

Chapter 8
Accounting and Control of Assets and Liabilities

- 8.1 INTRODUCTION**
- 8.2 CASH AND TEMPORARY INVESTMENTS**
 - 8.2.1 Cash
 - 8.2.2 Loss of Cash or Other Assets
 - 8.2.3 Accountable Advances
- 8.3 ACCOUNTS RECEIVABLE**
- 8.4 LOANS RECEIVABLE**
- 8.5 LAND HELD FOR SALE**
- 8.6 INVENTORIES OF SUPPLIES**
- 8.7 TANGIBLE CAPITAL ASSETS**
 - 8.7.0 Policy Statement
 - 8.7.1 Definitions
 - 8.7.2 Policy
 - 8.7.3 Guidelines
 - 8.7.3.1 Classification and Thresholds
 - 8.7.3.2 Cost
 - 8.7.3.3 Amortization
 - 8.7.3.4 Work-in-progress
 - 8.7.3.5 Deferred Capital Contributions
 - 8.7.3.6 Inter-departmental Transfers
 - 8.7.3.7 Disposals
 - 8.7.3.8 Write-downs
 - 8.7.3.9 Capital Lease
 - 8.7.4 Interpretation Guidelines
 - 8.7.4.1 #1 – Classification of Landscaping Costs and Other
 - 8.7.4.2 #2 – Maintenance vs. Betterment
- 8.8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**
 - 8.8.1 Accounts Payable
 - 8.8.2 Environmental Liabilities
 - 8.8.2.1 Policy
 - 8.8.2.2 Guidelines
- 8.9 LONG-TERM DEBT**
 - 8.9.1 Long-term Debt
 - 8.9.2 Capital Lease Obligation
 - 8.9.3 Loan Guarantees

Chapter 8
Accounting and Control of Assets and Liabilities (CONTINUED)

- 8.10 POST-EMPLOYMENT BENEFITS**
- 8.11 ACCUMULATED SURPLUS (DEFICIT)**
 - 8.11.1 Net Financial Resources (Net Debt)
 - 8.11.2 Accumulated Surplus (Deficit)

8.1 INTRODUCTION

The balance sheet of the Yukon Government is divided into the following basic categories:

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets consist of the following main categories:

- a) Cash, cash equivalents or temporary investments, which include the sum of all bank accounts, cash on hand and temporary investments.
- b) Accounts receivable represents accounts due within one fiscal year.
- c) Loans receivable consists of all accounts due beyond one fiscal year.
- d) Land held for sale consists of land held for sale to third parties.

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead: are normally employed to deliver government services; may be consumed in the normal course of operations; and are not for sale in the normal course of operations.

Non-financial assets include:

- e) Inventories of supplies that are held in stock for later issue to departmental programs.
- f) Tangible capital assets, which represent all the physical assets owned by the Yukon Government.
- g) Prepaid expenses.

Liabilities are financial obligations to outside organizations and individuals as a result of past transactions and events on or before the accounting date. They are the result of contracts, agreements, and legislation in force at the accounting date that require the government to repay borrowing or to pay for goods and services acquired or provided prior to the accounting date.

Liabilities consist of the following categories:

- h) Accounts payable and accrued liabilities represent liabilities due within one fiscal year.
- i) Deferred revenues represent funding or fees received in advance.
- j) Long-term debt represents the government's borrowings that have repayment periods over one year.
- k) Post-employment benefits are earned benefits by the government employees, which are expected to be provided after employment but before retirement. These benefits include severance benefits and unused vacation leaves.

8.1 (CONTINUED)

Net financial resources (net debt) is calculated as the difference between financial assets and liabilities. Accumulated surplus (deficit) is calculated as the difference between assets and liabilities. These figures are indicators that can be used to determine whether a government's financial position improved or deteriorated.

- l) Net financial resources (net debt) is reported when the government's financial assets exceed its liabilities (liabilities exceed financial assets).
- m) Accumulated surplus (deficit) represents the cumulative excess of revenues over expenses (expenses over revenues), or excess of assets over liabilities (liabilities over assets).

The purpose of this chapter is to provide guidance in accounting for specific assets and liabilities grouped under the above categories.

8.2 CASH AND TEMPORARY INVESTMENTS

General

The cash management, banking and investment functions of the Government of the Yukon are centralized within the Department of Finance.

A central cash management system provides information for:

- fiscal planning,
- budget preparation,
- investment policy,
- current financial operations, and
- debt planning.

Under the *Financial Administration Act*, the Deputy Minister of Finance is responsible for the management and control of the revenues and disbursements of the Government of the Yukon. The various branches of the Department of Finance are responsible for ensuring that these responsibilities are met. These central functions gather, co-ordinate and analyze financial information.

8.2.1 Cash

In accordance with the *Financial Administration Act*, all public money must be deposited to the Government of the Yukon Consolidated Revenue Fund.

All bank accounts must be authorized by the Deputy Minister of Finance. Transfer accounts may be established by the Deputy Minister of Finance for the deposit of public money which is to be held until it is transferred to the Consolidated Revenue Fund. Bank reconciliations must be performed monthly on all bank accounts.

Departments handling cash must ensure that adequate safeguards exist for all cash funds under their supervision. The following must be adhered to:

- Offices in Whitehorse shall deposit funds daily with the cashier in the Department of Finance, if they exceed \$200.00 and, in any event, at least weekly, on Friday afternoon.
- Offices outside Whitehorse should make deposits to non-chequing bank transfer accounts in accordance with the above schedule.
- All monies held in offices overnight or over weekends must be kept in a safe or locked file cabinet. Keys to these should be kept in the possession of a responsible official and not left in offices or office drawers.

8.2.1 (Continued)

Any loss not due to fraud, embezzlement or theft should be dealt with as follows:

1. The employee having custody of the asset must inform his supervisor.
2. The employee having custody of the asset must prepare a report detailing the circumstance of the loss and attach a cheque requisition for reimbursement if the loss involves cash.

If the loss is of a minor nature (under \$5.00 and is part of a continuing cash over/under situation) then the report may be held until the total loss accumulates to \$25.00 or 3 months has elapsed, whichever is sooner.

3. The report and cheque requisition must be forwarded to the attention of the Deputy Minister of Finance. The cheque requisition must include the required signing authorities charging the department's appropriation.

Subsection 69(1) of the *Financial Administration Act* states:

“Where public money is lost or is not collected through the misconduct, neglect of duty or negligence of a person responsible for handling public money, the person is liable for the money and it may be recovered from them as a debt due to the government.”

Cash shortages must not be offset by cash overages. Cash overages should be coded to program revenue.

8.2.2 Loss of Cash or Other Assets

This section provides guidance where there has been a loss of cash or other assets.

Any loss due to fraud, embezzlement or theft should be dealt with as follows:

1. The RCMP should be notified by the appropriate Deputy Minister if a break-in is involved. Nothing in the area should be disturbed until the RCMP have completed their initial investigation.
2. The Deputy Minister of Finance must be notified as the department will assist in determining the amount of loss and how to account for it.
3. The department must prepare a report and forward it along with a cheque requisition or journal voucher to the Deputy Minister of Finance. The cheque requisition or journal voucher must include the required signing authority charging the department's appropriation.

