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Accounting and Control of Assets and Liabilities

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Chapter 8
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8.1 INTRODUCTION

The purpose of this chapter is to provide guidance in accounting for specific assets and liabilities grouped under the following categories. These represent the basic categories into which the statement of financial position of the Government is divided:

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 and temporary investments include the sum of all bank accounts, cash on hand and temporary investments.
- b) Accounts receivable and due from Government of Canada are amounts expected to be received within one fiscal year.
- c) Loans receivable and portfolio investments are amounts receivable beyond one fiscal year.
- d) Advances to Corporations owned by the government.
- e) Land inventory consists of land held for sale to third parties.

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:

- f) Accounts payable, accrued liabilities and due to Government of Canada represent amounts payable within one fiscal year.
- g) Unearned revenues represent funding or fees received in advance of required performance.
- h) Long-term debt represents the government's borrowings that have repayment periods over one year.
- i) Environmental liabilities consist of estimated costs related to the remediation of contaminated sites that government has remediation responsibility.
- j) Asset retirement obligations liabilities are the estimated costs of future asset retirement activities that Government has obligations to perform.
- k) Post-employment benefits are benefits earned by the government employees, which are expected to be provided after employment but before retirement. These benefits include severance benefits, unused vacation leaves and portion of sick leave paid out.
- l) Retirement Benefits include retirees extended health and life insurance benefits.
- m) Liabilities for leased tangible capital assets.

8.1 (CONTINUED)

Net financial assets (net debt) is calculated as the difference between financial assets and liabilities.

n) Net financial assets is reported when the government's financial assets exceed its liabilities. Net debt is reported when the government's liabilities exceed financial assets.

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:

- o) Inventories of supplies that are held in stock for later issue to departmental programs.
- p) Tangible capital assets, which represent all the physical assets owned by the Government as defined on 8.7.1 a).
- q) Prepaid expenses.

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.

- r) Accumulated surplus represents the cumulative excess of revenues over expenses, or excess of assets over liabilities. Accumulated deficit represents the cumulative excess of expenses over revenues or excess of liabilities over assets.

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 by forwarding cash blotters and funds to the Department of Finance. If this is not operationally possible, all efforts should be made to deposit funds at least every other day. Any monies not involving cash, e.g. credit card slips and cheques, can be mailed to the Department of Finance on a daily basis.
- 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

8.2.3.0 General

Authority

On June 18, 2015, Management Board revoked MBD #7/84 “Advances Directive” and replaced it with subsections 8.2.3.0 to 8.2.3.3 of this manual (MBM #15-16-03). The directives outlined in subsections 8.2.3.0 to 8.2.3.3 are issued pursuant to section 27 of the *Financial Administration Act*, and can be revised only with the approval of the Management Board.

Subsections 8.2.3.0 to 8.2.3.3 of this manual may be referred to as the Advances Directive.

Effective Date

June 18, 2015

Application

This Directive applies to every accountable advance from the Consolidated Revenue Fund.

Objective

The objective of this Directive is to provide direction to public officers on obtaining or issuing accountable advances for the purpose of paying necessary expenses that could reasonably be expected to be incurred while the person is engaged in government business.

8.2.3.1 Definitions

- a) “accountable advance” means money paid to a person for any purpose authorized by an Act for which that person undertakes to repay or provide an accounting and includes a float, a petty cash advance, a standing advance, and a travel advance, but does not include advance payments pursuant to a transfer payment agreement or contract;
- b) “corporations” means the Yukon Housing Corporation, the Yukon Liquor Corporation, and the Yukon Development Corporation;
- c) “float” means an accountable advance held in cash to make change;
- d) “petty cash advance” means an accountable advance held in cash for expenditures on behalf of the government;

8.2.3.1 (Continued)

- e) “standing advance” means an accountable advance paid 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; and
- f) “travel advance” means an accountable advance made to a person who is required to incur expenditures for travel on government business in accordance with the Travel Directive.

8.2.3.2 Approval Authority

1. The Minister responsible for the Department of Finance may approve a petty cash, cash float, or a standing advance not exceeding \$5,000.
2. The Deputy Minister of the Department of Finance may approve a petty cash, cash float, or a standing advance not exceeding \$3,000.
3. Every advance in excess of the limits above shall be approved by the Management Board.
4. The Deputy Minister of Department of Finance may delegate authority to approve an accountable advance to a public officer in the Department of Finance. A public officer authorized by the Deputy Minister of Department of Finance to approve an accountable advance shall not re-delegate such authority.
5. The directives in this subsection do not apply to the corporations.

8.2.3.3 Directives

1. A travel advance shall be issued and accounted for in accordance with the Travel Directive issued by the Management Board.
2. No accountable advance shall be issued in cash.
3. The amount of each advance shall be kept to a minimum, making allowance for a reasonable time to obtain reimbursement of expenditures.
4. Advances which are no longer required shall be refunded to the Department of Finance.
5. Except as provided for in Item #1, every person to whom an accountable advance has been issued shall account for it in such a manner as the Deputy Minister of the Department of Finance may determine.

8.2.3.3 (Continued)

6. Every person to whom an accountable advance has been issued shall refund the advance in full if it is lost, stolen, destroyed or cannot be accounted for.
7. No expenditure from a petty cash advance shall exceed \$100.00 for any one purchase.
8. No cheque shall be cashed with money from a petty cash advance.
9. Any accountable advance issued by the corporations shall be in accordance with this Directive and their respective Acts. Items #4 and #5 in this subsection do not apply to the corporations.

8.2.3.4 Procedures

The procedures outlined in subsection 8.2.3.4 of this manual are issued by the Deputy Minister of the Department of Finance under the authority of the *Financial Administration Act* Section 7. The purpose of these procedures is to help departments interpret and comply with the Advances Directive (8.2.3.0 to 8.2.3.3 above).

Any changes to this subsection, therefore, require approval of the Deputy Minister of the Department of Finance.

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 four types of accountable advances available to employees. They are float, petty cash, travel, and standing advance.

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

2. Floats

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.

8.2.3.4 (Continued)

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 public officer 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.
- Unannounced 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 processed 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 or his/her delegate for review and approval.

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.

8.2.3.4 (Continued)

3. Petty Cash Advances

Normally, all disbursements of public funds are made by cheque or direct deposits. 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 five-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 totaling the exact amount of the fund.
- Ensure the proper custody, control and safekeeping of the petty cash fund.
- Petty Cash advances should be used only for purchases which do not exceed \$100.00.
- Effective February 4, 2013, the Government of Canada is phasing out the penny. After that date, when a cash purchase is made, businesses will round up or down to the nearest five cents where pennies are not available. If a difference originates due to the rounding used by a retailer, the department will code the difference to a departmental O&M expense code with Object 0220.

8.2.3.4 (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 or acquisition card.
- Subject to maximum limitations, the petty cash fund should be sufficient such that replenishment will be required no more frequently than every three 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.
- The transfer of responsibility for petty cash should be processed 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.

8.2.3.4 (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.

8.2.3.4 (Continued)

Accounting for a Travel Advance

The holder of a travel advance is required to submit a claim to cover their 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.

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

5. Standing Advances

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 five weeks' expenditures.

Procedures for Obtaining a Standing Advance

An employee may apply for a standing advance by formal request to their 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 five-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 they 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.

8.2.3.4 (Continued)

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.

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.

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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.

Charging of Interest on Accounts Receivable

Definition

“account” means any invoice, statement, voucher or other document claiming payment that is lawfully due and payable to the government.

Where payment of an account has not been received by the Government of Yukon within thirty days of the date of the account, interest shall be added to the account.

The interest added to an account shall be calculated at the current Bank of Canada rate.

