SECTION	NAME OF POLICY
GENERAL ADMINISTRATION	CAPITAL ASSET MANAGEMENT

DEVELOPED BY: CORPORATE SERVICES DEPARTMENT – FINANCIAL MANAGEMENT & PLANNING

APPROVED BY: REGIONAL COUNCIL

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PURPOSE:

This policy outlines standards and guidelines for the processes of Capital Asset Management. Capital Asset Management can be defined as the activities related to program planning, financing and administration of resources for the acquisition, development or construction of tangible capital assets of the Region. It also includes the integration of current and capital budgets by identifying future financial resources to be allocated from current funds to operate and maintain these tangible capital assets. This policy will also outline standards and guidelines for identifying, measuring and recognizing expenditures as tangible capital assets in order to facilitate appropriate financial presentation and disclosure.

The following comprises the topics discussed in this policy:

This policy replaces the following prior policies:

i. Capital Budget Control (CSD.B01)
ii. Capital Financing and Debt Management Policy and Guidelines (C3.C11)
iii. Project Approval Reports (DF93-31)

1.0 GENERAL INFORMATION

1.1 DEFINITIONS (See Appendix 1)

1.2 GUIDING PRINCIPLES

The following guiding principles have been applied in developing this Capital Asset Management policy:

- Provide standards and guidelines for identifying, measuring and recognizing expenditures as tangible capital assets to facilitate appropriate financial presentation and disclosure and management decision-making process, such as capital budgeting, capital forecasting and financing when preparing budgets.
- Identify committed and uncommitted Reserve and Reserve Fund balances to facilitate analysis of financial resources available.
- Provide guidelines for the achievement of Council objectives of providing long-term infrastructure works in alignment with the Capital Affordability Strategy.

2.0 GENERAL RESPONSIBILITY

Efficient and effective Capital Asset Management necessitates coordination and communication of the various participants in the process.

2.1 CORPORATE MANAGEMENT TEAM (C.M.T.)

C.M.T. is responsible for establishing strategic direction for the Region's infrastructure. Based on a Capital Affordability Strategy and various other sources of input, C.M.T. prioritizes initiatives as a basis for allocating resources and approving capital program budgets.

2.2 PROJECT MANAGEMENT

A capital budget for a departmental program is developed by the project managers in conjunction with the department senior management team and the respective standing committee. Project managers are responsible for determining the external sources of financing for all capital projects. When departmental capital program budgets have been approved, projects are initiated and project managers administer the departmental program and maintain the related tangible capital assets. Project managers are accountable for monitoring the projects within a capital program and taking corrective action when necessary. Project Budgets, especially large and/or complex projects, may contain an allocation for contingencies. Project Managers are required to identify and report on the use of these contingencies in alignment with the close-out report.

Project Managers are responsible for maintaining accurate and complete information about the tangible capital assets that result from the projects, and reporting such information to the Tangible Capital Assets Analyst in a timely manner. Each department will be accountable for supporting changes, as part of the annual audit work, which have been made during the year to their tangible capital asset inventory.

2.3 CORPORATE SERVICES DEPARTMENT

The Corporate Services department develops the Capital Affordability Strategy, the Capital Financing Strategy and Capital Budget guidelines in conjunction with Council objectives. A consolidated capital budget and forecast including both expenditures and sources of financing is prepared and presented by the Corporate Services Department. The Corporate Services Department ensures that the application of financing to projects is in accordance with the Capital Asset Management Policy. The Corporate Services Committee (C.S.C.) recommends financing for all projects to Council for approval. For all debenture debt financing, the Corporate Services Department is responsible for determining the amounts, terms to maturity, interest rates, timing of issuance and for determination of the debt charges forecast to be included in the operating budget.

2.4 BUDGET REVIEW COMMITTEE (B.R.C.)

The Budget Review Committee reviews the Consolidated Capital Budget and Forecast and recommends approval by Council.