8.2.3 Accountable Advances

1. General

Departments may requisition accountable advances from the Consolidated Revenue Fund. Public officers on obtaining proper authorization from a department, may requisition accountable advances for the purpose of paying travelling and other necessary expenses that could reasonably be expected to be incurred while the person is engaged in public business.

The legislative authority for providing accountable advances is found in Section 27 of the *Financial Administration Act*.

There are generally four types of accountable advances available to employees. They are:

1. Float - a float is an advance held in cash to make change.
2. Petty Cash Advance - a petty cash advance is an advance held in cash for expenditures (of no more than \$100) or as a float to make change.
3. Travel Advance - a travel advance is to a person required to incur expenditures for travel on government business.
4. Standing Advance - a standing advance is held by a person who is required to incur expenditures on a continuing basis for any purpose authorized by an Act and to whom reimbursement to the full amount of the advance is made each time the expenditures made from the advance are accounted for and approved.

This section does not cover advances under contribution agreements or contracts. These advances, coded as such until accounted for, are specific to the agreement or contract.

To ensure proper control of all accountable advances and to meet related operational and financial needs, departments should adhere to the following general guidelines:

- Individual advances should be made by the issue of a cheque in favour of the individual nominated as holder of the advance.
- The amount of each advance should be kept to a minimum, making allowance for a reasonable time to obtain reimbursement of expenditures.
- Advances which are no longer required shall be refunded to the Department of Finance as prescribed.

Advances are subject to both the Advance and Travel Directives issued by the Management Board.

8.2.3 (Continued)

2. Floats

A float is an advance held in cash to make change. Normally only one float should be applied for in respect of one location.

Deputy Ministers are responsible for assessing the need for determining the amount of any particular float.

Special safekeeping devices must be used when floats are held on hand within a department. The float is issued to an individual who is responsible for the proper handling of the cash. The amount of cash on hand must equal the total float at all times.

Accounting and Control of Floats

The departmental finance officer should ensure that proper financial controls exist for floats. Such controls include:

- Designation of a cash fund custodian, that is a permanent full-time employee who does not have payment authority under Section 30 of the Financial Administration Act.
- Formal reconciliation of the fund monthly.
- Management review to ensure that the custodian does not cash cheques or accept I.O.U.'s of any kind out of the fund.
- Management review and approval of fund reconciliations and cash counts.
- Surprise cash counts.
- Procedures that ensure that miscellaneous cash receipts are not to be added to the fund, but are deposited to the Consolidated Revenue Fund.
- Management review of the advance to ensure that it meets the needs of the branch or department and has been used only as intended.
- The transfer of responsibility for floats should be effected using the Petty Cash/Float Transfer form.

Procedures for Obtaining Floats

When a department determines that a float fund is necessary for its operations the following action should be taken:

- Prepare a cheque requisition naming the responsible individual for the float and the amount required.
- Support the cheque requisition with suitable explanation as to the need and intended uses of the fund, including an indication of the appropriate Deputy Minister's approval.
- Submit the cheque requisition and supporting documentation to the Deputy Minister of Finance for review and approval.

8.2.3 (Continued)

Periodic Verification

The departmental financial or administrative officer, or someone on their behalf, shall conduct a periodic unannounced count of the float to determine the proper use of the funds, to ensure they are adequately protected against loss or misuse and are properly accounted for. This periodic verification should be carried out at least once each quarter.

Other periodic counts of floats may also be made by the Internal Auditor or Department of Finance staff at the discretion of the Deputy Minister of Finance.

The custodian of a float will certify possession of the advance as required by the Department of Finance.

3. Petty Cash Advances

Normally, all disbursements of public funds are made by cheque. However, there are instances where minor expenditures can be more expeditiously made from petty cash.

Deputy Ministers are responsible for assessing the need for and determining the amount of petty cash advances.

The amount of a petty cash account should not be in excess of the sum necessary to finance the contemplated expenditures for a six-week period, taking into consideration the reimbursement cycle.

Petty cash will be held by the individual to whom the advance is issued.

Accounting and Control of Petty Cash

The custodian of petty cash shall:

- Be a permanent full-time employee of the Government of the Yukon.
- Not be an employee to whom payment authority has been delegated under Section 30 of the Financial Administration Act.
- Not be an employee whose duties include the receipt and deposit of money or handling of accounts receivable.
- Not cash cheques or accept I.O.U.'s of any kind out of the fund.
- Be responsible for operating the petty cash account and ensure that a petty cash voucher is completed for each purchase. The voucher should state the purpose of the expenditure, the date the amount paid and have the signature of the person receiving the money when appropriate.
- Ensure that the petty cash box always contains cash and/or vouchers totalling the exact amount of the fund.
- Ensure the proper custody, control and safekeeping of the petty cash fund.

8.2.3 (Continued)

Deputy Ministers should apply the following criteria in assessing the need for, and the amount and control of, petty cash advances:

- Petty cash expenditures generally should be made for those items where it is not practical to pay by cheque.
- Subject to maximum limitations, the petty cash fund should be sufficient such that replenishment will be required no more frequently than every four weeks.
- Petty cash funds should not be deposited in banks.
- Petty Cash advances should not be used for regular purchases for which suppliers normally submit invoices.
- Petty Cash funds should not be used for making personal loans to employees or for cashing cheques.
- Petty Cash advances should be used only for purchases which do not exceed \$100.00.
- The transfer of responsibility for petty cash should be effected using the Petty Cash/Float Transfer form.
- All vouchers submitted in support of a request for reimbursement should be cancelled in a manner that will preclude any possibility of their reuse.

Where extensive coding is required, a sheet should be attached showing the coding and expenditure distribution.

Periodic Verification

The departmental financial or administrative officer, or someone on their behalf, shall conduct a periodic unannounced count of the petty cash advance to determine the proper use of the funds, to ensure they are adequately protected against loss or misuse and are properly accounted for. This periodic verification should be carried out at least once each quarter.

Other periodic counts of petty cash advances may also be made by the Internal Auditor or Department of Finance staff at the discretion of the Deputy Minister of Finance.

The custodian of petty cash will ensure that all vouchers are submitted for reimbursement at fiscal year-end, and will certify possession of the advance as required by the Department of Finance.

The petty cash and any vouchers should be safeguarded in a lockable cash box which should be kept in a secure locking filing cabinet or safe.

8.2.3 (Continued)

Procedures for Obtaining Petty Cash Fund

When a department determines that a petty cash fund is necessary for its operations, the following action should be taken:

- Prepare a cheque requisition naming the individual responsibility for the fund and the amount required.
- Support the cheque requisition with suitable explanation as to the need and intended uses of the fund, including an indication of the appropriate Deputy Minister's approval.
- Submit the cheque requisition and supporting documentation to the Deputy Minister of Finance for review and approval.

Replenishment

Receipts must be obtained for all items purchased and should show the details of the purchase.

When replenishment of the fund is required, the department will submit a cheque requisition, in the amount of the expenditures and supported by the applicable receipts.

4. Travel Advances

Application for this type of advance may be made when the employee requires funds for a specific trip.

For employees with standing advances, a travel advance will not be issued unless the estimated expenses for the trip exceed the amount of the standing advance. In this case the amount of the travel advance should be the difference between the estimated travel expenses and the amount of the standing advances. If it is necessary to apply frequently for travel advances for this purpose, it would be advantageous to apply instead for an increased standing advance.

