

CITY OF LETHBRIDGE

SUMMARY OF FISCAL PRINCIPLES, PRACTICES AND POLICIES



City of Lethbridge
910 - 4 Avenue South
Lethbridge, Alberta, T1J 0P6
lethbridge.ca

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CITY TREASURER'S MESSAGE

A municipality functions at its fiscal best when it operates within a framework of well planned and implemented principles, practices and policies. Over the years, the City of Lethbridge has developed efficient and innovative financial programs which has allowed the City to monitor and control the direction, allocation and usage of its financial resources. These fiscal programs guides the City of Lethbridge towards achieving its vision of being a healthy, attractive and economically viable city.

In this document, I am pleased to provide the City of Lethbridge's **Summary of Fiscal Principles, Practices and Policies** – the basis of a solid financial footing and high standard of accountability. This summary highlights the City's financial control over assets, liabilities, funds, budgets and expenditures that ensures the management of the City's financial operations. This document is intended to be a compendium of the most successful programs; a convenient reference to the practices and policies that have shaped the current financial picture and direct the City's future.

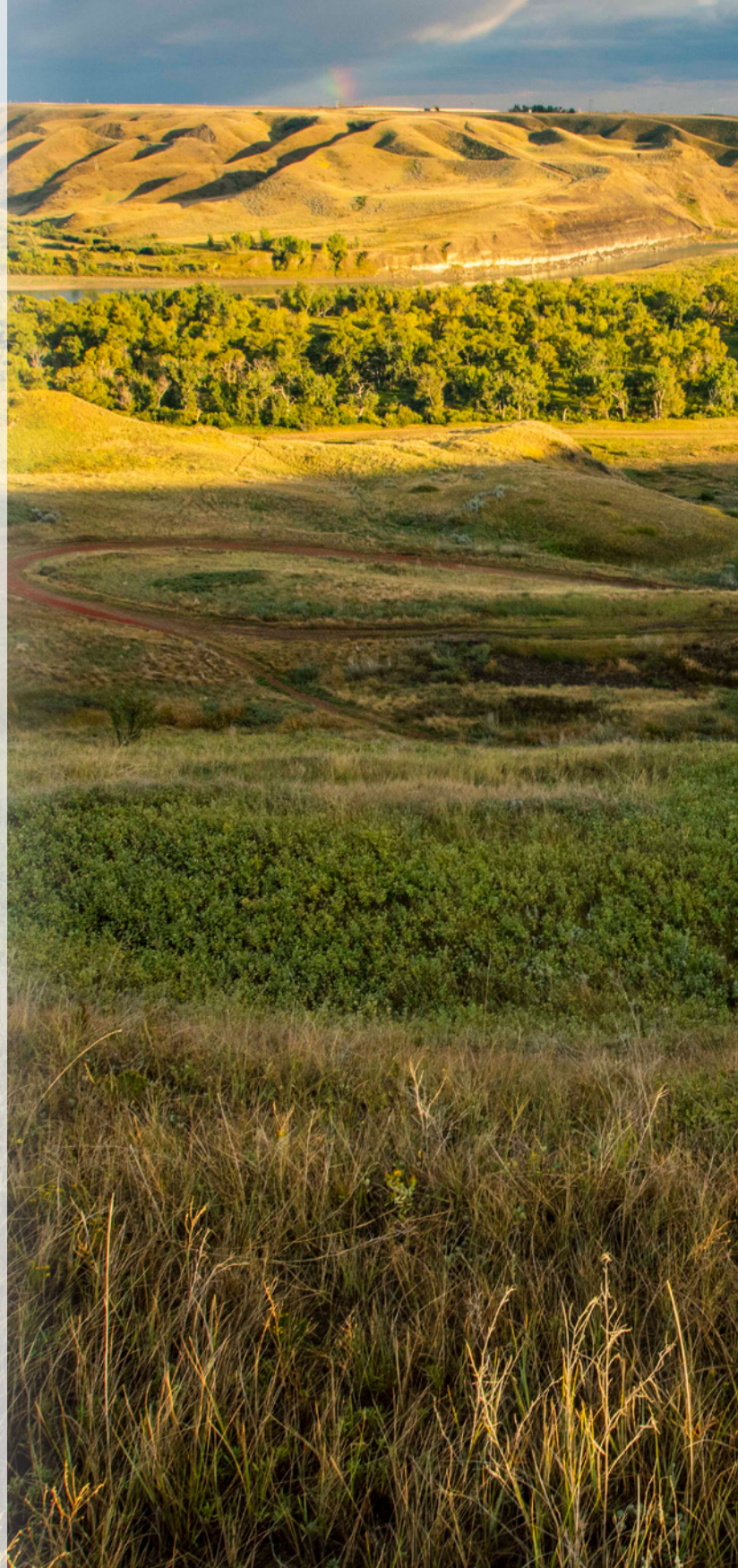
The document is organized into eleven categories: Operating Budget, Taxation, Revenue, Expenditure, Utilities, Capital Improvement Program (CIP), Short Term Borrowing, Long Term Borrowing, Reserves, Investment, and Accounting, Auditing and Financial Reporting. Within these sections, you will find the keys to the prudent fiscal management that enables us to balance long-term fiscal responsibility with customer needs.