3.0 CAPITAL FINANCING

3.1 OBJECTIVES

The Region's Capital Financing Strategy is to minimize reliance on long term obligations for capital funding and to provide departments with information for assessing their stewardship of physical resources by providing a framework for:

- Maintaining an acceptable balance between the level of annual debt charges with Council's objective of minimizing the Tax Levy impact of capital financing.
- Linking level of burden borne with the benefit obtained from access to infrastructure assets by current and future residents of the Region.
- Maintaining manageable levels of long term debt and facilitating the movement towards Council-endorsed capital financing as determined by the " Capital Affordability Strategy".
- Maximizing the use of internal sources of funding from current budget funding (capital levy) and capital reserves.
- Optimizing cash flow management.
- Utilizing reserve funds, in alignment with the Capital Affordability Strategy, for infrastructure initiatives as well as for the replacement of tangible capital assets.
- Ensuring adequate resources are available for the replacement of tangible capital assets as well as to allow for new infrastructure and growth related initiatives.
- Ensuring consistent handling of debt charges for all programs of the Region.

3.2 DEBENTURE DEBT

Under the authority of section 401 of the Municipal Act the Region is authorized to incur a debt for a municipal purpose by way of a debenture. Borrowings for capital projects are limited to the amount of debenture approvals for individual projects. The interest rate and term to maturity for debenture financing is dependent on market sensitivities and the relative position of the Region in comparison to other similar municipalities for key indicators such as:

- The Provincial ratio of long term obligation repayments to own source revenues.
- Bond Rating Agency Evaluations that establish a credit rating based on criteria including the balance and rate of accumulation of long term debt.
- Burden on taxpayers as indicated by debt per capita statistics.
- Estimated assessment growth.

Strategic financial management is also applied to incorporate considerations such as:

- A preference for shorter terms to maturity during periods of high interest rates.
- A faster repayment period leading to reduced levels of debt.
- A repayment term which does not exceed the useful life of the tangible capital asset being financed.

- The burden on the tax levy for the repayment of principal and interest.

The following guidelines have been established for the issuance of debenture debt to finance capital expenditures of the Region:

i. The Region is authorized to borrow by way of debentures for expenditures that are consistent with the definition of tangible capital assets.

ii. Debenture financing should be reserved for tangible capital assets with a cost exceeding $250,000.

iii. When debenture financing is being utilized a Treasurer's Certificate which identifies the debenture term will accompany the Capital Project Initiation Report. Council approval is required to exceed these terms.

iv. Repayment terms recommended for capital expenditures are aligned as closely as possible with the set useful life of the tangible capital asset created or purchased.

v. Debenture financing is obtained only for initiated projects for which a contract commitment has been made and a significant portion of expenditures have either been incurred or will be shortly after the debenture issue.

vi. A separate by-law will be created for all projects initiated with debenture financing.

3.3 CAPITAL LEASES

Leasing of tangible capital assets is permitted as a long-term method of financing when the lease agreement provides more favourable terms than would purchasing and financing with debenture. The initiation report should document the lease versus buy analysis and clearly support the leasing alternative and ensure the term of the lease is in compliance with the maximum repayment terms recommended for debentures in subsection 3.2 iv of this policy. Staff must also comply with the Financing Lease Policies and Goals, policy number C3.F04 which ensures that due diligence is undertaken and that Regional Council is provided full disclosure on the impact of the lease prior to entering into the agreement. There are specific accounting guidelines on whether or not the lease actually results in a tangible capital asset, see section 7.1.6.

3.4 RESERVES AND RESERVE FUNDS

There are a number of reserves and reserve funds from which departmental capital programs receive funding revenues.