Advances issued to employees are not to be used for purposes other than travel expenses.

Procedures for Obtaining a Travel Advance

An employee may obtain a travel advance by completion of a Travel Authorization and Claim form and obtaining the approval of an appropriate signing authority.

After approval by the appropriate authority the advance can be processed.

Accounting for a Travel Advance

The holder of a travel advance is required to submit a claim to cover his expenses within the time constraints outlined in the Travel Directive.

As stated in the Directive, within 10 days after completion of the trip, a travel expense account should be submitted together with a personal cheque made payable to the Government of the Yukon for the amount, if any, by which the advance exceeds the actual expense.

8.2.3 (Continued)

Individuals holding travel advances are required to comply with the year-end instruction issued by the Department of Finance.

5. Standing Advances

A standing advance is issued to a person who is required to incur expenditures on a continuing basis for any purpose authorized by an Act and to whom reimbursement to the full amount of the advance is made each time the expenditures made from the advance are accounted for and approved.

Departments may apply for a standing advance when funds are required for government purposes and it is not practical for payments to be made through the normal cheque issue system. Standing advances are made to individual public employees. The funds must be reimbursed through the regular payment system.

Generally, the amount of a standing travel advance should not exceed the average requirement for six weeks' expenditures.

Procedures for Obtaining a Standing Advance

An employee may apply for a standing advance by formal request to his Deputy Minister. The request must be in writing and must set out the following information:

- The purpose of the advance and a brief explanation as to why temporary advances would not suffice.
- An indication as to the volume of expenditures to be processed through the account on a six-week basis.
- The amount of the advance requested.
- The full name, position, and exact business address of the prospective custodian of the advance.

If the Deputy Minister supports the request for a standing advance he will so indicate and forward the request, together with the necessary cheque requisition, to the Deputy Minister of Finance.

Changes to the amount of a standing advance (i.e. an increase or decrease) must be applied for and routed in the same manner as the original request.

Accounting and Control of Standing Advances

The custodian of standing advances must:

- Be a permanent full-time employee of the Government of the Yukon as defined by the Public Service Commission.
- Not be an employee to whom payment authority has been delegated under Section 30 of the *Financial Administration Act*.
- Not be an employee whose duties include the receipt and deposit of money or handling of accounts receivable.

8.2.3 (Continued)

Departments must maintain adequate records and implement appropriate procedures to achieve control over standing advances. They should ensure that:

- Advances cover expenses incurred only while performing government business.
- The advance is recovered immediately when an employee is no longer eligible or terminates.
- Those holding advances are advised periodically of the balances owing.

Departments may achieve these controls by conforming to the following requirements:

- Applications for standing advances should be made well in advance of the date the funds are required.
- A record of advances should be kept on employee personnel files.
- Long-outstanding advances should be reviewed and followed up periodically.
- Procedures should exist to reassess the need for each standing advance. Review of reimbursements to employees with standing advances would accomplish this requirement. If the frequency and amount of the reimbursement of standing advances are small, the employee should be requested to repay the advance or the advance should be reduced.
- All employees holding an advance should be requested to sign an acknowledgement of indebtedness form at the end of the fiscal year.
- Periodic reports should be provided to the Deputy Minister with respect to existing standing advances in the department.

The most common type of standing advances is those for travel purposes.

An employee granted a standing advance for travel purposes is expected to submit travel expense accounts within 10 days of completing the trip as outlined in the Travel Directive. This accounting serves to restore the standing advance to its original amount.

The custodian of a standing advance will certify possession of the advance as required by the Department of Finance.

(This page intentionally left blank)

8.3 ACCOUNTS RECEIVABLE

The Department of Finance ensures that accounts receivable are properly recorded and collected. This responsibility is carried out by assisting departments in meeting this objective.

The Department of Finance is responsible for:

1. Monitoring all receivables.
2. Ensuring that adequate collection procedures and systems are implemented.
3. Providing assistance in collecting delinquent accounts.

Departments are responsible for:

1. Claiming and collecting revenues for the government.
2. Ensuring that established procedures are followed.
3. Ensuring that claims for all goods supplied and services rendered are issued promptly and forwarded to the Department of Finance for input into the Financial Management Information System.

When a department is having difficulty collecting a receivable or becomes aware that a debtor has commenced bankruptcy proceedings, the collection efforts of the Department of Finance should be utilized.

8.4 LOANS RECEIVABLE

Loans are a special category of receivable and require records and procedures that are similar to those used for normal accounts receivable.

Loans include any money owed to the Government of the Yukon that is evidenced by a promissory note. The authority to disburse funds for this purpose must be established by legislation.

When a government department is responsible for controlling loans made directly to third parties it should ensure that:

- Adequate records are maintained detailing the borrower, repayment terms, interest rate, amount and other information as may be required.

Any collateral is adequately insured.

Loans are made according to the terms of the applicable legislation or regulations authorizing such loans.

Procedures exist to collect overdue amounts.

All payments are deposited in the Consolidated Revenue Fund.

8.5 LAND HELD FOR SALE

In order for an asset held for sale to be recognized as a financial asset, all of the following criteria must be met:

- (a) the government has been committed to selling the asset;
- (b) the asset is in a condition to be sold;
- (c) the asset is publicly seen to be for sale;
- (d) there is an active market for the asset;
- (e) there is a plan in place for selling the asset; and
- (f) it is reasonably anticipated that the sale to a purchaser external to the government will be completed within one year of the reporting date.

The plan in place for selling the asset must identify all significant actions to be taken to sell the asset. Actions required by the plan will begin as soon as possible after the commitment to sell is made.

The Yukon Government holds land inventories for sale to third parties. Land held for sale comprises the costs of acquiring, planning and developing serviced lots. As it meets all the criteria above, land inventories for sale are accounted for as a financial asset.

The accounting and control procedures for land held for sale are basically the same as for regular expenditures. Additional procedures are required, however, to account for and control the continuing cost of the inventory.

Departments responsible for land inventories for sale should have sub-systems that integrate with the main accounting system. This integration includes the establishment of a control account to which the detailed records are balanced. All entries in subsidiary systems are recorded, in total, in central control accounts. The operation of a control account provides independent control over the detailed inventory records and serves to ensure that assets are not disposed of, or written off, without appropriate authority.

Land inventory for sale must be periodically reviewed to see if it continues to meet the criteria outlined above. If any part of the inventory no longer satisfies all of the criteria, the department should consider removing or writing down the value of the inventory.

8.6 INVENTORIES OF SUPPLIES

Inventories of supplies are paid materials that are held for consumption in the government's normal course of operations. Therefore, they are classified as non-financial assets.

Accounting controls must be established over inventories of materials to provide independent control of these subsidiary systems and to provide information about the level of materials on hand.

The accounting and control procedures for the purchase of inventory materials are basically the same as for regular expenditures. Additional techniques are required, however, to account and control for the continuing cost of inventories until they have been consumed or disposed.