Interest shall be credited to accounts receivable interest revenue.

No interest shall be added if the total of all accounts from a specific client is \$100 or less.

No interest shall be charged on a debt obligation that is past-due from a municipality, a provincial government or the Government of Canada.

Interest charges apply to overdue repayments on loans.

The debtor shall be advised of all interest charges to an account by separate invoice or monthly statement.

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 Objective and Application

Authority

Subsections 8.7.0 to 8.7.2 of this manual were approved by the Management Board on January 23, 2004 by MBM#04-03-05 and amended on March 7, 2012 by MBD#12-05-01 and on November 30, 2022 by MBM#22-036-03, and can be further amended only with the approval of Management Board

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 are accounted for and reported in accordance with the Public Sector Accounting Board recommendations.

Application

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

Effective Date

Original Policy - April 1, 2004

Amendment – April 1, 2012

Amendment – April 1, 2022

Approval History

January 23, 2004 (MBM#04-03-05)

March 7, 2012 (MBD#12-05-01)

November 30, 2022 (MBD#22-036-03)

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.

8.7.1. (Continued)

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

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 treasures or heritage assets; or
- iii) feasibility studies.

Other definitions

- b) "Accretion expense" relates to the expense recognized when there is an increase to the asset retirement obligation liability due to the passage of time. This expense is recognized when a liability is measured at its present value and adjusted for the passage of time using a discount rate at the financial reporting date.
- c) "Asset retirement activities" relate to all activities both at retirement and at post-retirement necessary to retire an asset. These may include decommissioning or dismantling a tangible capital asset, remediation of contamination from normal use of a tangible capital asset, and post-retirement monitoring. These activities also include the construction or acquisition of other tangible capital assets for the sole purpose of using them for the retirement of an asset.
- d) "Asset retirement cost" is the estimated monetary amount of all required asset retirement activities. Asset retirement costs are a necessary and integral part of owning and operating the related capital asset. These costs increase the carrying amount of the related tangible capital asset
- e) "Asset retirement obligation" is a legal obligation to perform asset retirement activities.
- f) "Asset retirement obligation asset" is the recognized value of estimated cost of the asset retirement activities related to a tangible capital asset. It increases the assets' recorded value.
- g) "Asset retirement obligation liability" is the recognized liability for the estimated value of the cost of the future asset retirement activities as adjusted on an annual basis.
- h) "Betterment" is a cost incurred to enhance the service potential of a tangible capital asset. Service potential is 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. Replacements or maintenance and repairs that maintain the pre-determined service potential of a tangible capital asset for a given useful life are not considered to be betterments.

8.7.1. (Continued)

- i) "Contributed assets" are tangible capital assets that have been transferred from Canada or other third parties at a nominal or no cost to the Government.
- j) "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.
- k) "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.
- l) "Cost-shared assets" are tangible capital assets for which the Government has received some funding to offset the cost.
- m) "Disposals" of tangible capital assets may occur by sale, destruction, loss or abandonment.
- n) "Economic benefit or future economic benefit" refers to benefits embodied in assets that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide cash inflows or to reduce cash outflows that allow the Government to achieve its objectives of providing public goods and services.
- o) "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.
- p) "Net book value" of a tangible capital asset is its original cost, less both accumulated amortization and the amount of any write-down. If applicable, net book value also includes asset retirement obligation cost less related accumulated amortization.
- q) "Nominal value" is an amount deemed to be financially inconsequential based on a professional opinion.
- r) "Productive use" means the tangible capital asset is 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.
- s) "Promissory estoppel" is the principle that a promise made without the exchange of consideration may nonetheless be enforced to prevent injustice if the promiser should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to their detriment.

8.7.1. (Continued)

- t) "Retirement of a tangible capital asset" is the permanent removal of the asset from service. This could involve the sale, abandonment, or disposal in some other manner of the asset but not its temporary idling.
- u) "Residual value" is the estimated net realizable value of a tangible capital asset at the end of its useful life to the Government.
- v) "Useful life" is the estimate of the period over which a tangible capital asset is expected to provide economic benefit to the Government. The life of a tangible capital asset may extend beyond its useful life.. The useful life of a tangible capital asset, other than land, is finite. "Useful life" may also be referred to as "economic life".
- w) "Work-in-progress" consists of costs related to construction or development of a tangible capital asset that is not yet in productive use.
- x) "Write-down" is the reduction of the cost of a tangible capital asset to reflect the decline in the asset's value, when the value of the future economic benefits associated with a tangible capital asset is less than its net book value. It reflects a partial impairment of the value of an asset.
- y) "Write-off" is used to reflect 100 percent impairment in the value of an asset. Tangible capital assets are written-off in instances where they are destroyed, stolen, lost or obsolete. It includes reducing the value of the tangible capital asset and related accumulated amortization to nil.

8.7.2. Policy

- | | <u>Reference</u> |
|--|------------------|
| 1. The Government shall capitalize tangible capital assets that are above the thresholds as set by the Deputy Minister of the Department of Finance. | 8.7.3.1 |
| 2. Tangible capital assets should be recorded at cost.

The cost of a contributed 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. An equal value of revenue must be recognized for the contributed asset.

Cost-shared tangible capital assets are to be recorded at gross costs. Revenue will be recognized as the Government expends funding in accordance with the terms and conditions of the contribution agreement. | 8.7.3.2 |
| 3. The Government will amortize a tangible capital asset with a limited life over its useful life using the straight-line method.

The amortization expense must be reported in the Government's Statement of Operations. | 8.7.3.3 |
| 4. Inter-departmental transfers of tangible capital assets must be recorded at net book value. The receiving department must record the asset at its original cost and accumulated amortization and the transferring department must remove the capital asset's original cost and accumulated amortization from its books. Any asset retirement obligations (if applicable) must be included in the transfer. As a result, the transfer will not produce a gain or loss and this accounting treatment will result in no impact at the government-wide level. | 8.7.3.5 |
| 5. On disposal of a tangible capital asset, any gain or loss on disposal is recorded as a revenue or expense. | 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.

A write-down shall not be reversed.

A write-down of a tangible capital asset will be reported as a program expense against departmental vote 4 authority but not as an amortization expense. | 8.7.3.7 |

8.7.2. (Continued)

Reference

7. When tangible capital assets are disposed, destroyed, stolen, or lost, they must be written off. This includes reducing the value of the tangible capital asset and related accumulated amortization to nil. 8.7.3.8

Approval to write-off assets must be in accordance with MBD#11/93-Management of Capital Assets and Disposal of Surplus Public Property.

8. A capital lease must be accounted for as an acquisition of a tangible capital asset and an assumption of a long term liability. 8.7.3.9
9. An asset retirement obligation liability must be recognized when, as at the financial reporting date all the following four conditions are met: 8.7.4.1
- i. there is a legal obligation to incur retirement costs related to a tangible capital asset (includes leased assets);
 - ii. the past transaction or event giving rise to the obligation has occurred;
 - iii. it is expected that the Government will have to give up future economic benefits; and
 - iv. a reasonable estimate of the amount (cost) can be made.
10. The Government shall record asset retirement obligation liabilities for tangible capital assets (including leased assets) when the conditions in 8.7.2.9 to recognize the liability have been met, as follows:
- i. When the liability relates to an asset that is in productive use, the recognition of a liability is accompanied by a corresponding increase to the carrying amount of the tangible capital asset to which the obligation relates and amortized over the remaining useful life of the asset.
 - ii. When the liability relates to a tangible capital asset that has been fully amortized but is still in productive use, the cost base of the tangible capital asset is increased. The revised value of the asset should be amortized over its revised remaining useful life.
 - iii. When the liability relates to a tangible capital asset that is not in productive use, the liability should be expensed as a prior year adjustment.