For each of these internal sources of financing, the following guidelines apply:

i. An analysis should be prepared when necessary on the impact on the balances of the reserve and reserve funds when they are utilized as sources of financing. This analysis should form part of the preparation of the consolidated Capital Budget and Forecast.

ii. For Water, Wastewater and Solid Waste Management Capital Reserve Funds, the financing strategy adopted as recommended in the annual rate setting exercise should be applied and projections of fund balances updated to reflect project budgets and approvals.

iii. When a project is budgeted with the source of funding identified as a loan from a capital reserve the repayment of the loan must be budgeted within the Capital Budget forecast period.

iv. The transfer of funds from a reserve or reserve fund to a project designated to be funded from this source will occur when the project initiation report is approved by Council.

v. The Capital Levy Reserve should be used to finance capital projects with costs of $250,000 and less, or those projects that due to their nature or shorter useful life would make reserve financing the preferred method as determined by the Corporate Services in consultation with the appropriate departmental management.

vi. The Capital Levy Reserve shall have a minimum opening balance of $1 million at the beginning of the year for each year within the forecast period.

3.5 CURRENT BUDGET CONTRIBUTIONS

Contributions to Capital programs from the current operating budget consists of the annual allocation of the capital levy as well as transfers to capital reserve funds. The annual allocation from the current budget to capital financing also includes debt charges. Debt charges are calculated based on the repayment schedule for outstanding debentures as well as a forecast for new issues.

To ensure that financing for capital programs does not negatively impact on Council's long term tax rate strategy, the following guidelines have been developed with respect to the annual Capital Levy and annual Debt Charges:

i. Capital Levy Contribution:

The annual contribution will be determined through the overall Capital Affordability Strategy. This strategy links current budget contributions to the level of capital expenditures to be funded from internal sources. Council has the opportunity to alter the impact on the Current Budget by reprioritizing projects within the participating capital programs.

ii. Debt Charges

The Current Budget includes an annual allocation for debt charges. The Capital Affordability Strategy will provide guidance with respect to the amount of debt charges that will be budgeted each year.

3.6 EXTERNAL SOURCES OF FINANCING

External sources of financing will include all contributions from third parties which include, but are not limited to, contributions from area municipalities, developers, government subsidies, donations and fundraising. All external sources of financing must be identified when preparing a capital budget for a project.

3.7 DEBT CHARGES

The Province, through the authority of Regulation 799/94, has established a prescribed annual repayment limit, stipulating that payments relating to all long-term debt and other financial obligations, commitments, liabilities and contractual obligations of a municipality for which payment may or will be required beyond the term for which the council was elected, should not be greater than 25% of own source revenues (annual tax levy and rate generated revenue). To ensure that the accumulation of debt to fund departmental capital programs does not impede the financial flexibility of the Region to develop taxation policy, the Capital Affordability Strategy has been established to manage the impact of debt servicing on current budget requirements. Generally, debt charges impact the operating budget the year following the debt issuance.

4.0 CAPITAL PROGRAM PLANNING

4.1 CAPITAL BUDGET PREPARATION AND APPROVAL

The annual Capital Budget and the Future Forecast are prepared as a multi-year plan for the delivery of the Region's strategy for infrastructure. The following process shall be followed to prepare each departmental Capital Budget and corresponding Forecast:

i. Project Budget
The capital budget for a project should reflect all expenditures that must be incurred in order to construct a tangible capital asset. The project should be budgeted on a gross basis and all offsetting internal and external sources of financing identified. Subsequent expenditures forecasted for the project should only comprise expenditures that can be reprioritized without affecting the outcome of the original project. At the time a project is included in a Capital Program budget, the total cost is an estimate that is refined after the project is initiated and the tendering process is complete.

ii. Cash Flow Budget
The cash flow budget and forecast for a project should reflect all expenditures that will be incurred in each of the budget years during which the project is active. The cash flow budget and forecast is an integral part of the Capital Affordability Strategy since it helps in determining the annual cash requirements for the capital program.

iii. When all Capital Programs have been input, they will be consolidated by the Corporate Services Department and a financial impact analysis on sources of financing, including reserves & reserve funds and debenture debt levels, will be prepared.

iv. The capital financing is an integral component of the Capital Budget therefore all programs should be presented in consolidation to capture corporate impact. In accordance with the Council-approved schedule, the consolidated Capital Budget and Forecast, along with financial analysis, will be presented to C.M.T., followed by B.R.C. and finally to Council for approval.