The objectives of inventory control are:

- To minimize the investment in inventories and associated warehousing and other costs while maintaining sufficient inventory to support operations.
- To minimize losses from damage, obsolescence, perishability, theft or misuse.
- To ensure efficient and effective control over inventory issues, receipts and storage.
- To ensure that the most economical purchasing practices are followed.
- To supply accurate and timely data for accounting and management purposes and to facilitate the forecasting of inventory requirements.

Departments responsible for inventories should have systems to ensure that all physical assets are in safe custody to protect against loss through theft or misuse. Internal control will be strengthened if the duties of inventory custodians are segregated from the record-keeping function. Departmental inventory record-keeping systems should be integrated with the main accounting system. This integration includes the establishment of a control account to which the detailed records are balanced. The operation of a control account provides independent control over the detailed inventory records and serves to ensure that assets are not disposed of, or written off, without appropriate authority.

All entries in subsidiary systems are recorded, in total, in central control accounts.

All inventory should be accounted for using the perpetual method.

Subsidiary records should be reconciled monthly with the control account.

The cost of purchases (excluding freight) will be charged against the appropriate account and stock issues will be:

- Priced by the moving-average method (in which the cost of the goods on hand before invoicing plus the cost of the goods on the invoice is divided by the total number of items).
- Charged to user departments by the moving average method.
- Credited to the appropriate inventory account.

8.6 (Continued)

All entries in the perpetual inventory system are recorded in the Financial Management Information System and the two systems should be reconciled monthly. These entries include the costs of all goods receipted and issued, quantity shortages or overages identified through physical stock counts and deletions of obsolete, damaged or excess stocks.

There is a need to perform physical counts to prove there have been no serious lapses in either physical custody or accounting controls.

Physical counts should be performed, summarized and verified with inventory records by persons who are independent of the inventory custodians. Departmental financial officers should participate directly in the planning, performance and review of physical counts to ensure independence in the physical count and valuation of inventories. Details on year-end stock taking procedures are issued annually by the Department of Finance as part of the Year-End Instructions. Departments and agencies are obliged to follow these instructions.

Adjustments to inventory for shortages or overages must identify the type of discrepancy as:

- Physical count differences.
- Dollar valuation differences.

Shortages shall be charged to an appropriation and overages credited to a revenue account.

Departmental Program Managers

Responsibilities of departmental program managers include ensuring:

- That inventories are maintained and accounted for as prescribed in regulations and directives.
- That adequate physical control over inventories is provided to protect against loss, theft, damage and misuse.
- That maximum working capital (revolving fund/inventory levels) set by legislation are not exceeded.
- That inventories and associated costs are minimized.
- That inventories are maintained at the appropriate levels required to support departmental operations.
- That inventory accounting practices and procedures are as prescribed by the Deputy Minister of Finance

8.6 (Continued)

Departmental Finance Officers

Departmental financial officers should ensure:

- That the requirements for accounting, financial and physical control over inventories are communicated to all operational managers having custody of inventories, or other personnel affected by these requirements.
- That consistently prepared, reliable and timely cost information relative to the operation of inventories is provided when preparing budget estimates and financial reports.

Finance officers should also participate directly in the planning, performance and review of physical counts to ensure validity in the determination of quantities, physical condition and value of inventories.

8.7 TANGIBLE CAPITAL ASSETS

8.7.0 Policy Statement

Subsections 8.7.0 to 8.7.2 of this manual were approved by the Management Board on January 23, 2004 (MBM#04-03-05).

This policy may be referred to as the Tangible Capital Assets Accounting Policy.

Objective

The objective of this policy is to ensure that tangible capital assets of the Government of Yukon are accounted for and reported in accordance with the Public Sector Accounting Board recommendations.

Effective Date

April 1, 2004

Application

This policy applies to all departments but not to the Yukon Housing Corporation, the Yukon Liquor Corporation, the Yukon Workers' Compensation Health and Safety Board or the Yukon Development Corporation.

8.7.1. Definitions

- a) "Tangible capital assets" are physical assets that are acquired, constructed or developed and:
- i) are held for use in the production or supply of goods and services;
 - ii) have useful lives extending beyond one fiscal year and are intended to be used on a continuing basis; and
 - iii) are not intended for sale in the ordinary course of operations.

Tangible capital assets include such diverse items as buildings, land, vehicles, equipment, computer hardware and software, roads, bridges, airstrips, leasehold improvements and assets acquired by capital leases or through devolution.

Tangible capital assets do not include:

- i) assets acquired by Right, such as Crown lands, forests, water and mineral resources;
- ii) work of arts and historical or heritage assets; or
- iii) feasibility studies.

8.7.1. (Continued)

- b) A "betterment" is a cost incurred to enhance the service potential of a tangible capital asset. Service potential may be enhanced when there is an increase in the previously assessed physical output or service capacity, where associated operating costs are lowered, the useful life is extended or the quality of the output is improved.

Maintenance and repairs maintain the pre-determined service potential of a tangible capital asset for a given useful life. Such expenses are not considered to be betterments.

- c) "Capital lease" is a lease that, from the point of view of the Government as lessee, transfers substantially all the benefits and risks incident to ownership of property to the Government.
- d) "Cost" is the 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.
- e) "Cost-shared assets" are tangible capital assets for which the Government has received some funding to offset the cost.
- f) "Deferred capital contribution"

Where the fair value has been capitalized for tangible capital assets that were transferred from a third party, e.g. Canada, an offset is recorded as a "deferred capital contribution". Contributions received for the acquisition, development, construction or betterment of tangible capital assets will be also treated as "deferred capital contributions". The deferred capital contribution is recognized as income over the useful life of the related asset.

- g) "Disposals" of tangible capital assets may occur by sale, destruction, loss or abandonment.
- h) "Fair value" is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- i) "Net book value" of a tangible capital asset is its cost, less both accumulated amortization and the amount of any write-down.
- j) "Residual value" is the estimated net realizable value of a tangible capital asset at the end of its useful life to a government.

8.7.1. (Continued)

- k) "Transferred assets" are tangible capital assets that have been transferred from Canada or other third parties at no cost to the Government.
- l) "Useful life" is the estimate of the period over which a tangible capital asset is expected to be used by the Government. The life of a tangible capital asset may extend beyond the useful life of the tangible capital asset. The useful life of a tangible capital asset, other than land, is finite, and is normally the shortest of the physical, technological, commercial, and legal life. "Useful life" may also be referred to as "economic life".
- m) "Work-in-progress" consists of construction or development of a tangible capital asset in progress that is not yet in use.
- n) A "write-down" occurs when the value of future economic benefits associated with a tangible capital asset is less than its net book value, and the cost of the tangible capital asset is reduced to reflect the decline in the asset's value.

