

**FINANCE DEPARTMENT MEMORANDUM
#08-2020**

DATE: August 24, 2020
TO: Honorable Mayor Meredith Leighty and City Council Members
THROUGH: Heather Geyer, City Manager *hmg*
FROM: Jason Loveland, Director of Finance *JL*
SUBJECT: CR-122 – Comprehensive Financial Policy

PURPOSE

To consider CR-122, a resolution amending the Comprehensive Financial Policy document.

BACKGROUND

The document provides financial goals and policies intended to establish broad guidelines and ensure the continued financial sustainability of the City. The policy is reviewed by the Finance Committee every two years, or as needed, with Committee recommendations brought forward for Council consideration. The policy was last updated in 2018.

At the July 29 Finance Committee meeting, the Committee discussed the policy document and reviewed staff recommendations. A redline of the proposed changes is included in Attachment 1.

Highlighted changes include:

- Added language defining the General Fund operating reserve minimum of 25%.
- Defined the Water and Wastewater Funds operating and capital reserve minimums that had previously been defined only in utility master plan documents.
- Added an operating reserve minimum to the Sanitation Fund of 25%.
- Simplified language in the Debt Management Policies section.
- Removed definitions that were not found in the Policy.

STAFF RECOMMENDATION

Staff recommends approval of CR-122, to amend the Comprehensive Financial Policy document as presented.

BUDGET/TIME IMPLICATIONS

None.

STAFF REFERENCE

If Council members have any comments or questions they may contact Jason Loveland, Director of Finance, at 303.450.8817 or jloveland@northglenn.org.

ATTACHMENTS

1. Proposed changes to Comprehensive Financial Policy

CR-122 – Comprehensive Financial Policy
Comprehensive Financial Policy Document



City of Northglenn

Approved 04/09/2012

Reviewed 09/24/2014

Approved 06/13/2016

Approved 07/09/ 2018

**Comprehensive
Financial Policy
Document**

TABLE OF CONTENTS Update upon Approval^[JL1]

Introduction..... 3
 Financial Goals
 Financial Policies

Budget Policies 3

Operating Position Policies..... 5

Revenue Policies..... 5

Expenditure/Expense Policies 6

Capital Expenditure/Expense Policies 7

Capital Improvement Projects (CIP) Policies 7

Reserve Policies 8

Cash Management and Investment Policies 8

Debt Management 8

Periodic Review 9

Glossary of Terms 10

Introduction

The City of Northglenn has an important responsibility to carefully account for public funds, manage municipal finances wisely, and plan and provide for the adequate funding of services desired by the public and as required by laws, rules, or regulations, including the provision and maintenance of public facilities and improvements. The financial goals and policies set forth in this document are intended to establish guidelines for the continued financial strength and sustainability of the City.

Financial Goals

- Financial goals are broad, fairly timeless statements of the financial position the City seeks to attain: To be a fiscally responsible City Government.
- To have adequate financial reserves for uncertain economic times.
- To invest to preserve or enhance our City facilities, buildings and infrastructure.
- To provide quality services in the most cost-effective manner.

Financial Policies

Financial policies support the financial goals. They allow the City Council to view their present approach to financial management from an overall, long-range vantage point. They are general statements that guide decision-making in specific situations to ensure that a decision will contribute to the attainment of the financial goals. Federal and state laws, rules and regulations, the City Charter, and generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association of the United States and Canada (GFOA) govern and guide the City's financial policies and processes.

Budget Policies

Sound financial practices and the desire to continue to be a fiscally responsible city government dictates that budgets be balanced, constantly monitored, and responsive to changes in service demands. With these concepts in mind, the City has adopted the following budget policy statements:

- The City will adopt an annual budget that contains operating budgets for all funds.
- Annual operating budgets will be adopted on a balanced basis, where current operating revenues (estimated revenues) are used to fund ongoing operating expenditures/expenses (appropriations). Nothing in this policy shall prohibit the use of operating revenues for capital expenditures/expenses.