4.2 CAPITAL PROJECT INITIATION

The approval of the Consolidated Capital Budget by Council constitutes approval of the capital expenditures of the comprising departmental programs. An Initiation report is required to request approval to make an allocation of the Capital budget for a departmental program to a particular project as well as for the required financing. Once the consolidated Capital Budget is approved a project initiation report is required.

The project initiation report should be a joint report to Council between the respective standing committee that recommends the approval to allocate budgeted expenditures and departmental resources to proceed and the Corporate Services Committee that recommends financing for the project. A Treasurer's Certificate must be attached to the Initiation Report for any project that will be funded by debenture financing.

If a capital project is not initiated prior to the end of the year in which it was budgeted it will be closed and re-budgeted as required, unless the department can show that the delay was a result of circumstances beyond their control and that the project should remain open.

4.3 AMENDMENTS TO CAPITAL BUDGETS

Amendments fall into 3 categories as follows:

i. Transfer from Capital Variance Reserves
Funds are required as a result of unforeseen capital costs, a report must go to council for approval of amounts > $250,000 prior to use of funds.

ii. Amendments to Gross Capital Budget
Result from the broadening in scope of a project that is to be financed entirely with external sources of financing. Requires a memorandum to council for information purposes.

iii. Amendments to the Net Capital Budget
Results from exceptional circumstances only. Expenditures need to fit into the Capital Affordability Strategy as such should be considered in the following years capital program. A Joint Report of the respective standing committee and the Corporate Services Committee is required to approve the amendment. In accordance with the Region's Public Notice Policy number C3.P09 public notice must be published prior to the amendment of a previously adopted budget.

5.0 CAPITAL PROGRAM FINANCIAL ADMINISTRATION

5.1 CAPITAL PROJECT MONITORING

Project management is responsible for reviewing available capital project expenditure reports and identifying any projects for which a funding deficit has or may occur. This will be facilitated through the use of project variance reporting which will be carried out by Corporate Services. Once additional requirements have been identified, the Project Manager is required to initiate the process of obtaining additional budget allocations and funding approval.

The Corporate Services Department will prepare variance to budget reports for review by the respective standing committee, Corporate Services Committee and Regional Council on a semi-annual basis as well as in conjunction with the preparation of the closeout reports.

If a negative project variance is identified on the semi-annual variance report for two consecutive reports Corporate Services will change the status of the project in Smartstream to “on hold” to prevent further costs from being charged to the project until the funding source is identified. Project manager’s are required to request funding from the Capital Variance Reserves through their Commissioner and the Commissioner of Corporate Services for amounts up to $250,000.

If there are not adequate funds available in the Capital Variance Reserves, an amendment to the budget can be considered.

5.2 EXTERNAL REVENUE BILLING

Budgeted external financing will be monitored by the project manager. External revenues will be invoiced except in the case of funding from other government sources which shall be collected as per their individual financing agreements. The departmental manager will advise each project manager of the required timing of invoicing when the tender is awarded.

5.3 CLOSE-OUT REPORTS

A semi-annual review of capital projects will be performed by the Corporate Services Department in conjunction with the respective project management to ensure that projects are closed as soon as possible after completion.