8.7.2. Policy

- | | <u>Reference</u> |
|---|---------------------|
| 1. The Government of Yukon shall capitalize tangible capital assets that are above the thresholds as set by the Deputy Minister of the Department of Finance. | |
| 2. Tangible capital assets should be recorded at cost. | 8.7.1 d) |
| The cost of a tangible capital asset that was transferred from Canada or another third party is considered to be equal to its fair value at the date of transfer. | 8.7.3.2
8.7.1 k) |
| Cost-shared tangible capital assets are to be recorded at gross costs. | 8.7.1 e) |
| 3. The Government of Yukon will amortize a tangible capital asset with a limited life over its useful life using the straight-line method. | 8.7.3.3 |
| The amortization expense must be reported in the Government's Statement of Operations. | |
| 4. Deferred capital contributions should be recorded at an offsetting value of a transferred asset. Funding received for a cost-shared asset will be also recorded as deferred capital contributions. | 8.7.1 f) |
| Deferred capital contributions are to be recognized as income on the same basis as the amortization expense related to the acquired tangible capital asset. | |

8.7.2. (Continued)	<u>Reference</u>
5. On disposal of a tangible capital asset, any gain or loss on disposal is recorded as a revenue or expense	8.7.1 g) 8.7.3.7
Inter-departmental transfers of tangible capital assets must be recorded at net book value.	8.7.3.6
6. When conditions indicate that a tangible capital asset no longer contributes to the Government'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 must be written down to reflect the decline in the asset's value.	8.7.1 n) 8.7.3.8
A write-down must not be reversed.	
A write-down of a tangible capital asset will be reported as a program expense, not as an amortization expense.	
7. Capital lease must be accounted for as an acquisition of a tangible capital asset and an assumption of an obligation.	8.7.1 c) 8.7.3.9
8. At year-end, departments must provide the following schedule of information for each classification of asset to the Department of Finance:	
<ul style="list-style-type: none"> ● opening cost, accumulated amortization and net book value of tangible capital assets; ● cost of acquisitions, development and betterments of tangible capital assets during the year; ● cost and accumulated amortization of the tangible capital assets that were disposed of or transferred to another department during the year as well as the amounts of proceeds if there were any; ● annual amortization expense amounts; ● write-downs, if any; ● closing cost, accumulated amortization and net book value of tangible capital assets; ● opening value of deferred capital contributions; ● annual amortization amount of deferred capital contributions; and ● closing value of deferred capital contributions. 	

Although works of art and historical assets are not reported as part of tangible capital assets, departments must disclose and report the existence of such property to the Department of Finance.

8.7.3. Guidelines

Subsection 8.7.3 “Guidelines” is issued by the Deputy Minister of the Department of Finance under the authority of the *Financial Administration Act* Section 7. The purpose of these guidelines is to help departments interpret and comply with the Tangible Capital Assets Accounting Policy (8.7.0 to 8.7.2).

As for control and management of capital assets, departments must refer to and follow MBD #11/93 “Management of Capital Assets and Disposal of Surplus Public Property”.

8.7.3.1 Classification and Thresholds

Departments must follow the following classification and thresholds in their tangible capital assets reporting. Departments that wish to use the estimated useful life other than what is recommended below must be able to demonstrate the rationale, e.g. a documented opinion from a qualified mechanic.

<u>Classification</u>	<u>Estimated Useful Life</u>	<u>Threshold</u>
Land	Indefinite	None
Land improvements and fixtures	Up to 50 years	\$50,000
Buildings	40 years	\$50,000
Portable classrooms and housing trailers	20 years	\$50,000
Leasehold improvements (a)	Lease term	\$50,000
Heavy equipment (b)	15 years	\$10,000
	Road and Airport Equipment Reserve Fund - as determined by the Fund	
Operating equipment (c)	10 years except for 7 years for photocopiers* and 25 years for ferries	\$10,000
Vehicles	7 years	\$10,000
	Fleet Vehicle Agency - as determined by the Agency	

8.7.3.1 (Continued)

<u>Classification</u>	<u>Estimated Useful Life</u>	<u>Threshold</u>
Computer hardware	5 years (*may include digital photocopiers in this category)	\$10,000
Computer software (d) (systems development)	7 years	\$100,000
Transportation infrastructure (e)	As determined by the Dept. of Highways and Public Works to a maximum of 50 years	N/A

- (a) In order for a betterment made to leased property to be categorized as a leasehold improvement, the lessee department/agency must directly pay for the betterment. If the expenses are the responsibility of the lessor, then it will not be considered to be a leasehold improvement.
- (b) Includes forklifts, tractors, utility trailers, heavy duty trucks, loaders, graders, fire trucks, etc.
- (c) Includes tools, workshop equipment, printing equipment, fire equipment, lab/medical equipment, generators, survey equipment, snowmobiles, 4 wheelers, boats, tanks, ferries, etc.
- (d) Includes software and consulting costs to develop the system to the implementation stage.
- (e) Includes highways, bridges and airstrips.

8.7.3.2 Cost

- a) 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, and duties, but not feasibility study or training costs (e.g. for systems implementation). The cost of a constructed asset would normally include direct construction or development costs (such as materials and labour), and overhead costs directly attributable to the construction or development activity.

8.7.3.2 (Continued)

- b) The cost of each tangible capital asset acquired as part of a single purchase (e.g. the purchase of a building and land for a single amount) is determined by allocating the total price paid for all of the tangible capital asset acquired to each one on the basis of its relative fair value at the time of acquisition.
- c) When, at the time of acquisition, a portion of the acquired tangible capital asset is not intended for use, its costs and any costs of disposal, net of proceeds, are attributed to that portion of the acquired tangible capital asset which is intended for use. For example, the cost of acquired land that includes a building, which will be demolished, comprises the cost of acquired property and the cost of demolishing the building.
- d) A third party such as the Government of Canada may transfer tangible capital assets at no cost to the Government. The cost of a transferred asset is considered equal to its fair value at the date of transfer. Fair value of a transferred tangible capital asset may be estimated using market or appraisal value. In unusual circumstances, where an estimate of fair value cannot be made, the tangible capital asset would be recognized at nominal value. Departments must clearly identify the method of estimation, if the cost of a tangible capital asset is reported at the cost other than the historical cost. The amount equal to the capitalized amount of a transferred asset should be recorded as a deferred capital contribution.
- e) On many occasions, the Government acquires or develops tangible capital assets on a cost-share basis; e.g. the Government of Canada contributes towards the cost of a tangible capital asset. If the amount of the contribution is not considered material, i.e. less than 10% to a maximum of \$100,000, the contribution will be netted to the cost of the asset. Otherwise, the cost of a cost-shared tangible capital asset must be reported on a gross basis. At the same time, the amount of contributions should be accounted for as deferred capital contributions.
- f) A capital lease is recorded as an acquisition of a tangible capital asset. The lesser of the present value of the minimum lease payments, excluding the portion relating to operating costs, and the property's fair value at the beginning of the lease is recorded as the cost of the asset.
- g) Costs of betterments are considered to be part of the cost of a tangible capital asset and would be added to the recorded cost of the related asset.

8.7.3.3 Amortization

- a) The objective of amortization is to provide a systematic and rational basis for allocating the cost of a tangible capital asset over its useful life. Though, from this point of view, any rational and systematic amortization method is acceptable, the Yukon government's accounting policy is to use the straight-line method.
- b) In using the straight-line method of amortization expense calculation, departments may disregard any residual value of a tangible capital asset.
- c) Departments must use the estimated useful life indicated in subsection 8.7.3.1 "Classification and Thresholds" for a respective tangible capital asset.
- d) When a tangible capital asset is acquired on or before September 30 of a fiscal year, a full year of amortization expense for the asset is recorded for that fiscal year. When a tangible capital asset is acquired after September 30 of a fiscal year, no amortization expense is recorded for that fiscal year.
- e) The estimate of the remaining useful life of a tangible capital asset must be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. However, departments must not restate the opening cost and accumulated amortization of a tangible capital asset by applying the new estimated useful life retroactively.