8.7.2. (Continued)

Reference

- iv. When the liability relates to an asset not recorded on the Government's tangible capital asset listing, for example heritage assets, the obligation should be expensed in the same financial year the liability is recorded.

11. When the cash flows and timing required to fulfill the asset retirement obligation can be reasonably estimated, a present value technique shall be used to cost the obligation. The liability is discounted to its present value upon initial recognition and adjusted yearly for accretion. 8.7.4.2

12. When there is uncertainty about the amount or timing of cash flows to fulfill the asset retirement obligation, the present value technique may not be used. Any such uncertainty must be disclosed in notes to the financial statements.

13. The carrying value of the liability is adjusted each fiscal year by the accretion expense. Over time, the balance of the liability increases as it approaches its estimated future value.

The Government must recognize the yearly accretion expense on the statement of operations.

If the estimated future value of the liability changes, this change in estimate is captured by an equal change in the value of the asset retirement obligation asset and the asset retirement obligation liability.

14. When the Government will recover some of the asset retirement costs from another party, it must account for the recovery in accordance with section 8.7.4.4 Recoveries. 8.7.4.4

15. At year-end, departments must provide to the Department of Finance the following schedules of information 8.7.3.1

- i. A schedule for each classification of tangible capital asset:
 - opening cost, accumulated amortization and net book value of tangible capital assets;
 - opening value, accumulated amortization and net book value of asset retirement obligation assets;
 - cost of acquisitions, development and betterments of tangible capital assets and related asset retirement obligations during the year if any;
 - cost and accumulated amortization of the tangible capital assets and related asset retirement obligations that were disposed of,

8.7.2. (Continued)

Reference

retired, written-off or transferred to another department during the year as well as the amounts of proceeds, if any;

- annual amortization expense amounts;
- write-downs, if any;
- write-offs, if any;
- changes in estimate of asset retirement obligation assets, if any;
- closing cost, accumulated amortization and net book value of tangible capital assets; and
- closing value, accumulated amortization and net book value of asset retirement obligation assets.

ii. A schedule for each asset retirement obligation liability: 8.7.4.2

- opening value of the asset retirement obligation liability; 8.7.4.3
- annual accretion expense amounts;
- cost of retirement obligation activities performed;
- impacts of changes in estimates to the asset retirement obligation liability, if any; and
- closing value of the asset retirement obligation liability.

iii. Recoveries related to asset retirement obligation costs, if any. 8.7.4.4

16. Although works of art and historical or heritage 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. 8.7.3.10

At year-end, departments must provide to the Department of Finance a schedule by asset type showing:

- opening value of works of art and historical or heritage assets;
- acquisitions made during the year;
- disposals made during the year;
- write-downs; and
- closing value of works of art and historical or heritage assets

17. The estimate of the remaining useful life of each individual tangible capital asset must be reviewed on a regular basis and revised when the appropriateness of a change can be clearly demonstrated. 8.7.3.1

At year-end, departments must provide to the Department of Finance a report showing:

- listing of all tangible assets whose remaining useful life has been reviewed; and
- revisions made to remaining useful life, if any.

8.7.2. (Continued)

Reference

Department of Finance will assess impact on asset retirement obligations estimates and make adjustments as required to the asset retirement obligation asset, asset retirement obligation liability, amortization and accretion.

8.7.3. Guidelines- General Management of Tangible Capital Assets

Subsection 8.7.3 through 8.7.5 “Guidelines” are 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).

Certain tangible capital assets are in complex in that they are actually an integration of multiple tangible capital assets that may not have identical life spans. Where applicable and data is available, complex tangible capital assets should be recorded as the sum of the component assets that comprise the parent asset. For example, a school (parent asset) would be classified as a building asset consisting of several component assets, the foundation, the roof, the HVAC/Mechanical system, the exterior finishes, etc.

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”.

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 Office of the Auditor General during its annual financial statement audit or during any value for money audits conducted.

8.7.3.1 Classification and Thresholds

Departments must follow the classification and thresholds below to report tangible capital assets as well as component assets. For complex tangible capital asset thresholds below should be applied to the sum of the components rather than for each individual component. The estimated useful life of the individual component assets need not be the same as the parent asset.

Departments that wish to use an estimated useful life outside the range that is recommended below must be able to demonstrate the rationale, e.g. a documented opinion from a qualified professional.

In determining the estimated useful life, departments must take into account:

- i. expected future usage;
- ii. effects of technological obsolescence or development;
- iii. expected wear and tear from use or the passage of time;
- iv. the maintenance program;
- v. studies of similar items retired; and
- vi. the condition of existing comparable items.

8.7.3.1 (Continued)

<u>Classification</u>	<u>Estimated Useful Life at Acquisition</u>	<u>Threshold</u>
Land	Indefinite	None
Buildings	50 – 100 years	\$50,000
Portable classrooms and housing trailers	10 – 40 years	\$50,000
Leasehold improvements ^(a)	Lease term	\$50,000
Heavy equipment ^(b)	7 – 30 years	\$10,000
Operating equipment ^(c)	5 – 25 years	\$10,000
Vehicles ^(d)	6 – 20 years	\$10,000
Computer Hardware	3 – 7 years	\$10,000
Computer software ^(e)	3 – 20 years	\$100,000
Forestry access roads	5 – 10 years	\$50,000
Resource access roads	life of mine	\$50,000
Transportation infrastructure ^(f)	5 – 75 years	\$100,000
Land improvements and fixtures	5 – 50 years	\$50,000
Landfills	25 – 80 years	None
Sewage and water systems	5 – 50 years	\$50,000
Mobile radio system infrastructure	5 – 20 years	\$100,000
Network Transmission Systems	20 – 40 years	\$100,000

Note: For greater certainty, betterments and replacements have the same classification as the asset to which it relates.

8.7.3.1 (Continued)

- (a) In order for a betterment made to a leased property to be categorized as a leasehold improvement, the lessee 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, ferries, etc.
- (c) Includes tools, workshop equipment, printing equipment, fire equipment, lab/medical equipment, generators, survey equipment, snowmobiles, all-terrain vehicles, boats, storage tanks and containers, office furniture, photocopiers, etc.
- (d) Includes cars, light duty trucks, other passenger moving vehicles, etc.
- (e) Includes software and consulting costs to develop the system to the implementation stage. Useful life to be based on expected usage of the system before overhaul.
- (f) Includes highways, bridges, and airstrips.

8.7.3.2 Cost

- a) Departments must clearly identify the method of estimation if the cost of a tangible capital asset is reported at a cost other than its historical cost.
- b) 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) to bring a tangible capital asset into productive use. 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.
- c) 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 to each one on the basis of its relative fair value at the time of acquisition.
- d) 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, is comprised of the cost of the acquired property and the cost of demolishing the building.

8.7.3.2 (Continued)

- e) 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 (contributed) asset is considered equal to its fair value at the date of transfer. Fair value of a contributed 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 a nominal value. An amount equal to the capitalized amount of a contributed asset should be recorded as revenue in the year of the transfer (contribution).
- f) On many occasions, the Government acquires or develops tangible capital assets on a cost-share basis; e.g. the Government of Canada provides funding towards the cost of a tangible capital asset. The cost of a cost-shared tangible capital asset must be reported on a gross basis. The amount of the funding should be accounted for as revenue in the year any performance obligation is fulfilled.
- g) 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.
- h) Costs of betterments are considered to be part of the cost of a tangible capital asset, but should be recorded as a component of the original tangible capital asset they improved.
- i) Estimated cost of an asset retirement obligation is considered to be part of the cost of the tangible capital asset and should be recorded as a component asset 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. The Government's accounting policy is to use the straight-line method which is to expense the historical cost in equal annual amounts over the useful life of the asset.
- b) In using the straight-line method of amortization expense calculation, departments may disregard any nominal residual value of a tangible capital asset.
- c) Departments must classify tangible capital assets and use the respective estimated useful life range indicated in subsection 8.7.3.1 "Classification and Thresholds".
- d) All assets will be amortized half their annual amortization rate in the year the tangible capital asset is put into productive use. This is regardless of the date within the fiscal year they are put in productive use.