A report will be prepared and presented to the standing committees for those departments affected by the report and to the Corporate and Financial Services committee. The report will summarize the financial effect of the close-out activity and provide explanations for variances to budget on those projects included. Significant variances will have been addressed through section 4.3, amendments to the capital budget. Project deficits will be financed with surpluses to the extent possible and an overall net transfer from the Capital Variance Reserves will be made.

i. Inactive Projects

When a project is determined to be inactive per the definition in this policy, it will be recommended for closure in the next close-out report. If the project manager determines that it should not be closed, Corporate Services must be provided with a written rationale for maintaining the project.

ii. Recurring Capital Projects

Recurring Capital Projects will be recommended for closure 12 months after the year end for which they were approved. This will allow sufficient time for payments to be processed on project commitments remaining at year end. If the project manager determines that it should not be closed, Corporate Services must be provide with a written rationale for maintaining the project.

5.4 CAPITAL VARIANCE RESERVES

The Capital Variance Reserves will be a mechanism used to fund unforeseen capital expenditures that are not deemed to be an emergency and to eliminate the need for transfers between projects. Funding for these projects will be through the closure of projects with net surplus balances. Corporate Services will review these reserves annually to ensure appropriate levels of funding are maintained.

Capital Variance Reserves will be set up for the following areas beginning with the next closeout report:

- Wastewater
- Water
- Waste Management
- Levy Supported Projects

If there are not adequate funds available in the Capital Variance Reserves, an amendment to the budget can be considered.

5.5 EMERGENCY CAPITAL EXPENDITURES

Each year an Emergency Capital Project will be budgeted with Capital Levy Reserve financing to provide funds that may be required in that year by the levy supported programs to finance necessary emergency capital expenditures. Any portion of the project budget not required in the year will be closed out in the first close out report immediately following the year end. Rate supported programs must ensure that a sufficient budget exists for emergency expenditures in their respective capital programs.

In the event of an emergency capital expenditure the project manager must ensure compliance with the Regional Purchasing Policy which requires that council be informed of certain Emergency Purchases (please refer to Purchasing Policy). Financing of the expenditure must also be arranged. If the emergency expenditure relates to an existing project with an available budget the department should reprioritize that project budget to provide funding. In the absence of that, for levy supported programs the project manager may consider an initiation report (see section 4.2) requesting an allocation from the Emergency Capital Project to fund the emergency expenditure.

6.0 CURRENT BUDGET IMPACTS

6.1 IMPACT ON OPERATIONS

When preparing the capital budget for a project, the requesting department should provide an analysis of significant impacts of the project on the operating budget of departments affected. These impacts will be reflected in the multi-year financial operating plan.

7.0 TANGIBLE CAPITAL ASSETS

7.1 IDENTIFICATION

Capital Assets include both tangible (physical) assets and intangibles (those which lack physical substance such as a patent). They are acquired by construction, purchase, transfer or capital lease commitment (exceeding 1 year). Tangible capital assets will be capitalized and amortized over their useful life. Intangible capital assets are not capitalized.

Tangible capital assets are non-financial assets having physical substance that meet the following criteria:

i. Are held for use in the production or supply of good and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
ii. Have a useful economic life extending beyond a single reporting period;
iii. Are to be used on a continuing basis; and
iv. Are not intended for sale in the ordinary course of operations *(PS 3150)*
v. Cost in excess of the set thresholds.

7.1.1 Betterments

Betterments are deemed tangible capital assets. A betterment is a cost incurred to enhance the service potential of a tangible capital asset. Service potential may be enhanced when:

- There is an increase in previously assessed physical output
- There is an increase in previously assessed service capacity
- Associated operating costs are lowered
- There is a characteristic that is provided to an asset that did not previously exist (an upgrade or rearrangement)
- When the useful life of the tangible capital asset is extended; or,
- The quality of output is improved

An expenditure has to meet one of the above criteria and exceed the set asset threshold to be considered a betterment. Otherwise the expenditure is accounted for as a current year expense of maintaining the asset.

7.1.2 Capital Leases

A leased tangible capital asset is a non-financial asset that has physical substance and a useful life extending beyond an accounting period, and is held under lease by a government for use, on a continuing basis, in the production or supply of goods and services. 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.