8.7.3.4 Work-in-progress

- a) A tangible capital asset that is work-in-progress should be disclosed separately. Work-in-progress should not be amortized.
- b) A tangible capital asset is no longer in work-in-progress when the asset comes into use, e.g. the building is occupied or the system goes into production, even if construction or development of the asset is not complete.

8.7.3.5 Deferred Capital Contributions

- a) An offsetting value of a transferred asset should be recorded as a deferred capital contribution.
- b) Funding received from a third party for acquisition, construction, development or betterment of a tangible capital asset must be recorded as a deferred capital contribution. If the amount of the contribution is not considered material, i.e. less than 10% to a maximum of \$100,000, the contribution will be netted to the cost of the asset.

8.7.3.5 (Continued)

- c) Each fiscal year, the deferred capital contribution must be amortized to income on the same basis as the amortization expense of the related asset.

8.7.3.6 Inter-departmental Transfers

- a) Assets transferred to another department will be recorded at net book value, i.e. the current booked cost and accumulated amortization of the asset must be transferred by way of an inter-departmental journal entry.
- b) Transfer of a surplus asset to Asset Management of Supply Services is also recorded at net book value.

8.7.3.7 Disposals

- a) On disposal of a tangible capital asset, the cost and accumulated amortization of the asset must be reduced to zero, and any gain or loss on disposal is recorded as a revenue or expense.

8.7.3.8 Write-downs

- a) A department would 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. 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 asset is used;
 - a change in the manner in which the asset is used;
 - significant technological developments;
 - physical damage;
 - removal of the asset from service;
 - a decline in or cessation of, the need for the services provided by the asset;
 - a decision to halt construction of the asset before it is complete or in usable or saleable condition;
 - a change in the law or environment affecting the extent to which the asset can be used.
- b) 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. Regardless of any change in circumstances, a write-down would not be reversed.

8.7.3.8 (Continued)

- c) A write-down expense must be recorded as a program expense, not as an amortization expense.

8.7.3.9 Capital Lease

- a) A lease is considered to be a capital lease 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.
- b) A lease would normally transfer substantially all of the benefits and risks of ownership to the lessee when, at the inception of the lease, one or more of the following conditions are present:
 - (1) There is a reasonable assurance that the Government will obtain ownership of the leased property by the end of the lease term. Reasonable assurance would be present when the terms of the lease would result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option.
 - (2) The lease term is of such a duration that the Government will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. The Government, as a lessee, would normally be expected to receive substantially all of the economic benefits when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property.
 - (3) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments, excluding any operating costs (e.g. insurance, maintenance costs, property taxes, etc.), is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease.
- c) A capital lease must be accounted for as an acquisition of an asset and an assumption of an obligation.

The asset value and the amount of the obligation, recorded at the beginning of the lease term, would be the present value of the minimum lease payments, excluding the portion relating to operating costs. The amount relating to operating costs included in the minimum lease payments would be estimated if not known to the lessee. The discount rate used in determining the present value of minimum lease payments would be the lower of the Government's rate for incremental borrowing and the interest rate implicit in the lease, if practicable to

8.7.3.9 (Continued)

determine. In any event, the value recorded for the asset and obligation may not exceed the leased asset's fair value.

- d) The capitalized value of a depreciable asset under a capital lease would be amortized over the period of expected use (i.e. lease term), on a basis that is consistent with this policy for other similar capital assets. If the lease contains terms that allow ownership to pass to the lessee or a bargain purchase option, the period of amortization would be the estimated useful life of the asset.
- e) Lease payments would be allocated to a reduction of the obligation, interest expense and any related operating costs.
- f) In order to distinguish between tangible capital assets that the Government owns and those that the Government only has the right to use, assets leased under capital leases would be disclosed separately.

8.7.4.2. Interpretation Guideline # 2 – Maintenance vs. Betterment

Definitions:

The TCA policy provides the following definitions:

Betterment - The cost incurred to enhance the service potential of a tangible capital asset is a betterment. Service potential is enhanced if one of the following occurs:

- there is an increase in the previously assessed physical output or service capacity;
- associated operating costs are lowered;
- the original useful life is extended; or,
- the quality of output is improved.

Betterments and replacements include additions to a tangible capital asset or a substitution of a component part of a tangible capital asset. The distinguishing feature between a betterment and a replacement is that a betterment is the substitution of a better component for the one currently used. A replacement on the other hand, is the substitution of a similar component.

Betterments are treated as tangible capital assets and amortized accordingly. Replacements are treated as ordinary operating expenditures.

Repairs and Maintenance - The cost incurred in the maintenance of the service potential of a tangible capital asset is a repair, not a betterment.

Ordinary repairs are expenditures made to maintain assets in operating condition; they are charged to an expense account in the period in which they are incurred. Replacement of minor parts, lubricating and adjusting of equipment, repainting and cleaning are examples of the type of maintenance charges that occur regularly and are treated as ordinary operating expenses.

General Discussion:

A number of factors must be considered when determining if an expenditure meets the criteria to be set up as a tangible capital asset.

Betterments

An expenditure that meets the definition of a betterment must also meet the threshold of the related class to be set up as a tangible capital asset (e.g. a building betterment must meet or exceed the threshold of \$50,000 before it is capitalized.) Therefore there may be situations where betterments are not capitalized due to the low dollar value of the expenditure.

8.7.4.2. (continued)

Repairs & Maintenance

In order for tangible capital assets to reach the estimated useful life, periodic maintenance is required over the life of the asset. The “normal” maintenance schedule of an asset may require maintenance every month or year, whereas others may require maintenance every five years or a combination of both. For some assets, this maintenance may be quite extensive and expensive but it would not qualify as a betterment due to the nature of the work performed.

Replacements

A replacement (which is an expense) is a substitution of a component of the asset with one of similar quality. This implies that no replacement could be capitalized as a betterment. However, some replacements can be considered betterments and capitalized under certain conditions when they are evaluated against the criteria established.

For example, a major roof replacement near the end of the useful life of a building enables the building to be used for a number of years past its originally estimated useful life. This replacement may be of similar quality to the old roof but would meet the definition of a betterment based on the criteria. On the other hand, if a major roof replacement is done only to maintain the initially estimated useful life of the building, these expenditures will not qualify as a betterment. Therefore, it is important to review the expenditure in relation to the criteria to determine if it should be capitalized.

Departments will be required to maintain appropriate supporting documentation to support the decision to capitalize certain expenditures while expensing others. These decisions will be subject to testing by the Auditor General’s Office during its annual financial statement audit or during any value for money audits conducted.

8.8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

8.8.1 Accounts Payable

An accounts payable liability arises under any of the following circumstances:

1. The work has been performed.
2. The goods have been received.
3. The service has been rendered.
4. The amount is owing in accordance with a contractual arrangement.

This definition is especially important during year-end cut-off in order to adhere to the accrual method of accounting.

All cheque requisitions for paying invoices should be forwarded to the Department of Finance to ensure that the supplier is paid promptly and to ensure the Financial Management Information System provides current information.