- e) The estimate of the remaining useful life of each tangible capital asset should be reviewed on a regular basis and revised when a need for change can be clearly demonstrated. Events that may indicate a need to revise the estimate of the remaining

8.7.3.3 (Continued)

useful life of a tangible capital asset include:

- vii. a change in the extent to which the tangible capital asset is used;
- viii. a change in the manner in which the tangible capital asset is used;
- ix. removal of the tangible capital asset from service for an extended period of time;
- x. physical damage;
- xi. significant technological obsolescence and development;
- xii. a change in the demand for the services provided through use of the tangible capital asset; and
- xiii. a change in the law or environment affecting the period of time over which the tangible capital asset can be used.

All changes shall be applied prospectively (on a go forward basis) on implementation.

8.7.3.4 Work-in-progress

- a) A tangible capital asset that is work-in-progress should be disclosed separately. Work-in-progress must not be amortized.
- b) A tangible capital asset is no longer a work-in-progress when the asset comes into productive use, e.g. the building is occupied or the system is put into production, even if construction or development of the asset is not complete.
- c) Asset retirement obligations (if applicable) are recognized when a tangible capital asset comes into productive use.

8.7.3.5 Inter-departmental Transfers

- a) Assets transferred to another department will be transferred by way of an inter-departmental journal entry that transfers both the total cost and accumulated amortization of the asset.
- b) Transfer of a surplus asset to Asset Management of Supply Services will be transferred by way of an inter-departmental journal entry that transfers both the total cost and accumulated amortization of the asset.
- c) Transfer must include any asset retirement obligations or other component assets related to the asset transferred.

- d) If the transfer included an asset retirement obligation component asset, then the corresponding asset retirement obligation liability should also be transferred.

8.7.3.6 Disposals

- a) Disposals of tangible capital assets must be in accordance with MBD#11/93-Management of Capital Assets and Disposal of Surplus Public Property.
- b) On disposal of a tangible capital asset, the cost and accumulated amortization of the asset and any related components must be reduced to zero, and any balance/difference is recorded as a gain or loss on disposal.

8.7.3.7 Write-downs

- a) A department would write down the cost of a tangible capital asset only 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 development;
 - 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 cannot be reversed.
- c) A write-down expense must be recorded as a program expense, not as an amortization expense.
- d) Write-downs must be reviewed and approved by the Department of Finance prior to being recorded.

8.7.3.8 Write-offs

Chapter 8 Accounting and Control of Assets and Liabilities

- a) The write-off of a tangible capital asset requires approval per MBD#11/93-Management of Capital Assets and Disposal of Surplus Public Property Clause 13.
- b) Tangible Capital Assets are written-off in instances where they are disposed, destroyed, stolen or lost.

8.7.3.9 Capital Leases

- 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 Government 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 asset 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 Government 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 asset 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 asset.
 - (3) The lessor would be assured of recovering the investment in the leased asset 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 asset, at the inception of the lease.
- c) A capital lease must be accounted for as an acquisition of an asset and an assumption of a liability.

The asset value and the amount of the liability 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 Government. 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 determine. In any event, the value recorded for the asset and liability 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 Government or a bargain purchase option, the period of amortization would be the estimated useful life of the asset.

8.7.3.9 (continued)

- e) Where a lease agreement requires asset retirement activities to be performed at the end of the lease, an asset retirement obligation must be recognized as set out in 8.7.4.1.
- f) Lease payments would be allocated to a reduction of the liability, interest expense and any related operating costs.
- g) 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 shall be disclosed separately.

8.7.3.10 Works of art and historical treasures or heritage assets

Works of arts, historical treasures or heritage assets are property that have cultural, aesthetic or historical value that is worth preserving perpetually. These assets would not be recorded as tangible capital assets in the financial statements as a reasonable estimate of the future benefits associated with such property cannot be made. However, a disclosure is made in the notes to the financial statements of their existence.

- (1) Costs for acquisition, restoration and maintenance of these assets should be expensed when incurred.
- (2) Renovations to historical treasures or heritage assets to allow for modern use of the asset (i.e. heritage building is renovated for use as office space) that are beyond restorative work, should be evaluated in the same manner as a betterment. Such renovations may give rise to a tangible capital asset.

8.7.4 Guidelines - Asset Retirement Obligations

Asset retirement obligation guidelines supplement the Tangible Capital Assets policy and provide further guidance regarding the treatment of retirement obligations under Public Sector Accounting Standard PS 3280. These guidelines apply to all productive, unproductive, owned, controlled, leased, unamortized, and fully amortized tangible capital assets with an asset retirement obligation. No guideline can be all inclusive and professional judgment must be exercised in applying these guidelines to each circumstance.

8.7.4.1 Recognition

An asset retirement obligation liability must be recognized when, as at the financial reporting date all the following four conditions are met:

1. there is a legal obligation to incur retirement costs related to a tangible capital asset (includes leased assets);
2. the past transaction or event giving rise to the obligation has occurred;
3. it is expected that the Government will have to give up future economic benefits; and
4. a reasonable estimate of the amount (cost) can be made.

A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability. An obligation can result from

1. agreements or contracts;
2. legislation of another government;
3. government's own legislation; and
4. a promise made to another party that could be legally enforced.

Events that create an asset retirement obligation are typically:

1. the acquisition, construction, development of a tangible capital asset (e.g. the Government acquires an X-ray machine or a building containing asbestos, the obligation to retire it in a prescribed manner results from its acquisition);
2. the normal use of the tangible capital asset (e.g. the Government opens a landfill, the obligation to complete closure and post closure activities under the environmental approval is activated when the site starts operating or accepting waste);
3. contractual obligations that require the Government to undertake retirement activities to terminate a lease or contract. (e.g. remove buildings on leased land, or renovate a building to a certain standard, as a condition of terminating the lease); or
4. promissory estoppel that requires the Government to perform retirement activities on tangible capital assets that belong to the Government or third parties.

8.7.4.1 (Continued)

If the contract, agreement, promissory estoppel or legislation that creates the obligation comes into existence at a date after the acquisition of a tangible capital asset, then the event that results in a liability is the creation of the contract, agreement, promissory estoppel or legislation.

Asset retirement activities may include, but are not limited to:

- i. decommissioning or dismantling of the tangible capital asset.
- ii. disposal or remediation of hazardous materials or contamination occurring from normal use of the tangible capital asset.
- iii. post retirement activities, such as monitoring, included in the disposal and remediation process
- iv. cost to acquire, construct or develop other tangible capital asset required to complete post-retirement activities

NOTE: Only costs related to obligated retirement activities are to be included in the calculation of the asset retirement obligation. For example, when a building is demolished, only the demolition costs for the removal of hazardous materials are eligible asset retirement costs.