Substantially all the benefits and risks of ownership have been transferred if one or more of the following conditions are present at the inception of the lease:

- There is reasonable assurance that the government will obtain ownership of the leased property by the end of the lease term. Either the terms of the lease would result in ownership being transferred to the government by the end of the lease or the lease provides for a bargain purchase option.

- The lease term is of such a duration that the government will receive substantially all (usually 75% or more) of the economic benefits expected to be derived from the use of the leased property over its life span.
- The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments, is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease. *(PS3150)*

7.1.3 Studies

Feasibility studies or strategy analysis may be undertaken prior to the acquisition or development of a capital asset. Due to the uncertainty of the future benefit of these expenditures they should not be included as a capital asset unless future benefits (assets) are reasonably assured. These items are more appropriately considered operational type expenditures and should be recorded in the operating accounts in the year in which they occurred.

7.1.4 Works of Art and Historical Treasures

Works of art and historical treasures are not recorded as tangible capital assets because a reasonable estimate of the future benefits associated with such property cannot be made.

7.2 MEASUREMENT

Tangible capital assets should be recorded at cost and include all costs incurred up to the time the asset is put in service. Adjustments can be made for material changes to the cost after the asset has initially been recorded.

Items that are included in the cost of an asset must be directly attributable to bringing the asset into working condition for its intended purpose which may include:

i. Purchase price and other acquisition costs such as option costs, commissions, installation costs
ii. Architectural, design and engineering fees
iii. Legal fees, survey costs, site preparation costs, freight charges, transportation, insurance

costs, duties, testing and preparation charges

iv. Construction or development costs (such as materials and labour) incurred directly for the project

v. Overhead costs directly attributable to the construction or development activity.

To determine whether an expenditure should be treated as an adjustment to an existing asset or treated as a separate component the following factors should be considered:

- An estimate of the useful life and consumption pattern of the particular component can be determined and this amount is materially different than the existing asset.
- The component is separately marketable on its own rather than being an integral part of a larger asset.
- The value of the component is substantial in relation to the total value of the asset.

7.2.1 Acquisition of a Bundle of Tangible Capital Assets as Part of a Single Purchase

When multiple assets are acquired for a single price the cost must be apportioned to the individual assets. For example, land and building may be purchased as one transaction but the cost would be apportioned to the land and to the building based on its relative fair value.

7.2.2 Tangible Capital Assets Acquired at Nominal Value

A tangible capital asset may be gifted or contributed by an external party. For example, land may be contributed by another level of government at zero or nominal consideration to facilitate the construction of a road.

Where a tangible capital asset is acquired at no cost, or for a nominal cost, the amount recognized should be equal to its fair value as at the acquisition date, with the offsetting credit to a "contributed asset revenue account". For the purposes of contributions from one level of government to another, the acquisition date is the date in which the agreement was authorized, assuming possession transfers on that date.

Fair value may be estimated using market or appraised values. When an estimate of the fair value cannot be reasonably estimated the tangible capital asset would be recognized at its nominal value.

7.2.3 Capital Leases

The value of the leased tangible capital asset is equal to the present value of the minimum lease payments, excluding the portion thereof relating to executory costs. The amount relating to executory costs included in the minimum lease payments would be estimated if not known. The discount rate to be used in determining the present value of minimum lease payments would be the lower of the Region's rate for incremental borrowing and the interest rate implicit in the lease.

7.3 RECOGNITION

Criteria for the timing of the recording of an expenditure for a capital asset include:

i. Possession of ownership of item if purchased.
ii. Substantially complete and ready for use.
iii. Productive capacity or occupancy level reaching a specified level.
iv. Passage of time, such as a predetermined period of no further activity or costs being incurred.

7.4 ADJUSTMENTS

7.4.1 Write-downs

Departments will be asked to review their assets for impairment on an annual basis and determine if a write-down is necessary. Impairment may occur as a result of:

- There is a change in the extent or manner that the asset is used
- The asset is physically damaged
- When the asset is removed from service or abandoned.