- Balanced Budgets are:
 - Legally Balanced – this is a budget where the sources of money are at least equal to the uses of the money.
 - Operationally Balanced – this is a budget that does not use fund balance, reserves, or debt to fund operations. Reserves, fund balance, or debt may be used to fund one-time costs or capital expenditures.
 - Structurally Balanced – this budget is operationally balanced and a realistic projection of ongoing sources will continue to equal or exceed operating expenditures where reserves, fund balance, or debt are used to fund one-time costs and capital expenditures
- Unassigned fund balance may be appropriated as part of the adopted budget to fund capital, one-time emergency expenditures/expenses, or one-time operating costs. ~~Unreserved and undesignated~~Unassigned fund balance should not be used to fund ongoing operating expenditures/expenses in the adopted budget.
- One-time revenues that are not required by law or agreement to be expended for a particular purpose will only be used to fund capital, emergency expenditures/expenses, or one-time operating costs in the adopted budget. Examples of one-time revenues include, but are not limit to, proceeds from the sale of property or other major assets, governmental grants that are not regularly received and are unlikely to recur on a regular basis, major gifts or donations, and major insurance recoveries.
- Restricted, committed, and assigned fund balances will be forecasted in the adopted budget for amounts of fund equity legally restricted or otherwise not available for appropriation, such as the 3% reserve requirement for TABOR.
- The City’s fiscal year is the calendar year and its budget calendar shall be as provided for in Article VIII of the Charter of the City of Northglenn, Section 8.1 through 8.13.

Operating Position Policies

Operating position refers to the City's ability to balance its budget on a current basis, maintain reserves for emergencies, and maintain sufficient cash to pay its bills on a timely basis. The City operating position policy requires that:

- The City will pay all current operating expenditures with current operating revenues. Ongoing operating costs will not be financed from fund balance.
- City staff shall prepare financial reports of the financial position and results of operating for the major funds of the City or any other fund requested by the City Council. The reports will contain the revenue and expenditures of the funds with an analysis of the results for the end of each month except for the month of January.

Revenue Policies

Revenues determine the capacity of a local government to provide services. Under ideal conditions, revenues would grow at a rate equal to or greater than expenditures. To ensure that our revenues are balanced and capable of supporting our desired levels of services, the City has adopted the following revenue policy statements:

- A process to review diversified and stable revenues will be maintained to shelter the City from short-run fluctuations in any one revenue source.
- Each year and whenever appropriate, existing revenues will be re-examined and possible new sources of revenues will be explored to ensure that the City is maximizing its revenue potential.
- The City will strive to be informed and aware of all grants and other aid shall be carefully examined for matching requirements (dollar and level-of-effort) and restrictive covenants, to ensure that participation in such grants will be beneficial and cost-effective.
- Each year and whenever appropriate, intergovernmental revenues will be reviewed to determine their short and long-term stability, to minimize the impact of any adverse changes. Intergovernmental revenues shall be used as legally prescribed or otherwise set forth by policy.
- One-time revenues will be used for capital improvements, one-time expenditures or as legally restricted to a specific purpose.
- The City will carefully and routinely monitor any amounts due. An assertive collection of all receivables will be followed.
- Proprietary funds will generate revenue sufficient to support the costs of their services and to remain in compliance with debt covenants or lease agreements.

- Revenue forecasts shall be conservative, using generally accepted forecasting techniques and appropriate data.
- Each year and whenever appropriate, the City will review its schedule of fees.

Expenditure/Expense Policies

Expenditure/expenses are a rough measure of a local government's service output. While many expenditures/expenses can be easily controlled, emergencies, unfunded mandates, and unanticipated service demands may strain the City's ability to maintain a balanced budget. To ensure the proper control of expenditures/expenses and provide for a quick and effective response to adverse financial situations, the City has adopted the following expenditure/expense policy statements:

- Expenditures/expenses and purchase commitments will be made in a form and process that is legal, appropriate, funded, authorized, and sufficiently documented.
- Expenditures/expenses and purchase commitments will be recorded in an accurate and timely fashion.
- Encumbrances will be used in the City to properly show the commitment of funds against appropriations.
- ~~The balances in appropriation accounts and programs~~Department appropriations will be monitored regularly to ensure that the total of expenditures/expenses and purchase commitments in any account department do not exceed the authorized budget ~~for that program~~.
- Requests for competitive bids, proposals, formal, and informal quotes, and other methods of seeking and encouraging vendor competition will be obtained as required by law or otherwise established by the City Council or City Manager.
- The City will maintain an effective risk management program that provides adequate coverage, minimizes losses and reduces costs.
- Appropriations for all operating funds shall lapse at the close of the fiscal year to the extent that they shall not have been expended or encumbered. Operating contracts not complete at the end of the fiscal year will require re-appropriation as part of the budget process or through an amendment approved by City Council. City of Northglenn Municipal Code Section 5-8-11(b)
- Due to the multi-year nature of many capital improvement projects budget appropriations for the Capital Improvement Funds will continue through project completion and shall not lapse at year end. City of Northglenn Municipal Code Section 5-8-11(a).

