

# **OPERATION AND MAINTENANCE**

## **ESTIMATES**

**2010 - 2011**

**Prepared by:  
Department of Finance  
under the direction of  
Management Board**

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## **EXPLANATORY NOTES AND GLOSSARY: TANGIBLE CAPITAL ASSETS**

The 2010-11 Main Estimates reflect the accounting policy for tangible capital assets adopted in 2004-05 by the Government of Yukon in accordance with the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB) guidelines. Implementation of this accounting policy brings the government closer to the accounting policies that have been utilized by the private sector for many years.

### **Tangible Capital Assets**

Tangible capital assets are physical assets with a useful life extending beyond one year that are acquired, constructed, or developed and:

- are held for use in the production or supply of goods or delivery of services;
- have useful lives extending beyond one fiscal year and are intended to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.

[Please refer to glossary, page (iii).]

### **Accounting for Tangible Capital Assets and Amortization**

Historically, public sector organizations have expensed the cost of tangible capital assets in the fiscal year in which they were acquired.

The accounting guidelines issued by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB) require that the cost to acquire a tangible capital asset be allocated over the useful life of the asset. The term used to commonly describe this allocation is amortization or amortization expense.

As a result of the implementation of the tangible capital asset accounting policy, departmental summaries in the Capital Estimates now have a section called Changes in Tangible Capital Assets and Amortization that provides the following information:

- The total historical cost of capital assets in service acquired in previous years and the total net book value of these assets. The net book value represents that portion of the original cost that has not been amortized.
- The changes that are projected to occur during the year. This includes the total cost of assets expected to be put into service during the year and any estimated disposals during the year.
- The estimated amortization expense for the year, based on assets in service at the beginning of the year plus any projected changes during the year.
- Work-in-Progress. This is the cost expended on construction or development of a tangible capital asset in progress that is not yet in use.

For any specific tangible capital asset, annual amortization will continue to be estimated and shown each year until the equipment is fully amortized or disposed. This is disclosed as an information item

in the Operation and Maintenance Estimates. Since the cost of the equipment was initially voted as a capital expenditure in the Capital Estimates, amortization expense is not voted.

The expected useful life of an asset takes into consideration the passage of time, normal wear and tear and the effects of technological obsolescence. The Government of Yukon has adopted an estimated useful life for each asset category that is expected to remain the same over time. The straight-line method of amortization used reflects a constant charge for the service of the asset as a function of time.

The following table summarizes the major asset categories, capitalization threshold (i.e. the dollar value at which assets will be amortized) and amortization periods to be applied under the policy.

<u>Asset Category</u>	<u>Threshold</u>	<u>Estimated Useful Life (years)</u>
Land	Nil	Indefinite
Buildings	\$50,000	40
Heavy Equipment	\$10,000	15
Operating Equipment	\$10,000	7 – 25
Vehicles	\$10,000	7
Computer hardware	\$10,000	5
Computer software	\$100,000	7
Transportation infrastructure	N/A	50 years maximum

Note:

Tangible capital assets with a value less than the capitalization threshold will be expensed in the year of acquisition.

### Example

Government of Yukon purchases a piece of heavy equipment in June 2010 at a cost of \$300,000.

In prior years, the cost of the equipment, \$300,000, would have been included in the Capital Estimates as a capital expenditure in the year of purchase. The capital expenditure would have been deducted when calculating the annual surplus (deficit) for the year.

Under the tangible capital asset accounting policy, the cost of the equipment will still be included in the Capital Estimates as a capital expenditure in the year of purchase and the cost will be shown in the Category – Tangible Capital Assets. However the capital expenditure (cost of the equipment) is added back when calculating the annual surplus (deficit) for the year and amortization expense is deducted instead.

In this example, \$20,000 will be shown as amortization expense in 2010-11 and the next 14 years.

Cost of purchasing equipment	\$300,000
Estimated useful life of heavy equipment	15 years
Annual amortization = \$300,000 divided by 15 years	\$20,000

# GLOSSARY

<b>Accumulated Amortization</b>	The total to date of the periodic amortization charges relating to tangible capital assets since they were placed in use.
<b>Accumulated Surplus</b>	The combined amount of net financial resources and non-financial assets; which is also expressed as the difference between assets and liabilities. It is the cumulative excess of revenues over expenses. Since non-financial assets, including tangible capital assets, provide resources that the Government of Yukon can use in the future to accomplish its objectives, non-financial assets form part of the accumulated surplus.
<b>Amortization</b>	The systematic process of allocating the cost of tangible capital assets to expense for the periods in which they provide benefits. For the purpose of tangible capital asset accounting in the Government of Yukon, amortization is calculated using the straight-line method, which reflects a constant charge for the service over the asset's estimated useful life. This term is used interchangeably with depreciation and is generally understood to mean the same thing.
<b>Deferred Capital Contribution</b>	A contribution or funding received from a third party for the acquisition, development, construction or betterment of a tangible capital asset. A contribution includes tangible capital assets transferred from a third party to the Government of Yukon.
<b>Disposals</b>	Disposals of tangible capital assets may occur by sale, destruction, loss or abandonment. Upon disposal, the net book value of the asset is removed from the accounts.
<b>Financial Assets</b>	Assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations, e.g., cash, investments, accounts receivable, loans receivable, land held for sale, etc.
<b>Liabilities</b>	Financial obligations to outside organizations and individuals arising as a result of past transactions and events, e.g., accounts payable, long term debt, deferred revenues, and post-employment benefits.
<b>Net Book Value</b>	The cost of a tangible capital asset, less both accumulated amortization and the amount of any write-down.
<b>Net Financial Resources</b>	The difference between financial assets and liabilities.
<b>Non-financial Assets</b>	Non-financial assets include tangible capital assets, prepaid expenses and inventories of supplies. These assets are resources that the Government of Yukon can use in the future to deliver government services or can be consumed in the normal course of operations.

**Tangible Capital Assets**

Physical assets that are acquired, constructed, or developed and:

- are held for use in the production or supply of goods or delivery of services;
- have useful lives extending beyond one fiscal year and are intended to be used on a continuing basis; and
- are not intended for sale in the ordinary course of operations.
- The major categories of tangible capital assets are:
  - Land
  - Buildings
  - Heavy Equipment
  - Operating Equipment
  - Vehicles
  - Computer hardware and software
  - Transportation infrastructure (including highways, bridges and airstrips)

Tangible capital assets do not include:

- assets acquired by Right, such as Crown lands, forests, water and mineral resources;
- works of art, historical treasures or heritage assets; and
- feasibility studies.

**Tangible Capital Assets in Service**

Assets currently being used in the production or supply of goods or the delivery of services.

**Useful life**

The estimate of the period over which a tangible capital asset is expected to be used by the Government. The useful life of a tangible capital asset, other than land, is finite and is normally the shortest of the physical, technological, commercial, and legal life. The life of a tangible capital asset may extend beyond the useful life of the tangible capital asset.

**Work-in-Progress**

Consists of construction or development of a tangible capital asset in progress that is not yet in use.

**Write-down**

A reduction in the cost of a tangible capital asset made when the value of future economic benefits associated with the asset is less than its net book value.