7.4.2 Useful Life

Departments will be asked to review their assets on an annual basis and determine if changes to the useful life are necessary.

Significant events that may indicate a need to revise the estimate of the remaining useful life of a tangible capital asset include:

- A change in the extent to which the tangible capital asset is used;
- A change in the manner in which the tangible capital asset is used;
- Removal of the tangible capital asset from service for an extended period of time;
- Physical damage;
- Significant technological developments;
- A change in the demand for services provided through use of the tangible capital asset;

- A change in the law or environment affecting the period of time over which the tangible capital asset can be used.

7.4.3 Assets Held For Sale

If an asset goes from in use to being considered for sale it must be classified as financial asset rather than a tangible capital asset (non-financial asset). All of the following criteria must be met for this classification however the department arranging for the sale of the asset should notify the Tangible Capital Assets Analyst when at a minimum the first of the following criteria is met:

- Council has committed to selling the asset
- The asset is in a condition to be sold
- The asset is publicly seen to be for sale
- There is an active market for the asset
- There is a plan in place for selling the asset and
- It is reasonably anticipated that the sale will be completed within one year of the financial reporting date.

7.5 DISPOSALS

When an asset is disposed of the department involved must notify the Tangible Capital Assets Analyst of the nature of the transaction which will include any proceeds received and selling expenses incurred as well as the date of disposal. An asset can be disposed of in it entirely or as a partial disposition. For example, a parcel of land may be purchased for the expansion of a water facility however a portion of that land may not be required therefore it can be severed and sold. Partial dispositions can be quantified in the form of a percentage of the original cost or as a percentage of the size of the asset.

7.6 AMORTIZATION

The cost of tangible capital assets other than land will be amortized over its useful life. Land normally has an indefinite useful life therefore is not amortized. Amortization is recorded as an expense in the operating statement of the managing cost centre. Amortization represents a charge for the estimated annual consumption of the asset.

A straight line basis of amortization, with 50% in the first year and 50% in the year of disposal, will be used for all tangible capital assets except for Waste Management Landfill which will be amortized based using a units of production method based on the tonnage of waste consumed in the landfill during each year.

For further information please refer to the procedures for Tangible Capital Assets.

1.0 DEFINITIONS

APPENDIX 1

For the purposes of this policy, the following terms are defined:

- Asset Impairment:

The asset can no longer contribute to the Region's ability to provide service at the previously anticipated level, must be permanent in nature.

- Betterments:

The cost incurred to increase the service potential of a capital asset. (PS 3150). The result is to materially improve the property beyond its original condition. Service potential is enhanced when physical output or capacity is increased, operating costs are lowered, useful life is extended or quality of output is improved.

- Capital Budget:

A multi-year plan based on the estimated expenditures and offsetting sources of financing for a Capital Project.

- Capital Financing:

The current budget allocation to the funding of Capital Programs that consists of debt charge payments and Capital Levy contributions.

- Capital Lease:

One which transfers substantially all the benefits and risks of ownership of the property to the lessee. Considered a source of capital financing.

- Capital Levy:

The portion of Capital financing that is applied either directly to specific projects or accumulated in the Capital Levy Reserve to fund future capital projects.

- Capital Program:

A combination of capital projects to be executed within a defined timeframe to meet the requirements of a particular department or function.

- Capital Project:

A project during which expenditures are incurred that result in the creation of a tangible capital asset.

- Capital Reserve / Reserve Fund:

The previous allocation of funds from the current budget set aside for the funding of future capital. Reserve funds are established as a result of legislation, council by-laws or contractual obligations and are credited with interest based on their balance. Reserves are established as result of strategic planning of financial resources and there are no interest earnings calculated.

- Cash Flow Budget:

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An annual budget that estimates the amount of actual cash to be spent in the year on expenditures for the capital project.