The following are not considered asset retirement costs:

- i. **Acquisition:** Original costs to acquire, construct or develop the related tangible capital asset.
- ii. **Replacement:** Costs relating to routine replacement of tangible capital assets. For example, infrastructure such as roads and bridges are normally not permanently removed from service, rather they are replaced at the end of their useful life.
- iii. **Maintenance:** Costs relating to routine maintenance of tangible capital assets. These costs shall be expensed as incurred.
- iv. **Remediation of contamination:** Remediation of contamination that is not related from normal use of the tangible capital assets, for instance unexpected contaminations from spills. Contamination that is beyond the threshold set by environmental regulations is accounted for in accordance with 8.9.2 Environmental Liabilities.
- v. **Catastrophic events:** Costs resulting from catastrophic events such as flooding or fires.
- vi. **Repurposing:** Costs relating to the preparation of a tangible capital asset for an alternate use.
- vii. **Clean-up and by-products:** Costs related to clean-up of waste or by-products produced by the tangible capital asset's normal use. These costs represent routine operations and are not associated with the retirement of the asset.
- viii. **Improper use:** Costs caused by improper use of an asset.
- ix. **Sale or disposal:** Costs that only arise from a voluntary plan to sell or dispose of a tangible capital asset.

8.7.4.2 Measurement

- a) The estimate of the asset retirement obligation must include all costs that are associated directly with the retirement activities as best estimated at the financial reporting date. The estimated costs should reflect all costs directly attributable to the retirement requirements outlined in the underlying contract, agreement, promissory estoppel or legislation. These costs may include but are not limited to:
 - i. materials and equipment
 - ii. payroll and benefits
 - iii. directly attributable overhead costs
 - iv. legal and professional fees
 - v. post-retirement operation, maintenance, and monitoring of landfills
 - vi. cost of new tangible capital assets acquired solely for asset retirement activities. For example, as part of retiring a landfill, new water monitoring wells might be constructed.
- b) Sources of cost information to estimate the asset retirement obligation may include:
 - i. third party proposals and quotes for performing the activities required;
 - ii. external quotes and market data on costs of similar activities;
 - iii. historical costing information on similar activities completed by the Government for other tangible capital assets.
- c) When the cash flows and timing required to fulfill the retirement obligation can be reasonably estimated, a present value technique shall be used to quantify the obligation. The liability is discounted to its present value upon initial recognition and adjusted yearly for accretion expense.
- d) When there is uncertainty about the amount or timing of cash flows to settle the retirement obligation, the present value technique may not be used. Uncertainties about timing or amount to settle an asset retirement obligation does not remove the obligation but will affect its measurement. Any such uncertainty must be disclosed in the notes to the financial statements.

8.7.4.3 Re-measurement

- a) The estimate of the asset retirement obligation should be based on the best available information on the financial reporting date.
- b) Over time, as new information becomes available, estimates used to calculate the asset retirement obligation are likely to change. Estimates (including the amount and timing of retirement costs and, if applicable, the discount rate used) should be reviewed every fiscal year and appropriately reflected in the financial statements.

8.7.4.3 (Continued)

- c) The table below presents how estimates used to calculate the asset retirement obligation asset and liability (for a tangible capital asset in productive use) may change and the associated accounting treatment.

Reason for Change	Impact	Accounting Treatment
Change due to passage of time	Asset retirement obligation liability is revised each fiscal year to account for the passage of time and adjust the present value of the liability to account for the future cash out flows occurring sooner.	Record the increase in liability as an accretion expense in the fiscal year the adjustment relates to. DR: Accretion expense CR: Asset retirement obligation liability

Example:

- *At the beginning of the fiscal year an asset retirement obligation liability is recognized at a present value of \$1,000, at a discount rate of 10%. At the end of the fiscal year the accretion expense is recognized at 10%, resulting in a \$100 increase in the liability.*

Material change to the tangible capital asset or related retirement activities due to:

Revised remaining useful life of the related asset	Revisions to timing of retirement activities will impact the retirement obligation asset in addition to the asset retirement obligation liability.	Statement of Financial Position: Adjust the cost base of the underlying tangible capital asset and the asset retirement obligation liability in the fiscal year of revision.
New information about the cost of retirement activities	Revisions to the amount of the original estimate of undiscounted cash flows will impact the retirement obligation asset in addition to the asset retirement obligation liability	Statement of financial operations: Reflect change in amortization and accretion expense prospectively. (fiscal year following revision)
Change in discount rate	Revisions to the discount rate will impact the asset retirement obligation asset in addition to the asset retirement obligation liability	

Examples:

- *If the useful life of a tangible capital asset that has an asset retirement obligation is extended, this would defer the cost of asset retirement obligation further into the future.*
- *New environmentally cleaner parts become available that reduce the Government's future asset retirement costs.*
- *The Government's applicable discount rate changes resulting in a change to the present value of the Government's future obligations.*

8.7.4.3 (Continued)

- d) When a tangible capital asset is no longer in productive use, all subsequent changes in the estimate of the related asset retirement obligation liability should be recognized as an expense in the fiscal year the estimate is changed.
- e) The liability for an asset retirement obligation continues to be recognized until it is settled or otherwise extinguished.
- f) On retirement of a tangible capital asset;
 - i. asset retirement costs should be deducted from the asset retirement obligation liability as the related cash flows are incurred.
 - If the actual cash flows are higher than the asset retirement obligation liability recognized by the Government, the excess cash flows should be expensed in the period incurred.
 - If the actual cash flows are less than the asset retirement obligation liability recognized by the Government, the excess liability should be offset by a prior year recovery.

8.7.4.4 Recoveries

- a) If a portion of the asset retirement costs are recoverable by the Government from another party, the recovery must be accounted for. The amount recovered will be accounted for as revenue in the fiscal year it is received.
- b) A recovery related to asset retirement obligation liability should be recognized when:
 - i. the recovery can be appropriately measured;
 - ii. a reasonable estimate of the amount can be made; and
 - iii. it is expected that future economic benefits will be obtained.
- c) A recovery shall not be netted against the liability.
- d) The sale of an asset on retirement may qualify as a recovery if the criteria in 8.7.4.4 b) are met, however a plan to sell an asset in the future would not be sufficient to confirm that future economic benefits will be received or result in a reasonable measurement of the recovery.

8.7.5. Interpretation Guidelines

Interpretation guidelines supplement the Tangible Capital Asset policy and provide further guidance on various topics. No guideline can be all inclusive and professional judgment must be exercised in applying these guidelines to each circumstance.

8.7.5.1 Interpretation Guideline # 1 – Classification of Landscaping and Other Costs

The following is a guideline for the classification of certain building construction related costs:

Cost Type	Asset Category	Rationale
Land for government use transferred via cost journal entry from Community Services	Land	Equivalent of purchasing serviced lots from third party
Site preparation	Building	Eligible construction cost
Utility connection	Building	Eligible construction cost
Landscaping such as: Paving sidewalks and parking area Parking area lights Planting trees and grasses • If it is done at the same time as the building construction, • If it is done subsequent to the building construction as a separate project, or if it makes sense to capitalize as a different asset category with its own useful life.	Building Land Improvement	Component asset of the building asset Separate asset with its own estimated useful life
Architectural and engineering fees	100% to Building	Eligible construction cost
Project management	100% to Building	Eligible construction cost

8.7.5.2. Interpretation Guideline # 2 – Betterment vs. Replacement vs. Maintenance

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 are treated as tangible capital assets and amortized accordingly.

Replacement - This is a substitution of a component of the asset with one of similar quality. Replacements are treated as ordinary operating expenditures, unless the component being replaced was initially capitalized.

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 a substitution with a better quality component for the one currently used. A replacement on the other hand, is a substitution with a similar component.

Maintenance and Repairs - 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 but does not extend the original useful life of the tangible capital asset must also meet the threshold of the related class to be set up as a tangible capital asset. Therefore there may be situations where betterments are not capitalized due to the low dollar value of the expenditure. Betterments should be recorded as a component of the tangible capital asset they improve.

8.7.5.2. (Continued)

Replacements

When the components method is used to record complex tangible capital assets, a replacement of a component should be capitalized and amortized over the remaining useful life of an asset.