At year-end it is necessary to accrue charges where a liability has occurred, as per the above definition, but for which no invoice has been received. In these circumstances if the amount of the liability is not known an estimate should be accrued.

8.8.2 Environmental Liabilities

8.8.2.1 Accounting Policy

Authority

This policy was approved by Management Board on February 28, 2007 (MBM # 07-04-04), and can be revised only with the approval of Management Board.

Application

This policy applies to the Government of Yukon departments (the “Government”), excluding government Corporations, Yukon Workers’ Compensation Health & Safety Board, Yukon College and other entities that are owned and/or controlled by these organizations.

Policy

1. For the purpose of this policy, “the remediation of a contaminated site” includes the closure and post-closure activities of a solid waste landfill site.
2. Environmental liabilities consist of estimated costs related to the remediation of contaminated sites. An environmental liability of the Government is accrued and an expense recorded when:
 - (a) the contamination occurs or when the Government becomes aware of the contamination, or, in the case of a solid waste landfill site, during the life of the facility;
 - (b) the Government is obligated to incur such costs; and
 - (c) the costs of the remediation can be reasonably estimated.
3. Estimated costs for the remediation of a contaminated site shall be established following the steps described in subsection 8.8.2.2 “Guidelines”.
4. If the likelihood of the Government’s obligation to incur remediation costs is not determinable or if an amount cannot be reasonably estimated, a contingent liability is disclosed in the notes to the Government’s financial statements.

8.8.2.1 (continued)

5. The Government of Yukon shall budget and account for the Government's environmental liabilities centrally through the Department of Environment. The Department of Environment cannot reallocate funding appropriated for the remediation of contaminated sites without approval by Management Board.
6. There shall be an inter-departmental Yukon Government Contaminated Sites Committee that, at a minimum, consists of representatives from the Departments of Environment, Highways and Public Works, Community Services and Finance. The purpose of the Committee is to provide input into identifying sites that are possibly contaminated, to determine the priority of site investigation, assessment and remediation work, to review cost estimates and budget projections, to advise on the recording of expenses and liabilities, and to advise on other matters that relate to the Government's environmental liabilities. The representative from the Department of Environment shall chair the Committee and the Department of Environment shall provide secretariat services.
7. In consultation with the Yukon Government Contaminated Sites Committee, the Department of Environment shall submit to Management Board for approval an annual plan of proposed remedial activities for each fiscal year by no later than January 31 of the immediately preceding fiscal year. The Department of Environment shall not exceed the cash flows approved by Management Board for the remediation work in any given fiscal year.
8. For the purpose of this policy, costs for cleaning up spills (including leaks from fuel tanks), and for replacing underground fuel tanks with aboveground fuel tanks are excluded from the centralized environmental liability related budget. These expenses shall be borne by the custodial department.

8.8.2.2 Guidelines

The following guidelines are issued by the Deputy Minister of the Department of Finance pursuant to Section 7 of the *Financial Administration Act*.

A. Steps that are required to determine Government's environmental liability for a site where contamination may exist.

In order to determine the Government's environmental liability at a given site, the following steps must be undertaken:

1. A site investigation is carried out in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon). The objective of the site investigation is to determine if there are areas of the site where contamination may exist that should be examined in an intrusive fashion to ascertain if contamination is actually present.

A site investigation is a non-intrusive investigation of current and historical activities at a site. It includes, but is not limited to, a review of existing reports or database entries pertaining to the site, interviews with people who are or were involved with a site (workers, owners, occupants, etc.) and a site visit to assess indications of possible contamination. The goal of a site investigation is to narrow down areas where contamination may have occurred and to identify which contaminants may be present, in order that a subsequent site assessment can focus on these areas and chemicals. A site investigation report shall be submitted to the Standards and Approvals section of the Department of Environment for review and approval.

2. A site assessment is undertaken in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon) to ascertain the full extent of contamination at a site. A site assessment is a detailed, intrusive evaluation of a site, based on the information gathered during the site investigation. It involves drilling and/or trenching for the purposes of sub-surface sampling of soil and groundwater, as well as the sampling of surface soils, water and sediments. The samples are analyzed for those contaminants identified in the site investigation as being of potential concern. The data is used, along with other site information, to determine the types of contaminants

8.8.2.2 (continued)

present, their concentration, and their spatial distribution (vertical and horizontal extent). Comparison of the analytical data with the standards in the Yukon *Contaminated Sites Regulation* is also undertaken to confirm areas of contamination. A site assessment report shall be submitted to the Standards and Approvals section of the Department of Environment for review and approval.

3. Based on the site assessment, a plan of restoration is developed for the contaminated site in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon). This plan outlines the alternatives that have been considered to remediate the site, and provides detailed information for the selected alternative(s), as well as estimated costs for the remediation work.

A plan of restoration is developed when the results of a site assessment show that some contaminants are present at levels above those for the applicable land or water use in the *Contaminated Sites Regulation*, and the site is to be cleaned up. The plan of restoration should detail how compliance with the standards will be achieved, list the remedial options considered and the rationale for pursuing or rejecting them, give a timetable for completion of the remedial activities, identify how compliance with the standards will be demonstrated and what, if any, on-going monitoring will be required, and identify what regulatory approvals must be obtained and what consultation will be conducted, where applicable.

If the site is to be cleaned up using risk-based restoration standards, the plan of restoration must also identify why risk-based standards are being proposed, the methodology used to conduct the risk assessment, the potential on-and off-site environmental impacts of the contamination and any mitigating measures to be taken to lessen their impact, and what monitoring will be conducted to evaluate the risk management measures adopted.

Risk assessment is a method of predicting the impacts of contaminants on human and environmental health. It provides a basis for managing contaminants onsite when removal or other permanent remediation is impractical. Risk assessment uses mathematical models to predict the dose of a contaminant that will be received by a receptor through a specific exposure pathway. The doses expected from all potential

8.8.2.2 (continued)

pathways can be added up and compared with the dose considered safe for that contaminant. If the safe dose is not exceeded, there is little risk that the contaminant will affect the health of receptors. Each risk assessment is unique but all risk assessments provide the following information:

- A list of contaminants at the site, their location and their extent on-and off-site;
- An estimate of the size and likelihood or risks to human and non-human receptors on-and-off site; and
- A description and evaluation of the measures proposed to manage contamination in place.

Risk-based restoration standards are those developed based on the results of a risk assessment of a contaminated site.

4. The amount of environmental liability for a given site cannot be estimated, and therefore, recorded as an expense until a plan of restoration has been completed and remedial costs estimated. Depending on the results following either a site investigation or a site assessment, a site can be eliminated from a list of sites with potential environmental liability.
5. A plan of restoration shall be submitted to the Standards and Approvals section of the Department of Environment for review and approval. Once a plan of restoration is approved and the necessary permits and environmental assessments obtained, the remedial work can be undertaken.

B. Steps that are required to determine Government's environmental liability for landfill sites

The Government must follow the Public Sector Accounting Board recommendations for the accounting and reporting of the liability for closure and post-closure care of a solid waste landfill site.

A solid waste landfill site is a defined area of land or excavation that receives waste that may include household waste, commercial solid waste, non-hazardous sludge, and industrial solid waste.

