, water and other utility systems, aircraft, computer hardware, dams, canals, and bridges.” For the purposes of PS 3150, tangible capital assets are explicitly defined to include computer software, even though it lacks physical substance.

The OMBI Guide offers many examples of tangible capital assets. [Appendix A](#) provides guidance on assets, as well as overall asset categories, including land, land improvements, buildings, machinery and equipment, vehicles and linear assets. [Appendix B](#) provides an extensive listing of assets as well as examples of the types of information to carry in your asset inventory. We will have more to say about the grouping of assets into an asset inventory in future Newsletters.

---

<sup>1</sup> This definition can be found in PS 1000.43, PS 3150.05 and is reproduced in OMBI, Municipal Guide to Accounting for Tangible Capital Assets, 2007, p. 8.

The definition of a tangible capital asset clearly does not depend on how the asset was acquired or financed. Contributed assets, such as those provided by a developer, are tangible capital assets whether the municipality paid anything for the assets or not.<sup>2</sup>

### ***Treatment of Leased Tangible Capital Assets***

Only assets that are under the control of the municipality are captured by PS 3150. PSAB has issued additional guidance with respect to assets that meet the definition of leased tangible capital assets (see Public Sector Guideline 2 or PSG-2).<sup>3</sup> The purpose of PSG-2 is to define a “leased tangible capital asset” and give guidance on how to account for a leased tangible capital asset and the related lease liability. For purposes of the Guideline, PSAB has adopted a “benefits and risks” approach to assessing whether a government should classify a lease as a leased tangible capital asset. A leased tangible capital asset exists when 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. The Guideline sets out criteria to be considered when determining when substantially all of the benefits and risks are transferred to the government.

Once it has been determined that there is a leased TCA, PSG-2, paragraph 13 specifically states “A government should account for its leased tangible capital assets in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150. There is specific guidance on determining the cost and the appropriate amortization rate for a leased TCA. It also provides guidance on the information to be disclosed about transactions involving leased tangible capital assets.

### ***Treatment of Assets in the Financial Statements***

We expect to provide detailed reviews of the Financial Statements and new reporting models in future Newsletters and future training sessions. This section simply identifies, at a high level, how information on tangible capital assets will be captured in the Statement of Financial Position and the Statement of Operations.

Tangible capital assets are:

- classified as non-financial assets in the statement of financial position.

---

<sup>2</sup> See the definition of cost under PS 3150.05 (b).

<sup>3</sup> PS 1150.03 (c) lists the primary sources for generally accepted accounting principles. Public Sector Guidelines are part of GAAP and, therefore, audited.

- The amortization of the costs of tangible capital assets should be accounted for as expenses in the statement of operations (PS 3155.23). (Note: Costs of TCA's are currently reported as expenditure in the Statement of Financial Activities. Under accrual accounting, the costs of tangible capital assets are capitalized. The cost is then expensed through amortization over their useful lives).<sup>4</sup>

### ***Tangible Capital Assets That Are Excluded from the Scope of PS 31250***

As noted in [Newsletter 6](#), some tangible capital assets are currently excluded from the scope of PS 3150. These include”

- Former Crown lands transferred to, but not purchased by the municipality
- Works of art or historical treasures<sup>5</sup>
- Intangible assets (e.g. goodwill, trademarks, copyright)
- Assets related to government business enterprises<sup>6</sup>

In addition, assets might not be capitalized where they do not meet municipal capitalization thresholds. We will discuss capitalization thresholds in more detail in a future Newsletter.

You might wish to include some types of assets in an asset inventory even if they are not capitalized. For example, an inventory of works of art is obviously useful for insurance purposes and for making management decisions with regard to the care and upkeep of your collection. Other assets might be fully depreciated, but including them in an asset inventory will ensure that your inventory is complete and the costs associated with their replacement or rehabilitation will not be forgotten. As we suggested in Newsletter 1, your asset inventory will be needed in order to comply with PSAB reporting requirements, but it can also do double duty as the foundation for asset management plans either now or in the future.

### ***Specific Questions on the Application of the Standard***

We have received a number of questions about whether certain assets meet the definition of tangible capital asset under PS 3150. Some of these include:

- Urban trees
- Water in pipes or reservoirs
- Municipal drains

<sup>4</sup> Amortization of the costs of assets over their useful life in the statement of operations shows the cost of government services provided in the period.

<sup>5</sup> PS 3150.08 states that works of art and historical treasures are excluded “because a reasonable estimate of the future benefits associated with such property cannot be made.”

<sup>6</sup> Government business enterprises apply commercial GAAP. They account for and amortize assets in their own statements. Under the modified equity basis of reporting, the government only reports the government's equity and change in equity in the GBE in its summary financial statements. The TCA's are not consolidated with the TCA's of the government entity.

We can not provide advice with regard to whether something is or is not a tangible capital asset. The particular circumstances of the municipality must be considered. Each municipality is encouraged to become familiar with and apply the accounting standards contained in the Public Sector Accounting Handbook. In cases of assets in the “grey area” we also recommend consultations with your auditor at an early stage in the process.

As always, we invite you to let us know if there is an issue that you would like to see addressed in the Newsletters. We are also interested in having our members submit anything that you come across with regard to tangible capital assets, financial reporting, asset management or long-term financial planning including any reports or presentations that you have given or prepared that could be of use to others.

Dan Cowin  
Executive Director  
MFOA  
[dan@mfoa.on.ca](mailto:dan@mfoa.on.ca)  
Tel: 416-362-9001 x 223

Andy Koopmans  
Executive Director  
AMCTO  
[akoopmans@amcto.com](mailto:akoopmans@amcto.com)  
Tel: 905-602-4294 x 26