Some replacements that were not recorded as components of complex tangible capital assets may still qualify as new component asset rather than being expensed. Those replacements that meet the criteria of being a betterment should be recorded as a betterment.

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. At the same time, the useful life of the building should be evaluated and revised. 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.

Maintenance and Repairs

In order for tangible capital assets to reach their 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.

8.7.5.3 Interpretation Guideline # 3 – Landfills

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.

Solid waste landfills typically have an associated retirement obligation. A landfill operator must agree to perform certain retirement activities and post-retirement monitoring before being approved to operate.

Certain activities are required before a landfill site opens, during its operating life, when it stops accepting waste, and after its closure. The Government is required to establish an asset retirement obligation asset and liability only for the closure and post-closure care activities.

Closure activities include all activities related to closing the landfill site once it can no longer accept waste. These may include:

- (a) final cover and vegetation; and
- (b) constructing 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 related to monitoring the site once it is closed and closure activities completed. These may include:

- (a) acquisition of 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 landfill sites.

When the obligation for closure and post-closure care activities are first assumed (typically when the landfill site is opened to receive waste), an asset retirement obligation liability must be recognized on the financial statements along with an increase to the landfill tangible capital asset.

Subsequently, the liability, asset, and associated changes to them are accounted for as described in the general asset retirement obligations guidelines. The Government must recognize the full asset retirement obligation liability upon acquisition, construction, development, or normal use of the asset, when the four conditions under 8.7.2.9 are met. Typically, the asset retirement obligation liability is recognized when the site starts accepting waste.

The asset retirement obligation asset will be amortized using straight-line method.

At least once every three years a comprehensive review of the landfill capacity should be

8.7.5.3 (Continued)

completed to determine if the useful life of the landfill requires revisions based on total capacity and utilization rates. Treatment of revisions should be in accordance with section 8.7.4.3 (c)

Closure and post-closure care activity(s) expenditures should be deducted from the reported liability when they are made. Treatment of the expenditures should be in accordance with section 8.7.4.3(f).

8.8 DISPOSITION OF PUBLIC REAL PROPERTY DIRECTIVE

8.8.0 Policy Statement

Authority

On July 15, 2016 the Management Board approved the “Disposition of Public Real Property Directive” (MBM#16-14-06). The directive outlined in subsections 8.8.1 to 8.8.8 is issued pursuant to section 41 of the *Financial Administration Act* (FAA) and can be revised only with the approval of the Management Board.

This Directive is referred to as the Disposition of Public Real Property Directive.

Effective Date

July 15, 2016

Application

The Disposition of Public Real Property Directive applies to all departments and government corporations except where another enactment or regulation contains provisions granting them authority over public real property.

Leases for leasing government space in Signature Buildings shall be issued in accordance with GAM Policy 2.21 “Signature Building Leasing”.

Objective

The *Financial Administration Act* states that no disposition or loan of public property shall be made to any person without authorization under this or another Act and that the Management Board may issue directives regarding the custody and control of public property, and the sale of public property. The objective of the Disposition of Public Real Property Directive is to set out the policy for assigning custody and control of public property, and to provide instructions regarding the responsibilities associated with those activities.

8.8.1 Definitions

In this Directive

“building” means a publicly owned structure located on real property constructed for human habitation, storage, or a department program-specific use.

“certificate of title” has the same meaning as used in the Land Titles Act.

“control” means the right to sell or lease, but does not include the authority to enter into licences of occupation.

8.8.1 (continued)

“custody” means rights of access, generally including possession and/or occupancy, and day to day administration including authority to enter into licences of occupation.

“fair value” means the amount at which that asset could be bought or sold or leased in a current arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act or in the case of real property that is not a tangible capital asset, as outlined in the Territorial Lands (Yukon) Act or Lands Act.

“FAM” means the Financial Administration Manual.

“GAM” means the General Administration Manual.

“improvement” includes any publicly owned structure, supporting infrastructure or other development located on, in or under, public real property.

“land inventory” means land that is undeveloped or developed by the Government, and held for eventual sale or disposition. Land held for sale is comprised of the costs of acquiring, planning and developing lots. In any case, land inventory, whether untitled or titled, will not be included in the definition of a tangible capital asset.

“licence of occupation” (licence) means an agreement that allows temporary use of real property or a building, including the right to post advertising signage, for a specified period of time but that does not establish a proprietary interest in the real property or building.

“MBD” means the Management Board Directive.

“real property” means land for which a certificate of title has been issued to the Commissioner, the Government of Yukon, or a government corporation.

“tangible capital assets” has the meaning assigned to it within FAM 8.7.1 but in this Directive shall include real property, buildings and improvements that are acquired, constructed or developed and are not intended for sale in the ordinary course of operations.

“untitled land” means untitled land administered and controlled pursuant to the Lands Act or the Territorial Lands (Yukon) Act.

Terms not listed above shall have the same meaning as defined in the *Financial Administration Act (FAA)*.

8.8.2 Policy

This Directive establishes how departments may sell, lease or license real property, buildings and improvements under their custody and/or control. GAM Policy 2.8 “Building and Equipment Maintenance”, GAM Policy 2.21 “Signature Building Leasing” or MBD # 11/93 “Management of Capital Assets and Disposal of Surplus Public Property” should be read and consulted when using this Directive.

8.8.3 Governance framework

The Minister of Highways and Public Works shall have control of all real property, buildings or improvements on titled land that are or will become tangible capital assets upon transfer/completion.

The Minister of Highways and Public Works shall have custody of all real property, buildings or improvements on titled land that are or will become tangible capital assets upon transfer/completion, that are primarily office space.

The Minister of Energy, Mines and Resources shall have custody and control of all real property that are not tangible capital assets (e.g. land inventory), including any buildings and improvements located thereon and must sell or lease the real property in the same manner as set out in the Lands Act or Territorial Lands (Yukon) Act.

All Ministers shall have custody of real property, buildings and improvements used by their departments primarily for service or program delivery.

Every Deputy Head shall establish procedures to carry out the custodial duties conferred on that department.

8.8.4 Delegation

In accordance with the Government Organisation Act Section 2.4 (1) a department may, by mutual agreement, delegate elements of custody to another department by way of letter of delegation, which shall be signed by the department’s Minister or delegate who shall be a public officer. The letter shall specify which element(s) of custody is being delegated, the duration of the delegation and termination provisions, and shall be countersigned by the receiving department’s Minister or delegate approving and accepting the delegation.

8.8.5 Certificate of title

Prior to all new buildings or new developments on untitled land, title to that property shall be registered to the Commissioner, except highways, as defined under the Highways Act.

8.8.6 Leases

Departments with control of real property are responsible for the co-ordination and administration of all leases.

8.8.6.1 Leases for real property, buildings and improvements that are tangible capital assets

Leases shall be at fair value except where approval is obtained to enter into a lease agreement at an amount that is less than fair value.

Management Board approval is required for all leases:

- with a term in excess of 3 years, including renewal terms and/or
- at an amount that is less than fair value

8.8.6.2 Leases for real property, buildings and improvements that are not tangible capital assets

Leases of real property shall be at the same rates and under the same terms as prescribed in the *Territorial Lands (Yukon) Act* or *Lands Act*.

8.8.7 Licenses

Departments with custody of real property, buildings and improvements are responsible for licences with respect to that property. Each department having custody of real property may set their own policies and procedures for issuing licences. Departments may grant licences at less than fair value.

8.8.8 Sale of Real Property, Buildings and Improvements

All sales of real property, buildings and improvements, not classified as surplus, which are tangible capital assets shall be approved by Management Board. No certificate of title shall be transferred until the purchase price of the real property has been paid in full, and any covenants or conditions have been performed or fulfilled.