As City Treasurer, I congratulate past and present City Councils for the foresight and wisdom that enabled the creation and implementation of such innovative ideas, and I also wish to thank the talented and dedicated team of staff members whose best efforts resulted in ideas being transformed into action. These principles, practices and policies has allowed the City to conquer financial challenges of the past and meet planned future financial obligations. It is my hope that future fiscal decisions will be based on this work, yet continue to evolve with further input from our Council and Administration.


Respectfully submitted,



Darrell Mathews, CPA, CMA, CIA
City Treasurer



GENERAL FINANCIAL OBJECTIVE



It is the policy of the City of Lethbridge to ensure effective stewardship of the City's financial resources. Therefore, Administration will implement effective financial systems, controls and strategies to meet operational and legislative requirements and develop financial policies and procedures to ensure the long-term viability of the corporation.

OPERATING BUDGET

Budget Requirements

City Council must adopt an operating and capital budget that covers each calendar year. This requirement is met by the adoption of multi-year operating and capital budgets.

Balanced Budget

The City's operating budget must have revenues equal to or greater than expenditures. At no time shall the City manager authorize operating or capital expenditures in excess of the approved total operating and capital budgets.

Budget Appropriation Unexpended (BAU)

Where, in a given year's budget, the City provides for specified expenditures which at year end are not expended/received, the department may transfer the unexpended funds with City Manager's approval. Such transfers are recorded in a reserve for budget appropriations unexpended.

Multi-Year Operating Budget

The City of Lethbridge prepares a multi-year City Council approved operating budget/revenue requirement. To accommodate the multi-year budget cycle, Departments are expected to operate within their approved multi-year budget. For example, if there is a shortfall in the first year, Departments are expected to overcome the deficit in the remaining budget periods; if the first year experience results in a net surplus, the Departments will have the ability to carry over the surplus to assist its operations in the remaining budget periods.

There will be ongoing annual reviews of the Operating budget for years 2, 3 and 4 to determine if adjustments or amendments are required by Council.

Financial Shortfall

The operating budget must include an expenditure to cover any shortfall resulting over the prior budget cycle. The City Manager may authorize over expenditures within programs of the operating budget. Such changes will be reported to Council.

Conservative Revenue Estimates

The City will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental and statistical analysis as appropriate. Since revenues are sensitive to both local and regional economic conditions, revenue estimates adopted by City Council must be conservative.

Cause and Effect

The City will practice cause and effect budgeting. When a particular condition or event requires increased charges, those charges will be implemented immediately rather than phasing them in over a period of time.

One-Time Revenues

Revenues that are not expected to be of an ongoing nature will not be used to fund ongoing expenditures. These revenues will be used to offset current or future one-time expenditures. The City will avoid budgetary and accounting procedures, which balance the current budget at the expense of future budgets.