8.8.2.2 (continued)

Certain activities are required before a landfill site opens, during its operating life and when it stops accepting waste. The Government is required to establish a liability and record expense only for closure and post-closure activities.

Closure activities include all activities related to closing the landfill site. These may include:

- (a) final cover and vegetation; and
- (b) completing facilities for:
 - (i) drainage control features;
 - (ii) leachate monitoring;
 - (iii) water quality monitoring; and
 - (iv) monitoring and recovery of gas.

Post-closure care activities include all activities relate to monitoring the site once it can no longer accept waste. These may include:

- (a) acquisition of any additional land for buffer zones;
- (b) treatment and monitoring of leachate;
- (c) monitoring ground water and surface water;
- (d) gas monitoring and recovery; and
- (e) on-going maintenance of various control systems, drainage systems, and final cover.

Yukon's *Environment Act – Solid Waste Regulations* specifies requirements for closure and abandonment of a landfill site.

1. The Government must recognize a liability for closure and post-closure care as the landfill site's capacity is used. Usage should be measured on a volumetric basis (e.g., cubic metres).

The liability for closure and post-closure care begins when the site starts accepting waste. The change in the liability and the annual expense for the site would be calculated as follows:

Estimated total expenditure x cumulative capacity used/total estimated capacity
Less: expenditures previously recognized

8.8.2.2 (continued)

The estimated total expenditure represents the sum of discounted future cash flows associated with closure and post-closure care activities. The Government's average long-term borrowing rate, determined on a consistent basis, may be appropriate to use as the discount rate.

The capacity used would be estimated based on a rational and systematic method and on the best available information. It is important that the basis for estimating the total capacity and the capacity used be applied consistently so that the liability and results are comparable over time. At least once every three years, an assessment of the need for a comprehensive review of capacity would be completed.

2. The reported liability may be affected by changes in the estimated total expenditure, capacity used or total capacity. Changes could result from new technology, the demand for landfill space, the settling of waste, inflation rates, interest rates, regulatory requirements, or amendments to the approved size of the site.
3. Closure and post-closure care expenditures would be deducted from the reported liability when they are made.

C. Government's obligation to incur remediation costs

In reference to Clause 2 (b) of the Policy under 8.8.2.1, the Government's obligation to incur costs for remediation of a contaminated site is determined by various factors. The ownership of the land itself may not necessarily indicate the Government is obligated to incur those costs. The responsibility to pay for costs that relate to investigation, assessment and/or remediation of a site may be governed by a transfer agreement with the Federal Government such as the Devolution Transfer Agreement. It may also depend upon who is considered to be the Responsible Party pursuant to the *Environment Act* and the *Contaminated Sites Regulation*.

8.8.2.2 (continued)

D. Monitoring of environmental liabilities expenses

In reference to Clause 5 of the Policy under 8.8.2.1, the Department of Environment shall use a Program of the Operations and Maintenance Vote, as approved by Management Board through the approval of Program Objectives, to budget and account for remediation expenses. An expense will be debited when a liability for remediation costs is recorded. Disbursements for remediation work will be drawn down from the liability account.

Any other costs, such as personnel costs and site investigation and assessment costs, would not be included in this Program. These costs and associated funding requests are to be processed through another Operations and Maintenance Program of the Department of Environment.

8.9 LONG-TERM DEBT

8.9.1 Long-term Debt

Long-term debt represents the government's borrowings that have repayment periods over one year. Pursuant to sections 49 to 58 of the *Financial Administration Act*, the Yukon Government cannot borrow any money or issue security without the authority of the *Financial Administration Act* or another Act.

Section 63 of the *Financial Administration Act* requires all the borrowing transactions of the Yukon Government to be reported in the Public Accounts.

8.9.2 Capital Lease Obligation

Departments must account for a leased building or equipment that meets the definition of capital lease (see subsection 8.7.3.9 of this chapter) as a tangible capital asset and a liability.

Such accounting ensures that all types of long-term financing arrangements of the government are reported. When lease payments are made, they would be allocated between repayments of the liability, interest expense and any related operating costs.

Liabilities related to capital lease must be reported on the government's financial statements separately from other long-term liabilities.

8.9.3 Loan Guarantees

Loan guarantees are government's contingent liabilities. A loan guarantee would become a liability of the government if the borrower of the loan defaults.

Similar legislative control as borrowing applies in order for the Yukon Government to issue a loan guarantee. Section 65 of the *Financial Administration Act* prohibits the Government to guarantee a debt or other obligation without the authority of an Act.

The Department of Finance is responsible for:

- Reviewing and approving guarantee proposals.
- Monitoring the status of outstanding guarantees.
- Administering the implementation of guarantees.
- Accumulating information on guarantees for reporting in the Public Accounts.

Guarantees Implemented:

When a guarantee is called, i.e. the third-party borrower has defaulted on its loan, the Government must make a payment from the Consolidated Revenue Fund honoring its guarantee. The implementation of a guarantee will be recorded as an expense. However, depending on the terms of the loan agreement and the guarantee, it could give rise to a financial claim that would be recorded as a receivable.

8.10 POST-EMPLOYMENT BENEFITS

Post-employment benefits are expected to be provided to the Government's employees after employment but before retirement. These benefits include severance benefits and unused vacation leave.

Post-employment benefits are a liability of the Government. The Yukon Government uses an actuarial estimate to determine the amount of the obligation.

8.11 ACCUMULATED SURPLUS (DEFICIT)

The financial position of a government is measured by two indicators. The term “net financial resources (or net debt)” is used to describe the first indicator of a government’s financial position. The second indicator is called “accumulated surplus (or deficit)”, which is the combined amount of a government’s net financial resources (or net debt) and its non-financial assets. Non-financial assets represent unexpired service potential available to be consumed by the government in the future.

(For definitions of financial assets and non-financial assets, please see “8.1 Introduction” of this chapter.)

8.11.1 Net Financial Resources (Net Debt)

Net financial resources or net debt is measured as the difference between a government’s financial assets and liabilities. When a government’s financial resources exceed its liabilities, the difference is called “net financial resources.” When a government’s liabilities exceed its financial resources, the difference is called “net debt”.

Net financial resources would provide a measure of the net financial assets on hand that can provide resources to finance the government’s future operations. Net debt, on the other hand, provides a measure of the future revenues the government requires to pay for past transactions and events. A net debt position represents a “lien” on the ability of the government to apply financial resources and future revenues to provide services.

8.11.2 Accumulated Surplus (Deficit)

Non-financial assets are added to net financial resources (or net debt) to calculate a government's accumulated surplus or deficit. Non-financial assets are "prepaid service potential". Reporting a government's recognized non-financial resources as part of its financial position provides information necessary for a more complete understanding of the government's financial position and future operating requirements.

The nature of the majority of government non-financial assets is different from the nature of those held by a business. Capital assets are held by a business in order to generate future net cash inflows to provide a return to investors, as well as to finance operations, expansion and debt retirement. In contrast, for government, recognition and valuation of capital assets are based on their service potential; for the most part, such assets do not generate future net cash inflows. In addition, they do not normally provide resources to discharge the liabilities of the government.

As non-financial assets such as tangible capital assets provide resources that the government can employ in the future to accomplish its objectives, they form part of the government's accumulated surplus or deficit.