DEFINITIONS

"Accumulated Amortization" represents the total consumed or used portion of a capital asset.

"Amortization" is the process of allocating the cost of a capital asset over its estimated useful life in order to match expenditures with the revenues generated or public services provided. The method of amortization chosen is intended to allocate the asset cost to the time period of usage.

"Betterment" is the cost incurred to enhance the service potential of an existing capital asset. 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 useful life is extended; or,
- the quality of output is improved.

"**Capital Asset"** is a tangible asset that is purchased, constructed or developed and:

- 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 capital assets;
- requires maintenance expenditures as well as replacement in the future;
- has a useful life extending beyond one accounting period;
- is intended to be used on a continuing basis; and
- is not intended for sale in the ordinary course of operations.

"Cost" is the amount of consideration given up to acquire, construct, develop or better a capital asset and includes all costs directly attributed to acquisition, construction, development or betterment of the tangible capital asset, including installing it at the location and in the condition necessary for its intended use. Cost also includes the asset retirement cost accounted for in accordance with PS 3280 - *Asset Retirement Obligations*. The cost of a contributed capital asset, including a tangible capital asset in lieu of a developer charge, is considered to be equal to its fair value at the date of contribution.

"Date in Service" is the date an asset is put into use. Amortization of the asset begins when it is put in service, which may be later then the purchase date. When an asset is acquired, developed, or constructed over a number of fiscal periods, no amortization is recorded until the asset is complete and in-use. When an asset is taken out of service, no further amortization is recorded.

"Disposals" result when the ownership of a capital asset is relinquished. A disposal will result in reducing the asset cost, accumulated amortization and any related deferred capital contributions.

"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.

"Leases" may be classified as operating or capital leases. Payments for an operating lease are treated as operating expenditures.

A capital lease is a lease that, from the point of view of the lessee, transfers substantially all the benefits and risks incident to ownership of property to the lessee.

To be classified as a capital lease, one or more of the following conditions are required:

(i) There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the Lease term, such as with a bargain purchase option.

(ii) The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property which is when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property.

(iii) The lessor is assured of recovering their investment in the leased property and earning a return 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.

Due to the indefinite life of land, it is not possible to receive substantially all the benefits from a land lease unless transfer of ownership is reasonably assured.

Further guidance on the appropriate lease classification can be obtained from the Chartered Professional Accountants of Canada Standards and Guidance Collection.

“Net Book Value” represents the difference between the cost of a capital asset and its accumulated amortization. The net book value is, therefore, the unconsumed cost of a capital asset attributable to its remaining service life.

“Service Potential” is the output or service capacity of a tangible capital asset and is normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

“Straight Line Amortization” is a method of allocating capital asset costs to an accounting period. This method reflects an equal yearly amortization charge over the useful life of an asset. The periodic charge is a percentage of the cost of the asset based on the estimated useful life so that the Net Book Value will be zero by the estimated retirement date.

“Threshold Amount”, as it applies to each capital asset class, represents the minimum cost an individual asset must have before it is treated as a capital asset addition.