Capital Maintenance Items in Operating Budget

Capital maintenance items will be funded from the operating budget rather than the capital budget.

Maintenance High Priority

The City of Lethbridge places a high priority on maintaining current capital assets (lifecycle). The annual operating budget provides for maintenance and replacement of the City's capital assets and equipment. Due to the timing of the lifecycle maintenance, the unexpended lifecycle maintenance funds may flow into the following year's budget, with City Manager's approval.

Lifecycle funds are allocated to maintain high priority capital assets. Examples of high priority maintenance items included in the operating budget are bridge maintenance, street upgrading, sidewalk/boulevard renewals, planing and overlay of arterials, storm sewer maintenance, utility infrastructure maintenance, parks/trails maintenance, irrigation automation, building maintenance and technology infrastructure.

Equipment Purchases

Equipment purchases are funded from the operating budget rather than from the capital budget. Capital assets are recorded by the City at the time of acquisition. The annualized lifecycle costs of the assets are funded through the annual operating budget. Where the life of the asset is extended beyond its original estimated life, the related funding in the operating budget is directed to an equipment replacement fund.

Contingency Amount

The City Manager approves the use of contingency and reports it to City Council.

TAXATION

Property Tax Bylaw

City Council must pass a property tax bylaw annually. The operating and capital budgets must be adopted by City Council prior to passing the Property Tax Bylaw.

Supplementary Tax

In conjunction with the annual property tax bylaw, City Council approves the levying of a supplementary tax. If a new building or an addition to an existing building is completed in the calendar year, a supplementary tax bill will be issued before the end of the current year. The supplementary tax bill will reflect the number of months the building was completed or occupied during the year.

Local Improvement Charges

Property owners can petition the City of Lethbridge for improvements specific to their area (e.g. lane paving). These additional charges are reflected on the tax bill as a local improvement tax. Local improvement charges are spread over a number of years. However, property owners can arrange for an earlier pay out.

Tax Prepayment

Prepayments of taxes up to a maximum of the prior year's taxes receive an incentive discount for early payment. This discount rate is set annually through the Incentives for Prepayments, Penalty and Tax Deferral Bylaw.

Tax Installment Prepayment Plan

The Tax Installment Payment Plan (TIPP) is a monthly installment plan based on prior year's taxes to encourage the early payment of property taxes. The Tax Installment Prepayment Plan Bylaw sets the incentive discount rate.

Tax Arrears Payment Plan

The Tax Arrears Payment Plan (TAPP) assists taxpayers who are in arrears to bring their taxes to a current basis as set by the Tax Arrears Payment Plan Bylaw.

Tax Deferral

Ratepayers experiencing tax increases in excess of 10% of the annualized prior year property tax levy are eligible to (1) defer a portion of the tax to December 1, or (2) transfer the excess to their TIPP account without penalty.

Penalties for Late Payment

7% penalty is added to current taxes outstanding after the last business day in June. An additional 1% penalty is applied on the first day of each month, August to December on current and supplementary outstanding tax balances. Taxes and penalties unpaid after December 31 of the year they were levied are subject to penalty in the amount of 12% per annum calculated daily.

Changes in Taxable Status (City Sales)

In accordance with the Municipal Government Act (MGA), a property tax is levied on property where the occupant or use changes to one that does not qualify for exemption. When the City sells a property, a prorated tax is imposed for the part of the current tax year the property is not exempt.

Business Improvement Area Tax

City Council established a Business Revitalization Zone (BRZ) in 1988 for businesses located in the downtown area. In 2016, the provincial government changed the name of this type of establishment to a Business Improvement Area (BIA) with no set timeline on changing existing zones. The terms are interchangeable. The Downtown BRZ annually presents the BIA budget to City Council for approval. The budget includes tax revenue requirements to be collected by the City on behalf of the Downtown BRZ.

Complaints

Residential complaints (three units or less) are heard before the Local Assessment Review Board (LARB) appointed by City Council. Complaints for income producing properties, commercial, industrial, rental residential with four units or more are heard by the Composite Assessment Review Board (CARB). City Council appoints two members and the provincial government appoints the Chairman. If the number of hearings exceeds nine in a year, the City is responsible for the cost of the Provincial Chairman.