Sales of real property that are not tangible capital assets shall be conducted in the manner as prescribed in the *Territorial Lands (Yukon) Act* or *Lands Act*.

8.9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

8.9.1 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.

8.9.2 ENVIRONMENTAL LIABILITIES

8.9.2.0 Objective and Application

Authority

This policy was approved by Management Board on February 28, 2007 (MBM # 07-04-04). Amendments were approved by Management Board on November 30, 2022 (MBM#22-036-03), and can be further amended only with the approval of Management Board.

Objective

The objective of this policy is to ensure the liabilities associated with the remediation of contaminated sites are properly, consistently, and accurately identified, accounted for, and disclosed in the Government's financial statements in compliance with Public Sector Accounting Standard-PS3260 – Liability for Contaminated Sites.

Application

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

Effective Date

Original Policy – February 28, 2007

Amendment – April 1, 2022

Approval History

February 28, 2007 (MBM#07-04-04)

November 30, 2022 (MBD#22-036-03)

8.9.2.1 Definitions

- a) “Contaminants”- are any physical, chemical, biological or radiological substances in air, soil, water or sediment that, being not naturally occurring in the environment or, in sufficient concentrations, can adversely affect living organisms.
- b) “Contaminated Site” – as defined under the [*Environment Act*](#) (Yukon) or other applicable environmental standard.
- c) “Contamination” – the introduction into air, soil, water or sediment of a chemical, organic, or radioactive material or live organism that exceeds an environmental standard.

8.9.2.1. (Continued)

- d) “Environmental Standard”- refers to any guidelines, objectives, criteria or other kinds of limits placed on the presence or discharge of a contaminant into the natural environment. Such limits are generally set out in the form of an Act, regulation, by-law, order, permit, contract, or agreement.

8.9.2.2 Policy

1. 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 all of the following conditions are met:
 - (a) the contamination occurs or when the Government becomes aware of the contamination;
 - (b) the Government is obligated to incur such costs either directly or accepts responsibility; and
 - (c) the costs of the remediation can be reasonably estimated.
2. Environmental liabilities recorded by the Government are an unfunded liability that discloses the government’s obligation to appropriate funds in the future to remediate contaminated sites.
3. Estimated costs for the remediation of a contaminated site shall be determined by following the steps described in subsection 8.9.2.3 “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.
5. The Government shall budget and account for the cost of remediating contaminated sites 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.

8.9.2.2. (Continued)

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 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. The following expenses are excluded from the corporate environmental liabilities. They are by their nature repairs and maintenance or ongoing business expenses. These expenses shall be borne by the custodial department.
 - a) costs of cleaning up new spills and leaks
 - b) costs associated with decommissioning or replacing fuel tanks
9. At year-end the Department of Environment shall provide to the Department of Finance a schedule showing
 - opening value of the estimated environmental liability for each site;
 - cost of remediation activities performed;
 - revisions to estimates of remediation costs; and
 - closing value of the estimated environmental liability for each site

8.9.2.3 Guidelines

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

Environmental liabilities for contaminated sites are identified, recorded, and disclosed based on the accounting standards and guidelines contained in the Public Sector Accounting Standard PS3260 – Liability for Contaminated Sites.

Government's responsibility for remediation may result from:

1. Legal obligations resulting from agreements or contracts; legislation of another government; or the Government's own legislation.
2. Government is directly responsible for remediation:
 - i. Because of its own past activities that, even though they may have been consistent with the environmental requirements at the time, have caused contamination (for example operation of transportation works yards); and
 - ii. When activities such as mining or exploration occurred on Government-owned land or on land that the Government has since acquired, and the responsible party cannot be identified, or if identifiable, lacks the means to remediate the damage (for example "inherited" responsibility for abandoned mines on Crown land through bankruptcy proceedings and court decisions).

8.9.2.3. (Continued)

3. Government voluntarily assumes responsibility for remediation through its own actions or promises.

8.9.2.3.1 Identification of Contaminated Sites

1. A site investigation (Phase 1 Environmental Site Assessment) is carried out in accordance with the requirements of the *Contaminated Sites Regulations* under the *Environment Act* (Yukon) or other applicable environmental standard. The objective of the site investigation is to determine if there are areas of the site where contamination may exist that should be examined further to ascertain if contamination is present.
2. A site assessment (Phase 2 Environmental Site Assessment) is undertaken in accordance with the requirements of the *Contaminated Sites Regulation* under the *Environment Act* (Yukon) or other applicable environmental standard to ascertain the full extent of contamination at a site.
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) or other applicable environmental standard. This plan outlines the alternatives that have been considered to remediate the site, provides detailed information for the selected alternative(s), and estimates 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 that require remediation under the applicable environmental standard. 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.

8.9.2.3.2 Remediation costs

1. When the existence of contamination is confirmed for a given site as a result of a site investigation or through the process of a site assessment, and the Government is obligated to remediate the contamination, the Government shall record a liability and an expense based on a best estimate available at the time of recording. This amount must be adjusted on an on-going basis as more information is obtained.

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 liability.

2. 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

8.9.2.3.2 (Continued)

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 applicable environmental standard.

3. The estimate of the liability should include all costs directly attributable to remediation activities. Costs include post-remediation operation, maintenance and monitoring that are an integral part of the remediation plan (restoration plan) for a contaminated site as well as costs of assets acquired as part of remediation activities to the extent those assets have no alternative use. Directly attributable costs may include but are not limited to:
 - i. payroll and benefits:
 - ii. equipment and facilities
 - iii. materials
 - iv. legal and other professional services
4. In reference to Clause 6 of the Policy under 8.9.2.2, the Department of Environment shall use a separate Program or Activity, of the Operations and Maintenance Vote, to budget and account for remediation expenditures. These expenditures for remediation work will be drawn down from the environmental liability account, which has been recorded in accordance with subsection 8.9.2.2 “Policy”.

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

8.9.2.3.3 Recoveries

If a portion of the remediation costs are recoverable by the Government from another party, the recovery must be accounted for. The amount recovered will be accounted for as revenue in the fiscal year it is received. A recovery shall not be netted against the liability.

8.9.3 Asset Retirement Obligations Liabilities

This section provides for recording of Asset Retirement Obligations liabilities. It should be read together with FAM 8.7- Tangible Capital Assets.

- FAM 8.7.1 Definitions
- FAM 8.7.2 Policy
- FAM 8.7.4 Guidelines-Asset Retirement Obligations
- FAM 8.7.5.3 Interpretation Guidelines- #3 Landfills

An asset retirement obligation liability must be recognized when, as at the financial reporting date all the following four conditions are met:

- i. there is a legal obligation to incur retirement costs related to a tangible capital asset (includes leased assets);
- ii. the past transaction or event giving rise to the obligation has occurred;
- iii. it is expected that the Government will have to give up future economic benefits; and
- iv. a reasonable estimate of the amount (cost) can be made.

The carrying value of the liability is adjusted each fiscal year by the accretion expense. Over time, the balance of the liability increases as it approaches its estimated future value.

The Government must recognize the yearly accretion expense on the statement of operations.

Estimates (including the amount and timing of retirement costs and, if applicable, the discount rate used) should be reviewed every fiscal year. Any change in estimate is captured by an equal change in the value of the asset retirement obligation asset and the asset retirement obligation liability.

At year-end, departments must provide to the Department of Finance the following schedule of information:

- Opening value of the Asset Retirement Obligation liability;
- Annual accretion expense amounts;
- Cost of retirement obligation activities performed;
- Impacts of changes in estimates to the Asset Retirement Obligation liability, if any; and
- Closing value of the Asset Retirement Obligation liability.