- <u>Capital Variance Reserves:</u>

An alternative means of managing unforeseen capital costs that are not deemed to be an emergency in order to eliminate the need for transfers between capital projects.

- <u>Current Expense:</u>

Non-permanent equipment or "consumable" items or services. Also includes items or services that are less than the applicable thresholds.

- <u>Debt Charges</u>:

Repayment of principal and interest required to service any long-term debenture debt.

- <u>Directly Attributable:</u>

Direct incremental expenses incurred related to the acquisition, construction, development or betterment of the tangible capital asset.

- <u>External Revenue:</u>

Contributions from third paries which include, but are not limited to, contributions from area municipalities, developers, government subsidies, donations and fundraising.

- <u>Fair Value:</u>

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. (PS 3150)

- <u>Inactive Project:</u>

A project for which there are no transactions for a period of 24 months or more.

- <u>Initiation Report:</u>

A report that obtains approval to proceed with work on a specific project or projects within an approved capital budget by allocating budgeted expenditures and financing from a departmental Capital program to the project(s) being initiated.

- <u>Long Term Debt:</u>

Any financial obligation that extends beyond the current year.

- <u>Maintenance:</u>

The cost incurred in maintaining the originally predetermined service potential of a tangible capital asset for a given useful life. (PS 3150)

- <u>Net Book Value</u>

The assets cost, less both accumulated amortization and the amount of any write-downs. (PS3150)

- <u>Net Capital Program:</u>

Total expenditures for a departmental Capital Program less external revenues.

- <u>Net Expenditure Cash Flow:</u>

The estimated timing of expenditure transactions to be funded by Regional sources.

- <u>Own Source Revenues:</u>

The total of annual tax levy and rate generated revenues from Water, Wastewater and Solid Waste Management.

- <u>Parent Project:</u>

A parent project is a project for which a capital budget is prepared and presented for approval as part of a departmental program. Individual sub-projects or working projects are later initiated to allocate a portion of the approved capital budget of the parent project. The smaller working projects facilitate project management and administration. An example of a parent project is a Roads Rehabilitation project for which specific locations have not yet been finalized at the time the capital program budget is prepared.

- <u>Pre-Construction Costs:</u>

Construction costs incurred prior to commencing construction of the tangible capital asset.

- <u>Project:</u>

An organized undertaking recognized as a discrete unit of work that takes place within a defined timeframe.

- <u>Pooled Assets:</u>

A group of similar tangible capital assets that individually have a cost below the set thresholds but are purchased in a bundle exceeding the thresholds. These assets are recorded as pooled assets. This treatment is appropriate for assets that are placed in service at the same time and are generally removed from service at the same time.

- <u>Recurring Capital Project:</u>

A project created each year to provide a department with the budget necessary for capital expenditures that are essential to the service provided by the department during that year but not yet known at the time of budget preparation.

- <u>Sources of Financing:</u>

Revenue funding for a capital project to offset the cost of capital expenditures.

- <u>Standing Committee:</u>

A Standing Committee of Council is a committee established by Council, composed entirely of members of Council, to carry out duties on an ongoing basis, as specified by Council. For purposes of this policy the Standing Committee will refer to that of the department managing the project.

- <u>Tangible Capital Assets:</u>

Tangible capital assets have physical substance and are acquired by construction, purchase, transfer or capital lease commitment. Refer to section 7.1 for more detail.

- Tax Levy Revenues:

Taxes charged on assessed properties for Municipal services.

- Useful Life:

The period over which a capital asset or component thereof is expected to be used by the government. (PS 3150)

- Work in Progress:

New tangible capital assets that are not completed and not ready to be put into service or used.

- Write-downs:

An assets cost is written down if there has been an impairment to the asset or the value of future economic benefits associated with the tangible capital asset is less than its net book value, the cost of the asset is reduced to reflect the decline in the asset's value. A write-down should not be reversed. (PS 3150)