- A contingency amount proposed by the City Manager and approved by the City Council may be proposed when the budget is adopted. This contingency will be used to provide for expenditures that were unknown or could not have been reasonably estimated at the time of preparation of the budget.

Capital Expenditure/Expense Policy

Capital outlay is defined as the purchase of any tangible or intangible asset which has a cost, or in the case of non-exchange contributions, an estimated fair value equal to, or greater than \$5,000 and having a useful life in excess of one year.

- The cost of commissions, delivery, setup, and or accessories should be included in the final cost of the capital asset. Outlays which are related to internally generated assets and identifiable, such as personnel and raw material costs should be capitalized as part of the resulting asset.
- All capital assets shall be recorded and tracked via a perpetual inventory system. The City will perform a physical inventory of its capital assets, either simultaneously or on a rotating basis, so that all of the assets are physically accounted for at least once every three years.
- The City will develop capital asset replacement and maintenance schedules in accordance with accepted professional standards and best practices. The schedules will be utilized to commit adequate funding of re-investment in the City's machinery, facilities, and infrastructure so as to prevent the deferment of required ongoing maintenance and replacement.

Capital Improvement Projects (CIP) Policies

A capital improvement is defined as a non-recurring expenditure in association with the acquisition, construction, or physical improvement of land, buildings, facilities, or infrastructure, whereby such expenditure results in the creation of a new asset or the extension of an existing asset's useful life, value, and/or operational capacity. The cost of the capital improvement is added to the basis of the asset and depreciated over time, in contrast to repairs and maintenance expenditures which are recorded as operating costs in the period in which they occur. The City will prepare a five-year CIP for all funds starting with the current year.

- The program shall include all projects that meet the definition of a CIP project.
- The program shall include the total estimated cost of the project and the potential impacts to ongoing operating costs.
- The program will be compiled during annual budget preparation.

- A prioritization matrix shall be used to rank CIP projects.

Reserve Policies

Reserves established by City Council are used to buffer the City from downturns in the economy and to provide an additional source of accumulated funding for major capital improvement projects or redevelopment.

- The General Fund will have an emergency reserve fund balance of at least 25% of the current year appropriations. This reserve will be comprised of the TABOR emergency reserve required by the Colorado Constitution, and committed fund balance. A committed fund balance will be established in the General Fund and will not be allowed to fall below 25% of the current year General Fund appropriations.
- The Water Fund and Wastewater Funds will each have an operating cash reserve of at least 25% of the current year operations appropriation, and an additional capital reserve in the amount of \$1,000,000.
- The Sanitation Fund will have an operating cash reserve of at least 25% of the current year operations appropriation.

Other specific fund balance Assignments and commitments will may be established by Council for anticipated future needs when appropriate, to act as a savings account whereby specific future provisions have been identified and aid in the management of cash flows and financial planning.

Unassigned fund balance greater than the commitments and assignments may be considered to supplement “pay as you go” capital outlay expenditures or may be used to prepay existing debt. These funds may not be used to establish or support costs that are recurring in nature.

Cash Management and Investment Policies

A separate Policy will be maintained for Cash Management and Investments.

Debt Management Policies

The City shall maintain a debt policy, which establishes criteria that will It is important to protect the City’s financial integrity while providing a funding mechanism to meet the City’s capital needs. The underlying approach of the City is to borrow only for capital improvements that cannot be funded on a pay-as-you-go”pay as you go” basis. In some cases, debt can be an effective way to finance major capital

improvements. Properly managed debt preserves the City's credit rating, provides flexibility in current and future operating budgets, and provides long-term assets that maintain or improve our quality of life. To provide for the appropriate issuance and responsible use of debt, the City has adopted the following debt management policy statements:

- Long-term debt will not be issued to finance current operations.
- The maturity of the debt should not exceed 75% of the expected useful life of the resulting asset.
- Each annual operating budget will include the full appropriation for repayment of the principal and interest due that year on each debt or lease issue.
- Debt limits established by law and policy will be calculated at least once each year, and whenever otherwise requested or appropriate.
- Good communications will be maintained with bond rating agencies, bond counsel, banks, financial advisors and other involved in debt issuance and management.
- The City's comprehensive annual financial reports and official statements will reflect our commitment to full and open disclosure concerning our debt.

Types of debt that the City may issue include:

- Certificates of Participation (COPs) ~~annual debt service should not exceed 12% of the issuing funds total expenditures. Any COP project that generates revenue should have the revenues credited against the total lease payments before calculating the limit~~
- General Obligation Bonds (GO) ~~should be limited to projects with an asset life of greater than ten years. The total GO bonds issued should not exceed 5% of the actual taxable value of the property in the City. Limitations on debt shall meet all limits of Article X Section 20 of the Colorado Revised Statutes as interpreted by the City Attorney.~~
- Sales tax bonds or notes ~~annual debt service should be no greater than 15% of the revenues of the fund supporting the debt or lease unless it is a new tax that has been approved and dedicated by the voters.~~
- Enterprise revenue bonds, notes, or leases ~~annual debt service should be no greater than 15% of the revenues of the fund supporting the debt or lease unless it is an approved revenue source that is dedicated by the City Council or the voters to repayment of the debt.~~

Periodic Review

The Comprehensive Financial Policy Document and each of the policies contained within shall be reviewed by the City Council during even numbered years. The policy has been written to be flexible and easily amended to deal with the style of the times.

Glossary of Terms

Appropriation	A legal authorization by city council for an expenditure for a specific purpose within a specific time frame.
Assessed Valuation	A valuation placed on real estate or other property by government as a basis for levying taxes.
Budget	An annual financial plan showing an estimate of proposed expenditures and the proposed means of financing them over a specific time period.
Capital Improvement Program (CIP)	A five-year projection of capital improvements including funding sources for the projects. The first year of the program represents the current fiscal year capital budget.
Capital Outlay	Expenditures resulting in the acquisition and/or construction of fixed assets having a value of more than \$5,000 and a life exceeding one year.
Capital Project Fund	A fund created to account for financial resources and expenditures for the acquisition or construction of major capital facilities.
CDBG	Community Development Block Grant program offered by US Development of Housing and Urban Development.
Contingency	Funds appropriated to cover unforeseen events that may occur during the fiscal year.
Debt	An obligation that results when money is borrowed.
Debt Service Fund	A fund established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
Deficit	(1) The excess of the liabilities of a fund over its assets. (2) The excess of expenditures over revenues during an accounting period or, in the case of proprietary funds, the excess of expenses over revenues during an accounting period.
Depreciation	The portion of the cost of a fixed asset charged as an expense during the fiscal year. The entire cost of the assets is ultimately charged off as an expense over its service life.
Enterprise Fund or Proprietary Fund	A grouping of activities whose expenditures are wholly or partially offset by revenues collected from consumers in the form

of fees or charges. A fund established to account for operation financed and operated in a manner similar to private business enterprises. (e.g. Water and Sewer Fund).

Expenditures Decreases in net financial resources. Payments toward current operating expenses requiring the present of future use of net current assets, debt service and capital outlays.

Expenses Outflows decreasing net total assets. Represents the total cost of operations from delivering goods or rendering services during a period.

Fiscal Year The time period beginning on January 1 and ending December 31 of a calendar year. Budgeting is carried out on a fiscal year schedule, at the end of which a city determines its financial position and the result of its operations.

~~**Full-Time Equivalent (FTE)** A part-time position converted to the decimal equivalent of a full-time position based on 2,080 hours per year. For example a summer lifeguard working for four months, of 690 hours, would be equivalent to .3 of a full-time position.~~

Fund A fund is a fiscal and accounting entity with a self-balancing set of accounts.

Fund Balance The equity of a governmental fund. Fund balance represents monies that remain unspent after all budgeted expenditures have been made.

GAAP Generally Accepted Accounting Principals

GASB Governmental Accounting Standards Board

Intangible Asset An identifiable asset which lacks physical substance, remains nonfinancial in nature, has a value of more than \$5,000, and a useful life exceeding one year.

Levy (1) To impose taxes, special assessments or service charges for the support of government activities. (2) The total amount of taxes, special assessments or service charges imposed by a government.

Long-Term Debt A long bond with a maturity of 10 years or more.

Machinery and Equipment Property that does not lose its identity when removed from its location and is not changed materially or consumed immediately by use. Examples are machinery, trucks, cars, and furniture.

Mill	One one thousandth of a dollar of assessed value.
Modified Accrual Basis	Basis of accounting in which (a) revenues are recognized in the accounting period in which they become available and measurable and (b) expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligation, which should be recognized when due.
One-Time Revenue/Expenditure	Revenue or expenditures which are unlikely to recur on a regular or recurring basis.
Operating Budget	A comprehensive financial plan of the city's current expenditures and the means of financing them.
Operating Revenue/Expenditure	Recurring revenue or expenditures which support the day-to-day operations associated with providing services. Operating revenue/expenditures do not include income or outlays associated with debt related provisions, rebates, internal transfers, or one-time items such as legal judgments.
Ordinance	A formal legislative enactment by the governing body of a municipality. If it is not in conflict with any higher form of law, such as a state statute or constitutional provision, it has the full force and effect of law within the boundaries of the municipality.
Program	Group activities or operations to attain specific purpose or objective.
Special Revenue Fund	A fund used to account for the proceeds of a specific revenue source that is legally restricted to expenditures for a specific purpose. GAAP only requires the use of special revenue funds when legally mandated.
Taxes	Compulsory charges levied by a government to finance services performed for the common benefit. The term does not include charges for services rendered only to those paying such charges (e.g. Water and Sewer service charges.)
User Fee	Charges to the benefiting party for the direct receipt of a public service. Example: a user fee is charged to the customer for water and wastewater services.
Useful Life – Of an asset	An estimation of the period of time over which a property, building or other asset will be of value or use to its owner. Factors to be considered in making that determination are: <ul style="list-style-type: none"> ▪ Physical wear and tear

- Past experience with similar assets
- The asset's present condition
- The factory's maintenance policy, and
- Technological/Industry trends (e.g. obsolescence)
- Regulatory obsolescence may shorten the service life of some capital assets used in connection with highly regulated activities

SPONSORED BY: MAYOR LEIGHTY

COUNCILMAN'S RESOLUTION

RESOLUTION NO.

No. CR-122
Series of 2020

Series of 2020

A RESOLUTION APPROVING THE FINANCIAL POLICIES FOR THE CITY OF NORTHGLENN, COLORADO

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF NORTHGLENN, COLORADO, THAT:

Section 1. The Financial Policies, as attached hereto as Exhibit A, are hereby approved by the City Council of the City of Northglenn, Colorado.

DATED at Northglenn, Colorado this ____ day of _____, 2020.

MEREDITH LEIGHTY
Mayor

ATTEST:

JOHANNA SMALL, CMC
City Clerk

APPROVED AS TO FORM:

COREY Y. HOFFMANN
City Attorney



City of Northglenn

Approved 04/09/2012

Reviewed 09/24/2014

Approved 06/13/2016

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Comprehensive Financial Policy Document

TABLE OF CONTENTS

Introduction..... 3

Financial Goals..... 3

Financial Policies..... 3

Budget Policies 3

Operating Position Policies..... 5

Revenue Policies..... 5

Expenditure/Expense Policies 6

Capital Expenditure/Expense Policies 7

Capital Improvement Projects (CIP) Policies 7

Reserve Policies..... 8

Cash Management and Investment Policies 8

Debt Management 8

Periodic Review 9

Glossary of Terms..... 10

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A separate Policy will be maintained for Cash Management and Investments.

Debt Management Policies

It is important to protect the City’s financial integrity while providing a funding mechanism to meet the City’s capital needs. The underlying approach of the City is to borrow only for capital improvements that cannot be funded on a “pay as you go” basis. In some cases, debt can be an effective way to finance major capital improvements. Properly managed debt preserves the City’s credit rating, provides flexibility in current and future operating budgets, and provides long-term assets that maintain or improve our quality

of life. To provide for the appropriate issuance and responsible use of debt, the City has adopted the following debt management policy statements:

- Long-term debt will not be issued to finance current operations.
- The maturity of the debt should not exceed 75% of the expected useful life of the resulting asset.
- Each annual operating budget will include the full appropriation for repayment of the principal and interest due that year on each debt or lease issue.
- Debt limits established by law and policy will be calculated at least once each year, and whenever otherwise requested or appropriate.
- Good communications will be maintained with bond rating agencies, bond counsel, banks, financial advisors and other involved in debt issuance and management.
- The City's comprehensive annual financial reports and official statements will reflect our commitment to full and open disclosure concerning our debt.

Types of debt that the City may issue include:

- Certificates of Participation (COPs)
- General Obligation Bonds (GO)
- Sales tax bonds or notes
- Enterprise revenue bonds, notes, or leases

Periodic Review

The Comprehensive Financial Policy Document and each of the policies contained within shall be reviewed by the City Council during even numbered years. The policy has been written to be flexible and easily amended to deal with the style of the times.

Glossary of Terms

Appropriation	A legal authorization by city council for an expenditure for a specific purpose within a specific time frame.
Budget	An annual financial plan showing an estimate of proposed expenditures and the proposed means of financing them over a specific time period.
Capital Improvement Program (CIP)	A five-year projection of capital improvements including funding sources for the projects. The first year of the program represents the current fiscal year capital budget.
Capital Outlay	Expenditures resulting in the acquisition and/or construction of fixed assets having a value of more than \$5,000 and a life exceeding one year.
Contingency	Funds appropriated to cover unforeseen events that may occur during the fiscal year.
Debt	An obligation that results when money is borrowed.
Depreciation	The portion of the cost of a fixed asset charged as an expense during the fiscal year. The entire cost of the assets is ultimately charged off as an expense over its service life.
Enterprise Fund or Proprietary Fund	A grouping of activities whose expenditures are wholly or partially offset by revenues collected from consumers in the form of fees or charges. A fund established to account for operation financed and operated in a manner similar to private business enterprises. (e.g. Water and Sewer Fund).
Expenditures	Decreases in net financial resources. Payments toward current operating expenses requiring the present or future use of net current assets, debt service and capital outlays.
Expenses	Outflows decreasing net total assets. Represents the total cost of operations from delivering goods or rendering services during a period.
Fiscal Year	The time period beginning on January 1 and ending December 31 of a calendar year. Budgeting is carried out on a fiscal year schedule, at the end of which a city determines its financial position and the result of its operations.
Fund	A fund is a fiscal and accounting entity with a self-balancing set of accounts.

Fund Balance	The equity of a governmental fund. Fund balance represents monies that remain unspent after all budgeted expenditures have been made.
GAAP	Generally Accepted Accounting Principals
GASB	Governmental Accounting Standards Board
Intangible Asset	An identifiable asset which lacks physical substance, remains nonfinancial in nature, has a value of more than \$5,000, and a useful life exceeding one year.
Levy	(1) To impose taxes, special assessments or service charges for the support of government activities. (2) The total amount of taxes, special assessments or service charges imposed by a government.
Long-Term Debt	A long bond with a maturity of 10 years or more.
Machinery and Equipment	Property that does not lose its identity when removed from its location and is not changed materially or consumed immediately by use. Examples are machinery, trucks, cars, and furniture.
One-Time Revenue/Expenditure	Revenue or expenditures which are unlikely to recur on a regular or recurring basis.
Operating Budget	A comprehensive financial plan of the city's current expenditures and the means of financing them.
Operating Revenue/Expenditure	Recurring revenue or expenditures which support the day-to-day operations associated with providing services. Operating revenue/expenditures do not include income or outlays associated with debt related provisions, rebates, internal transfers, or one-time items such as legal judgments.
Program	Group activities or operations to attain specific purpose or objective.
Useful Life – Of an asset	An estimation of the period of time over which a property, building or other asset will be of value or use to its owner. Factors to be considered in making that determination are: <ul style="list-style-type: none"> ▪ Physical wear and tear ▪ Past experience with similar assets ▪ The asset's present condition ▪ The factory's maintenance policy, and ▪ Technological/Industry trends (e.g. obsolescence) ▪ Regulatory obsolescence may shorten the service life of some capital assets used in connection with highly regulated activities