Assessment Review Board Fees

Assessment Review Board (ARB) appellants are required to pay a fee when filing their appeal. This fee is totally refunded if either Board (LARB or CARB) rules in favor of the ratepayer.

Tax Cancellation and Refund

In accordance with the Municipal Government Act (MGA), if a council considers it equitable to do so, it may, generally or with respect to a particular taxable property or business or a class of taxable property or business, do one or more of the following, with or without conditions:

- a. Cancel or reduce tax arrears;
- b. Cancel or refund all or part of a tax;
- c. Defer the collection of a tax.

A council may phase in a tax increase or decrease resulting from the preparation of any new assessment. All requests must be approved by City Council.

REVENUE

Diversified and Stable Revenue System

The City will try to maintain a diversified and stable revenue system to shelter it from short term fluctuations in any one revenue source.

Interest/Return on Investment to MRSR

Unless required by trust agreements or otherwise approved by City Council, all interest earnings as well as return on investments from the Electric Utility are credited to the Municipal Revenue Stabilization Reserve (MRSR).

Municipal Consent and Access Fees

All Municipal Consent and Access Fees (MCAF) accrue to the MRSR. A set annual amount will be transferred from the MRSR to general operations. Any MCAF received in excess of the set annual amount can be used to assist the City in funding one-time projects and debt management strategies.

Police Revenues

All police fines net of applicable expenditures accrue to the MRSR. A set annual amount will be transferred from the MRSR to general operations.

User Fees

The City of Lethbridge charges user fees for services. User fees are set to recover the full cost of services provided, except when City Council determines that a subsidy from the General Fund is in the public interest (e.g. Arenas, Transit).

Certain user fees are approved through a bylaw (for example tax certificates and mortgage company lists are approved through the Property and Assessment Fee Bylaw).



EXPENDITURE

Approved Expenditure

An expenditure may only be made if it is included in the operating or capital budgets or otherwise authorized by City Council, for an emergency, or legally required to be paid. No director, agent or employee of the City of Lethbridge is authorized to avoid the Purchasing Policies for the procurement of goods and supplies. Emergency expenditures would cover unforeseen catastrophic costs not covered under the operating budget.

One-Time Allocations

Fifty percent of the prior year operating surplus can be allocated from the Municipal Revenue Stabilization Reserve (MRSR) to cover one-time expenditures, with City Council's approval.

Competitive Procurement Process

All goods and services must be procured using a competitive process that is open, fair and transparent except where the purchase meets direct award justification as defined in Purchasing Policy #1. The City typically utilizes the following recognized competitive methods:

- Request for Quotation (RFQ)
- Request for Proposal (RFP)
- Request for Supplier Qualification (RFSQ)

General Managers may authorize expenditures up to \$39,999 if a documented competitive process has occurred. All expenditures greater than \$39,999 require the approval of the Purchasing Manager. The Purchasing Manager can approve up to \$74,999 if a competitive process has been utilized. All expenditures exceeding the Purchasing Manager's authorization limits also require the approval of the City Manager. The City Manager can approve up to a previously approved budget amount for all other expenditures if a competitive process has been utilized. All expenditures exceeding the previously approved budgets must be submitted to City Council for consideration.

Direct Award Process

Good/Services less than \$75,000 or construction less than \$200,000:

Goods and services can be procured without a competitive process if a single direct award is deemed to be the only one practicably available and where it meets one or more of the accepted justifications defined in policy:

Good/Services \$75,000 or greater or construction

1. Cost
2. One-of-a-Kind
3. Compatibility
4. Replacement part/item
5. Delivery Date
6. Continuity
7. Unique Design
8. Emergency

\$200,000 or greater:

Under the same conditions mentioned previously, goods and services may be procured without a competitive process only if an exemption is granted by the applicable trade treaties (e.g. Canada Free Trade Agreement, New West Partnership Trade Agreement, and Comprehensive Economic Trade Agreement).

Direct Award Authorization

General Managers may authorize direct award expenditures up to \$9,999. All direct award expenditures greater than \$9,999 require the approval of the Purchasing Manager. All direct award expenditures greater than \$24,999 also require the approval of the City Manager. The City Manager can approve a direct award up to a previously approved budget amount. All direct award expenditures exceeding the approved budget must be submitted to City Council for consideration.

Leasing Equipment

A business case analysis (including total cost) is required to justify the leasing of any equipment over six months to support business operations. City Manager's approval is required on lease arrangements.

Travel Expense Claims

It is the policy of the City of Lethbridge to reimburse business travel expenses necessarily incurred by employees, City Council, Board and Commission members in the performance of their duties, including approved per diems for City Council.

Vehicle Expense Reimbursement

Employees who are required to use their private vehicles for authorized City business will be reimbursed for the use of their vehicle.

When traveling on City of Lethbridge business, employees may wish to rent an automobile to save time, reduce cost or for convenience. Examples of reimbursable expenses include the rental fee for non-luxury model cars, the kilometer charge by the car rental agency, gasoline charges and applicable taxes.

UTILITIES

Utilities Self Balancing

The City sets fees and user charges for each utility fund at a level that fully supports the total direct and indirect cost of the utility.

Utility Rates

Customers will be given approximately 90 days notice prior to implementation of utility rate changes. The City prepares a four-year water and wastewater rate forecast that is updated annually. Electric Regulated Rate Option (RRO) and Regulated Default Supply (RDS) energy prices are posted five working days before the beginning of each month.

Electric Utility - Accrual Basis

The Electric Utility follows the accrual basis of accounting for determining the electric utility's revenue requirements. Under this method, capital expenditures are recovered over the life of the asset. Depreciation expense recoups the cost of the capital assets over their useful lives.

Electric Utility Operating Surplus/Deficit

The City of Lethbridge electric utility operates on a balanced budget with residual operating surplus/(deficit) applied to/(from) the Electric Reserve.

Electric Return on Investment

The Electric Utility will provide the City with a return on investment to rationalize continued ownership of the Electric Utility. A percentage of the return on equity is transferred from the Electric Utility reserve to the General Fund as a return on investment. This method of calculating the return on investment is consistent with Electric Utility industry standards in Alberta.

Granting Exclusive Franchise/MCAF Rights

The City grants exclusive utility distribution rights to the Electric Utility. This is accomplished through the Municipal Consent and Access Fee (MCAF), which is necessary and desirable to ensure that the distribution system is efficiently planned and non-duplicated and helps compensate the City of utility right-of-way maintenance.

ATCO Gas shall hold exclusive franchise rights to provide natural gas distribution service within the City of Lethbridge, and in turn the City receives a MCAF.

Electric - Determining Municipal Consent and Access Fee

The City of Lethbridge assesses a Municipal Consent and Access Fee (MCAF) to the Electric Wire Services Provider (WSP) based on an approved MCAF factor of the current distribution tariff (DT).

Landfill Relief of Taxation

The Waste Services Utility will transfer an amount equal to 10% of landfill revenues to the general fund for relief of taxation.

Water Relief of Taxation

The Water Utility will transfer an amount equal to 8% of water revenues to the general fund for relief of taxation.

Water, Wastewater and Waste Accumulated Surplus

The primary purpose of the surpluses is to set aside funds to provide for unanticipated or emergency expenditures that could not be reasonably foreseen during the preparation of the budget and/or for down payments on the utility's capital projects.

Rainy Year Water Revenue Risk

The Water Utility will maintain an accumulated surplus between 9% and 15% of revenues to reduce the revenue risk associated with a rainy year.



CAPITAL IMPROVEMENT PROGRAM (CIP)

Integration of CIP and Operating Budget

The City will coordinate development of the Capital Improvement Program (CIP) with the development of the operating budget. The operating costs relative to projects approved in the CIP will be factored into the operating budget.

Ten Year Capital Budget

The City develops a four year capital plan within a ten year context for capital improvements to provide for adequate design prior to construction season. The Capital Improvement Program (CIP) includes design, development, implementation, operating, and maintenance costs as well as associated funding sources. The City will make all capital improvements in accordance with an approved Capital Improvement Program.

There will be ongoing annual reviews of the Capital budget for years 2, 3 and 4 to determine if adjustments or amendments are required by Council.

Awarded Contract Amendments

For capital expenditures, approved contracts may be amended (with City Manager approval), provided that funds are available within the approved capital project budget.

Capital Project Budget Amendments

If changes will result in expenditures exceeding the total approved project budget, the City Manager can approve an additional 15% of the capital project budget up to \$200,000, provided the funds are available within previously approved budgets. All other requests require the approval of City Council.

Pay-As-You-Go

Under the City's Pay-As-You-Go plan, the annual operating budget includes the costs of capital projects that are recurring, are of relatively small scale, or are for short-lived improvements. An amount is included in the operating budget to fund tax supported debt payments and projects mentioned above. The Major Capital Projects Reserve is used to buffer the effects of short-term fluctuations in debt payments and capital expenditures.

Capital Grants

The City of Lethbridge will maximize the use of all available grants.

Electric Utility Capital Investment Funding

Electric Utility capital investments will be funded through the Electric Reserve, external debt financing and/or short term internal financing.



SHORT TERM BORROWING

Approval of Short Term Operating Borrowing

The City may use short term debt to cover temporary or emergency cash flow shortages. Short term borrowing limits will be subject to City Council approval by bylaw or resolution.

LONG TERM BORROWING

Borrowing Bylaw

A bylaw must be authorized by City Council prior to any external borrowing. A borrowing bylaw must be approved prior to commencing construction on any project that is to be financed by external borrowings. Proceeds from long term debt will not be used in support of ongoing operations.

Borrowing Term

Unless otherwise approved by City Council, the term of a loan will be kept as short as possible up to a maximum of 15 years for taxation supported projects and 20 years for utility/self supported project. In any case, the term of the loan shall not exceed the estimated lifetime of the capital asset as defined under the Municipal Government Act.

Internal Borrowing

Where possible, the City will utilize internal loans rather than external borrowing to meet its capital funding requirements. Internal loans will be permitted only if an analysis of the affected fund indicates funds are available and the use of these funds will not impact the fund's current operations. The prevailing interest rate in effect from the Province of Alberta will be paid on these loans.

Other Borrowings

Where City Council authorizes a borrowing bylaw on behalf of others (except for local improvements), a 1/4% administrative charge may be added to the then prevailing Province of Alberta rates.



RESERVES

Reserve Fund

A fund used to account for the proceeds of specific revenue sources to meet specific future expenditure requirements.

Acquire Off Street Parking

The purpose of the Acquire Off Street Parking Reserve is to provide funding necessary to develop additional off-street parking and fund other parking related expenditures.

Airport

The reserve was established July 1, 2019 when the City of Lethbridge acquired ownership of the airport. The future purpose of the reserve will be to provide capital financing of airport projects and support the general operations of the airport.

Cemeteries

The purpose of the Cemeteries Reserve is to provide for and make provision of the improvement, maintenance, management, control and operation of public cemeteries.

Central Business District Land Acquisition

The purpose of the Central Business District Land Acquisition Reserve is to establish a source of funding for parcels of land in the Central Business District.

Community Lighting

The purpose of the Community Lighting Reserve is to fund the replacement of community lighting assets.

Electric

The purpose of the Electric Reserve is to provide capital financing of Electric Utility projects and to stabilize the effect of fluctuating operation surpluses and deficits.

Fleet Services

The purpose of the Fleet Services Reserve is to provide for a self-sufficient pool of funds to allow for the ongoing replacement of fleet assets.

Insurance

The purpose of the Insurance Reserve is to stabilize the effects of rising and unpredictable insurance premiums.

The City maintains insurance coverage through self-insurance and/or purchased insurance to protect the City. These insurance levels are reviewed annually to ensure that the City is adequately protected.

Major Capital Projects

The purpose of the Major Capital Projects Reserve is to fund capital projects and buffer the effects of short-term fluctuations in debt payments and capital expenditures on the Pay-As-You-Go plan.

Mayor Magrath Drive Beautification

The purpose of the Mayor Magrath Drive Beautification Reserve is to provide funds to allow for maintenance for Mayor Magrath Drive.

Municipal Reserve Fund

The Municipal Reserve Fund can only be used for prescribed purpose such as public parks and public recreation areas.

Municipal Revenue Stabilization

The purpose of the Municipal Revenue Stabilization Reserve (MRSR) is to stabilize the effects of fluctuating interest revenue and General Operation surpluses and deficits on annual taxation requirements. All General Operation surpluses of prior years, return on investments, municipal consent and access fee/franchise fee and by-law enforcement revenue surpluses, internal financing recoveries and other allocations from General Operations are added to the reserve. Budget allocations to General Operations are charged to the reserve and include municipal consent and access fee/franchise fee and by-law enforcement revenue shortfalls, and return on investments. Other charges to the reserve include any General Operation deficits of prior years, one time expenses, internal financing advances and other allocations to General Operations.

Real Estate Holdings

The purpose of the Real Estate Holdings Reserve is to provide a source of funding for land acquisitions within the city.

Transit Bus

The purpose of the Transit Bus Reserve is to provide funding for the City portion of new transit equipment including maintenance and replacement of Lethbridge Transit and ACCESS-A-Ride (AAR) technology and equipment.

Urban Parks

The purpose of the Urban Parks reserve is to provide funds for the ongoing operation and maintenance of the Urban Parks system.

Subdivision Surplus Accounts

Revenues and expenditures from land development activity are recorded in the subdivision surplus accounts.

INVESTMENT

Investment Policy

It is the policy of the City of Lethbridge to conform to all provincial statutes and regulations governing the investment of municipal funds. All those involved with the management of the City of Lethbridge investments are required to comply with the contents of this policy.

It is also City of Lethbridge policy that the City Treasurer or designate who exercises due diligence and acts in accordance with this policy shall be relieved of personal responsibility for market price changes or the credit risk

of any investment, provided that appropriate action is taken to control adverse developments and that such developments are reported on a timely basis.

Municipal funds shall be invested in a manner that will meet the following objectives, listed in order of importance:

- Maintain the safety of investment principal
- Meet daily cash flow requirements
- Provide competitive investment returns

ACCOUNTING, AUDITING & FINANCIAL REPORTING

Annual Financial Statements

The City of Lethbridge must prepare annual financial statements by May 1 for the immediately preceding year in accordance with the generally accepted accounting principles for municipal governments recommended by the Chartered Professional Accountants of Canada.

Auditor's Report

The City's auditor must report to City Council on the Annual Financial Statements and the Financial Information Return each year.

Interim Financial Reporting

The City will review its revenues and expenditures for the current year and report to City Council annually based on December information. The City Manager will provide an operating forecast report to City Council based on September financial results each year. The City Manager will provide City Council an Annual Summary Report of Capital Improvement Projects showing the budgeted amounts and costs to date.

Administration will also report urgent or unusual financial information to the Audit Committee, Economic Standing Policy Committee or City Council on an ad hoc basis as required.

Capitalization Policy

The City follows a policy of capitalizing the acquisition cost of tangible capital assets based on asset classification minimum thresholds ranging from \$5,000 to \$50,000. Capital expenditures less than the established thresholds are expensed as either supplies or maintenance.

The cost of a tangible capital asset with a limited life is amortized over its useful life in a rational and systematic manner appropriate to its nature and use. The amortization

method and estimate of useful life of the remaining unamortized portion is reviewed on a regular basis and revised when the appropriateness of change can be clearly demonstrated. The City uses a straight-line method for calculating the annual amortization.

US Exchange

The rate of exchange paid by the City will be reviewed and adjusted within the financial system as required. It will be the responsibility of the Finance Department to communicate revised rates to the applicable staff.