8.10 LONG-TERM DEBT

8.10.1 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.

8.10.2 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.

8.10.3 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.

8.11 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.

8.12 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.)

8.12.1 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.

8.12.2 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.

8.13 INDEMNITIES

8.13.1 Policy Statement

Authority

This policy is issued by the Minister of Finance pursuant to section 6(1) of the *Financial Administration Act* (FAA) and pursuant to section 2.4 of the *Government Organization Act* (GOA). It can only be revised with the approval of the Minister of Finance.

Effective Date

August 12, 2019.

Application

This policy applies to the “government” as defined in the FAA. For greater certainty, it applies to every “department” and to every “government corporation”, as defined in the FAA.

The policy does not apply where another party is granting an indemnity in favour of the government and therefore the government is not assuming the risks.

Indemnities given in an agreement/contract on behalf of the government after the effective date of this policy, and in accordance with this policy, are “permitted indemnities” for the purposes of section 65 of the FAA, and may be renewed without again going through the approval process set out in this policy, provided that both the agreement/contract and the permitted indemnity given in it are renewed on the same terms and conditions.

The policy does not apply to agreements that commit to compensate or hold harmless government personnel or to some agreements to which the government and the Government of Canada are parties, (see FAA s. 65(1)). Agreements including indemnities to which the government and the Government of Canada are parties should be reviewed by the Department of Justice to determine if the indemnities are permitted under FAA s. 65(1).

This policy does not apply to indemnities already authorized by Act or regulation.

Legal advice about indemnifications should be sought as necessary.

Objectives

The objectives of this policy are:

- to establish an approval process for indemnities given by government in agreements;
- to support legislation;
- to ensure that the underlying risks associated with indemnities are understood;
- to limit the amount and duration of the risk posed by giving indemnities in agreements to the extent possible; and
- to improve the management and control of indemnities given by government.

8.13.2 Definitions

- a) “incidental” means accompanying but not a major part of a contract or agreement.
- b) “indemnity” means any commitment (including any contingent or conditional commitment):
 - (i) to compensate a person for a loss, or
 - (ii) to hold a person harmless in a legal action.
- c) “material financial risk” means where an indemnity would be expected to negatively affect government’s financial operations, based on an assessment of the associated risks.

8.13.3 General Guidance

Indemnities are fundamentally a contractual means of allocating legal risk.

Section 65 of the FAA prohibits giving indemnities on behalf of the government unless they are “permitted indemnities”.

Where the government gives a “permitted indemnity”, it is agreeing to assume the legal risk of insuring another party against a loss for which it would not necessarily otherwise be liable.

Indemnities given by government should be viewed as exceptional, not routine, clauses in agreements made on behalf of the government. Accordingly, giving permitted indemnities in contracts on behalf of the government should be avoided where possible.

Note that giving an indemnity to compensate somebody for a loss is pointless where the government would, in any event and as a matter of law, be responsible for that loss. However, sometimes doing so is necessary in order to reach agreement.

Departments must establish processes for the review and approval of contracts generally.

Indemnity clauses in contracts must be given specific consideration in the contract review and approval process.

Public officers entering into contracts in accordance with section 23 of the FAA that include an indemnity provision must ensure that the indemnity provision is clearly drafted and that the associated risks have been clearly identified in the contract review and approval process.

Wherever possible, indemnities given under this policy should state the maximum amounts for which government could be liable and a time limit during which the indemnity is in effect.

The maximum financial exposure of the government and the time during which the indemnity is effective are factors that must be considered when evaluating the risk associated with an indemnity.

In many cases, contractors are required to carry insurance for third party claims, for their own property losses, and for defective or negligent work performed by themselves. Where there is applicable insurance in place, the government should not routinely agree

to give an indemnity to a contractor for more than the amount of any deductible under any applicable insurance.

In some cases, mutual indemnifications between the government and a contractor may be acceptable, particularly in cases where the government has considerable control over the risks being indemnified for by it.

Those factors (insurance and degree of control) must also be considered when evaluating the risk associated with an indemnity.

Legal advice about indemnities and indemnifications should be sought as necessary.

8.13.4 Policy

The government is often asked to enter into agreements containing an indemnity provision.

It is only lawful for the government to enter into an indemnity if it is a “permitted indemnity”, as defined in section 65 of the FAA.

One way by which Indemnities may become “permitted indemnities” is if the Minister of Finance, or an authorized delegate, concludes, in their discretion, that:

1. the proposed indemnity is in writing;
2. the proposed indemnity meets the prescribed requirements;
3. the proposed indemnity is an incidental part of a written agreement to which the government is a party; and
4. the proposed indemnity does not pose a material financial risk to the government.

In accordance with section 2.4(1) of the GOA, the Minister of Finance hereby delegates the authority to determine if an indemnity poses a material financial risk to the government to:

1. the Deputy Minister of Finance, and
2. to every public officer with signing authority for the purposes of sections 24 and 23 of the FAA, up to the level of deputy heads, provided that:
 - (a) the maximum amount payable under the indemnity is capped at a level no higher than the public officer’s signing authority for the original transaction as evidenced on the signed Forms A and B found in section 5.5.4.5 of the FAM; and
 - (b) all the requirements of this policy have been complied with.

Where an indemnity is capped at an amount no higher than a public officer’s signing authority for the original transaction, then that public officer is also responsible for assessing if the indemnity meets the prescribed requirements, if any, and whether that indemnity is an incidental part of a written agreement to which the government is a party. Legal advice should be obtained as necessary.

Where a proposed indemnity is capped at a level in excess of the signing authority limit of the relevant deputy head for the original transaction, or is indeterminate in value, and

where the authority of the Minister of Finance to determine whether the proposed indemnity poses a material financial risk to the government has not otherwise been delegated to it, then the department or government corporation requesting authority to enter into the proposed agreement containing the indemnity must:

- (a) obtain a written opinion from a lawyer in Legal Services Branch confirming that the indemnity meets the prescribed requirements, if any, and that the indemnity is an incidental part of a written agreement to which the government is a party;
- (b) prepare a risk analysis; and
- (c) forward same to the deputy head of the Department of Finance for consideration.

Following receipt of the materials referred to above, the deputy head of the Department of Finance may, if necessary, ask for clarification and/ or additional information.

The Deputy Minister of Finance will decide whether the indemnity requested should be considered a permitted indemnity or should be referred to the Minister of Finance, including a recommendation.

The Minister of Finance will review the recommendation and decide whether the indemnity requested should be:

- (a) refused; or
- (b) made the subject of a request for a regulation (OIC) approving same as a permitted indemnity.

Where an indemnity is proposed to be the subject of a regulation under section 65(4) of the FAA, the originating department must initially submit the proposed indemnity to the deputy head of the Department of Finance using the process under section 8.13.4, for review as per this policy.

8.13.5 Procedure where the government is, or is likely to become, liable to make payment under a permitted indemnity

- (a) Appropriate legal advice should be obtained in every case where a demand is made on the government under an indemnity given by, or on behalf of it.
- (b) Every department or government corporation shall give notice in writing to the deputy head of the Department of Finance of every formal demand received for payment under an indemnity given by or on behalf of the government, which notice must include any legal advice obtained in respect of it.
- (c) Every department or government corporation shall give notice in writing to the deputy head of the Department of Finance of every payment made or contemplated in respect of an indemnity given by or on behalf of the government, which notice must include any legal advice obtained in respect of such payment.
- (d) A payment made under an indemnity shall be made from the Consolidated Revenue Fund and shall be paid from the same general ledger code as the contract/agreement obligation to which the indemnity applies.

Appendix 1: Decision Tree – Indemnity Approval Process

Prior to signing a contract/agreement:

