The Corporation of the Town of Fort Erie
By-law 96-2024

Being a By-law to Amend By-law 89-09, Being a By-law to Adopt a Capital Asset Policy for the Town of Fort Erie

Whereas By-law 89-09 was passed by the Council of The Corporation of the Town of Fort Erie on June 15, 2009, to adopt the Capital Asset Policy for the Town of Fort Erie**;** and

Whereas Council approved Report CS-05-2024 2023 Annual Financial Report, which proposed amendments to the Capital Asset Policy in order to include asset retirement obligations**;** and

Whereas it is deemed desirable to further amend By-law 89-09, to approve a revised Capital Asset Policy in order to include asset retirement obligations**;** and

Now therefore the Municipal Council of The Corporation of the Town of Fort Erie enacts as follows:

1. **That** Schedule “A” to By-law 89-09 be repealed and replaced with Schedule “A” attached hereto, and the revised Capital Asset Management Policy shall be in effect upon passage of this by-law.

2. **That** the Clerk of the Town is authorized to affect any minor modifications, corrections or omissions, solely of an administrative, numerical, grammatical, semantical or descriptive nature to this by-law or its schedules after the passage of this by-law.

Read a first, second and third time and finally passed this 23rd day September of 2024.

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Mayor

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Clerk

Capital Asset Policy

The Corporation of
The Town of Fort Erie

Adopted under By-law No.89-09
Amended September 23, 2024 (By-law 96-2024)

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Article 1 – Application and Administration

1.1 To outline standards and guidelines for identifying, measuring and recognizing expenditures as tangible capital assets to facilitate appropriate financial presentation and disclosure in compliance with Public Sector Accounting Guideline 3150.

1.2 The Director of Financial Services shall be responsible for developing and implementing forms and procedures for the administration of this policy by Town staff.

1.3 This policy does not apply to:
   (a) Intangible capital assets such as Goodwill, copyrights, patents, easements and natural resources.
   (b) Historical treasures as these expenditures are always expensed in the year incurred. Assets of this nature are disclosed separately in the financial statements therefore, they will be identified only in the Asset Accounting Module. Acquisitions of historical treasures must be reported to the Financial Services Department.

1.4 This policy shall be read and applied fairly with such variations, as circumstances or the nature of the subject matter require provided the general purpose, intent, meaning and spirit of the policy are maintained.

Article 2 – Definitions

For the purpose of this policy and guidelines, the following terms are defined as:

“Capital Lease” means one that transfers substantially all the benefits and risks of ownership of the property to the lessee.

“Current Expense” means non-permanent equipment or “consumable” items or services.

“Fair Value” means the amount of consideration that would be agreed upon in an arm’s length transaction between knowledgeable willing parties who are under no compulsion to act.

“Infrastructure Assets” means long-lived capital assets that are normally stationary and can generally be preserved for a greater number of years than most capital assets.

“Net Book Value” means the cost of an asset less the accumulated amortization and the amount of any write-downs.

“Pooled Asset” means the collection of any number of similar assets that meet all criteria asset except that their individual cost is below the asset category threshold but that are acquired in the same year, put in service in the same year and have the same useful life, therefore are treated as one collective asset.

“Threshold” means the minimum cost of capital asset or pooled asset that is to be captured in the Financial Asset Management System.

“Useful Life” means the period over which a capital asset or component thereof is expected to be used by the government.

“Accretion Expense" means the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.

"Asset Retirement Cost" means the estimated cost required to retire a tangible capital asset (i.e., to meet the asset retirement obligations).

"Asset Retirement Activities" means all activities related to an asset retirement obligation including (but not limited to):

a) Decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed;
b) Remediation of contamination of a tangible capital asset created by its normal use;
c) Post-retirement activities such as monitoring; and
d) Constructing other tangible capital assets to perform post-retirement activities.

"Asset Retirement Obligation" means a legal obligation associated with the retirement of a tangible capital asset.

"Legal Obligation" means a clear duty or responsibility to another party that justifies recognition of a liability.

A legal obligation can result from:

- Agreements or contracts;
- Legislation, including legislation of another government; and, or
- A promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor.

"Productive Use" Tangible capital assets 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 tangible capital assets.

"Retirement of a Tangible Capital Asset" The permanent removal of a tangible capital asset from service. This term encompasses sale, abandonment, or disposal in some other manner but does not include temporary idling of the asset.

Article 3 ~ Roles and Responsibilities

3.1 Initiating Department

3.1.1 The department that initiates the acquisition or construction of a tangible capital asset is referred to as the Initiating Department. The Initiating Department Director will ensure that:

(a) Only jobs leading to the creation or acquisition of a tangible capital asset as defined in this policy are included in the capital budget.
(b) A Capital Asset Addition Form is prepared and forwarded to Financial Services in the year the capital asset is placed in service.
(c) Donated or contributed assets are communicated to the Financial Services Department in the first year of service using the Capital Assets Addition Form.
(d) The department responsible for subsequent management of the asset, if

different than the initiating department, is identified on the Capital Asset Addition Form and will be referred to as the Owner Department.

3.2 Owner Department

3.2.1 The department that is subsequently charged with managing the asset and is allocated the annual amortization expense will be referred to as the Owner Department. The Owner Department Director will ensure that:

(a) All assets disposed of, removed from service, transferred to another Owner Department or that have realized an impairment in value are communicated to the Financial Services Department using the appropriate form within the year the event occurs.
(b) The accuracy and completeness of the assets inventoried is verified on an annual basis.
(c) The useful life assigned to asset categories is verified on an annual basis.

3.3 Financial Services Department

3.3.1 The Financial Services Department will be responsible for maintaining the Asset Management Module as a component of the corporate accounting system. The Department Director will ensure that:

(a) All additions, disposals, sales, transfers and write-downs of tangible capital assets are recorded in the Asset Management module as per the appropriate forms.
(b) Capital Asset permanent files containing supporting documentation are maintained.
(c) Owner Department Directors are provided annually with a listing of capital assets owned by their respective departments for verification of existence and completeness and of the useful lives assigned.

Article 4 ~ Identification

4.1 Tangible capital assets are non-financial assets having physical substance and that are constructed, purchased, donated, assumed or leased. They are whole assets, component assets or pooled assets that meet the following criteria:

(a) Are held by the Town 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 tangible capital assets.
(b) Have a useful economic life extending beyond a single reporting period.
(c) Are to be used on a continuous basis.
(d) Are not intended for sale in the ordinary course of business.
(e) The asset cost is in excess of the thresholds identified in Appendix A except for the Business Improvement Areas where the asset threshold will be $1,000 for all categories.

4.2 Whole Asset

4.2.1 A tangible capital asset will be recorded in its entirety as a whole asset and specifically identified as an individual asset record in the Asset Management Module except where they have been defined as a component or pooled asset in Appendix A.

4.2.2 Infrastructure assets such as the road, water, wastewater and storm networks will be recorded in segments as determined by the Owner Department and these segments will be deemed whole assets and include the cost of all components of that segment.

4.3 Component Asset

4.3.1 Components of an asset will be recorded as separate assets in the Asset Management Module if the components have significantly different useful lives and the component's cost as a percentage of the total asset cost is significant. Component assets have been identified in Appendix A.

4.4 Pooled Asset

4.4.1 Similar tangible capital assets will be grouped into one asset record in the Asset Management Module when:

(a) The assets have a short useful life
(b) The Town typically holds the assets until the end of its useful life.
(c) There is no significant advantage of reporting the assets on an individual basis or individual identification is maintained in a separate management system.
(d) It is not practical to record each asset individually.

4.4.2 Once a pooled tangible asset is recorded, it remains an asset until it is fully amortized. These assets will have a deemed disposal at the end of their useful life; individual disposals are not recorded. If an asset is sold or disposed of before the asset has reached the end of its useful life, the proceeds (if any) are to be recorded as revenue.

4.5 Recording and Reporting

4.5.1 Capital Assets will be reported in the financial system using the following Asset Types:

(a) General Land
(b) General Land Improvements
(c) General Buildings
(d) General Machinery and Equipment
(e) General Vehicles
(f) Infrastructure Land
(g) Infrastructure Land Improvements
(h) Infrastructure Linear
(i) Infrastructure Building
(j) Infrastructure Machinery & Equipment

4.5.2 Asset Types will be broken down into Asset Categories in the Asset Management Module. The categories will identify the assets useful life and segregate assets to facilitate a management reporting need. The asset categories and their useful lives have been identified in Appendix A.

4.5.3 The Owner Department will be assigned to each asset in the Asset Management Module. The department responsible for managing a facility will be deemed the owner of the land under the facility as well. When the land is used for more than one facility it will not be apportioned but rather assigned to the Owner Department of the largest facility.

4.5.4 Surplus land that cannot be allocated to a specific Town operation will be recorded in the Land Acquisition/Disposal department 10950 and Community & Development Services will assume the responsibilities of the Owner Department.

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

4.6.1 When multiple assets are acquired for a single price, the Owner Department must apportion the cost 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.

Article 5 ~ Asset Acquisition

5.1 Capital Budget

5.1.1 All expenditures that meet the identification and measurement criteria outlined above must be approved in the Capital Budget.

5.1.2 The Capital Budget may include jobs that provide funding to an external party to manage the construction of Town Capital Assets on our behalf such as Regional constructed sidewalks and storm sewers. This transfer of funding will be recorded as the cost of the Capital Asset.

5.1.3 It is recognized that at the time of the Capital Budget approval, the asset may be identified as a whole asset, but this does not preclude the subsequent treatment of the asset as component assets. The Owner Department will allocate the costs accumulated in the capital job to individual assets or components.

5.1.4 Costs incurred for the acquisition or construction of a capital asset will be accumulated in a capital job and classified as "work in progress" until the asset construction is complete and the asset is recorded.

5.1.5 In some cases the capital job will involve the acquisition of multiple capital assets that are constructed in phases that will be put into service at different points in time. A tangible capital asset will be recorded as each individual phase is complete.

5.1.6 Capital jobs may remain open after portions are recorded as tangible capital assets if further costs are anticipated. Subsequent costs charged to the job will be adjusted to the previously recorded asset cost and the amortization expense.

5.2 Capital Budget Financing

5.2.1 The Town may approve and undertake capital jobs that are financed with funding from external sources.

5.2.2 Capital contributions such as Federal/Provincial Grants, Gas Tax funding, public cash donations and developer contributions are recorded as a separate revenue transaction and cannot be netted against the gross cost of the Capital Asset.

5.2.3 Government transfers will be recorded as deferred revenue and amortized over the same period as the useful life of the asset acquired.

5.2.4 Donations will be recorded as revenue in the year they are received.

5.2.5 Developer contributions will be recorded as revenue in the year the related construction takes place.

5.2.6 Capital jobs that include external financing to be received for construction of assets not owned by the Town, such as contributions for work performed by the Town on Regional roads, will be netted against the job cost to determine the value of the Town's asset.

5.3 <u>Leased Tangible Capital Assets</u>

5.3.1 A tangible capital asset may be acquired through a lease agreement. Leases can be defined as either operating or capital. Capital leases are defined as those where substantially all of the benefits and risks are transferred to the Town. The Financial Services Department should be provided with all particulars of the lease arrangement so that a correct assessment can be made.

5.3.2 A lease is deemed a capital lease if one or more of the following criteria are met:

(a) There is a reasonable assurance that ownership of the asset will transfer to the Town by the end of the lease term.
(b) The lease term is of such duration that it exceeds 75% of the economic life of the asset.
(c) The present value of the minimum lease payments is equal to or greater than 90% of the fair value of the asset at the inception of the lease.

5.3.3 Tangible Capital Assets acquired through a capital lease are recorded as both an asset and a liability at the beginning of the lease term. The cost of the asset would be the present value of the minimum lease payments excluding executory costs but not to exceed the fair value of the asset.

5.3.4 A leased tangible capital asset will be amortized over its useful life.

5.3.5 Leases that don't meet the criteria of a capital lease are classified as operating leases and the payments are expensed when incurred.

5.4 <u>Contributed or Donated Capital Assets</u>

5.4.1 A tangible capital asset may be acquired from an external party through a gift, contribution or nominal cost transaction. These assets must be recorded at their fair value as at the acquisition date. Supporting documentation for the transaction must be provided to the Financial Services Department to prepare the necessary accounting entries. This documentation should include an estimate of the fair value of the asset where possible.

5.4.2 Fair value may be determined by independent appraisal or reference to values in the Schedule F of subdivision agreements. In the absence of these the fair value may be determined using the Owner Departments expertise and estimates based on similar and recent transactions.

5.4.3 Subdivision assets are contributed assets and their fair value is deemed to be the cost as per the payment certificates provided by the Developer's Consulting Engineer. Costs will be allocated to the individual assets identified in Appendix A.

Article 6 ~ Valuation

6.1 Capital assets will be recorded at the cost of acquisition or construction as accumulated in the capital job. Items that are included in the cost of an asset must be directly attributed to bringing the asset into working condition for its intended purpose, which may include:

- (a) Purchase price and other acquisition costs such as option costs, commissions or installation costs.
- (b) Architectural, design and engineering fees.
- (c) Legal fees, survey costs, site preparation costs, freight charges, transportation, insurance costs, duties, testing and preparation charges.
- (d) Directly associated carrying costs such as interest incurred prior to being substantially complete.
- (e) Construction or development costs such as materials and labour incurred directly for the job.
- (f) Overhead costs directly attributable to the construction or development activity.
- (g) Feasibility studies or strategy analysis undertaken prior to the acquisition or development of a capital asset. These may be capitalized when the future capital asset acquisition is reasonably assured. The related capital asset should be budgeted in the same year or subsequent year to that of the study, otherwise these are more appropriately considered operational type expenditures and should be recorded as an operating expense in the year in which they occurred.

6.2 <u>Betterments</u>

6.2.1 Betterments are subsequent costs incurred that:

- (a) Materially enhance the service potential of an asset beyond its original anticipated useful life, or
- (b) Provide a characteristic to the asset that did not previously exist (an upgrade or rearrangement), and
- (c) Exceed the asset threshold.

6.2.2 Betterments will be budgeted in the Capital Budget and Owner Departments will follow the same procedures as with new asset additions. Betterment costs are added to the capital asset inventory. They will be recorded in the Asset Accounting Module as a separate related asset so that the characteristics of the original asset can continue to be tracked. The betterment may extend the useful life of the original asset and if so the useful life of the original asset will be changed accordingly. The Owner Department will communicate to Financial Services any changes in the useful life.

6.2.3 If the betterment involves the removal of a portion of the existing asset, a reduction in the cost of the existing asset is also required. See Article 9.

6.3 <u>Replacements</u>

6.3.1 Replacements involve the removal of an asset and substitution of a new asset. An addition and disposal will be recorded in the financial system.

6.3.2 The replacement of a part of an asset, where that part was not previously recorded as a separate component asset, will not be capitalized. If the component being replaced was not significant enough to be previously segregated then the replacement will be considered a repair and the costs expensed as incurred.

6.3.3 Replacements will be budgeted in the Capital Budget and Owner Departments will follow the same procedures as with new asset additions.

6.3.4 When an asset is replaced before the end of its useful life, the remaining unamortized balance will be recorded as amortization expense in the replacement year.

6.4 Maintenance Expenditures

6.4.1 Costs incurred to repair or maintain the pre-determined service potential of the asset do not meet the criteria for capital costs and will be charged as a current expense in the accounting period in which they are made.

6.4.2 Examples of costs that would be categorized, as maintenance would typically include:

(a) Replacement of parts of a TCA due to wear and tear and damage.
(b) Costs to service or maintain the TCA until the end of its estimated useful life.
(c) Repairs, including emergency repairs due to equipment failure.
(d) Routine cleaning.
(e) Repairs to restore assets damaged by fire, flood or similar event.
(f) Costs that must be incurred in order to realize the benefits originally projected from the TCA.

Article 7 ~ Amortization

7.1 Amortization is recorded as an expense in the operating statement of the Owner Department to represent a charge for the estimated annual consumption of the asset. For purposes of this policy, it is calculated using the straight-line method which takes the cost of the tangible capital assets less its estimated residual value divided by its useful life. For purposes of this policy, residual value will be deemed to be zero on all tangible capital assets except where a residual value is determined to be significant.

7.2 Land normally has an indefinite useful life therefore is not amortized.

7.3 Amortization will be calculated using the “half year rule” which calculates six months of amortization in the year the asset is acquired and six months amortization in the last year of its useful life.

7.4 Estimating useful lives are identified in Appendix A and should be applied on a consistent basis. Departments will be asked to review their assets on an annual basis and revise the estimates if the need can be clearly demonstrated.

7.5 In Service Date

7.5.1 Assets will be recorded as an acquisition on the in-service date and amortization will begin.

7.5.2 Criteria for the In Service Date includes:

   (a) Possession of ownership of item if purchased in its final form (i.e. computer equipment, land, buildings, vehicles).
   (b) Construction is substantially complete and the asset is ready for use (i.e. road and watermain construction).
   (c) Occupancy level reaching a specified level (i.e. office building construction).
   (d) Passage of time, such as a predetermined period of no further activity or costs being incurred.

7.5.3 Capital asset acquisitions will be recorded throughout the year as they are placed in service except in the case of pooled assets, which will be capitalized at the end of the fiscal year. Pooled assets are generally acquired with a Capital Budget for the total of the year's purchases and therefore will be capitalized when all purchases for the year are complete.

7.5.4 When an asset is in-service the Owner Department will complete the Asset Addition Form. It will be the responsibility of the Owner Department to ensure that all additions are appropriately reflected at this time in their departmental asset management systems and geographical information systems, if applicable.

Article 8 ~ Write-downs

8.1 Departments will be asked to review their assets on an annual basis and determine if any write-downs are necessary. Write-downs are necessary when the future economic benefit of the asset is less than its net book value.

8.2 A partial write-down may be appropriate when:

   (a) There is a change in the extent or manner that the asset is used.
   (b) The asset is physically damaged.

8.3 A full write-down of 100% of the asset value may be appropriate when:

   (a) The asset is removed from service or abandoned.

8.4 A request for a write-down must be accompanied with justification and the authorization of the Owner Department Director.

8.5 An asset write-down cannot be reversed.

Article 9 ~ Disposals

9.1 Disposals of tangible capital assets occur by sale, trade-in, destruction or abandonment. When an asset is disposed of the Owner Department must notify the Financial Services Department of the transaction using the Capital Asset Disposal Form.

9.2 The difference between the net proceeds on disposal of a tangible capital asset and the net book value of the asset will be recorded as a gain or loss on sale of assets in the statement of operations.

9.3 Net proceeds are the sale proceeds less related expenses incurred.

9.5 The disposal of capital assets must be in compliance with the Purchasing Policy section 2.6.2 Disposition of Surplus Assets and the Sale of Land Policy.

9.6 It will be the responsibility of the Owner Department to ensure that all disposals are also reflected in their departmental asset management systems and geographical information systems, if applicable.

9.7 Tangible capital assets recorded as a pooled asset will be disposed of using deemed disposition. These assets will be held for the duration of their useful life and deemed disposed of at the end of this term. Deemed disposition will be recognized annually and the full cost of the asset and the related accumulated amortization will be removed from the accounting records.

9.8 For disposal of a tangible capital asset by way of trade-in, the value received is considered the net proceeds on the disposal of the asset.

9.9 Insurance claim funds are to be recorded as the proceeds on the disposal of the tangible capital asset.

Article 10 ~ Transfers

10.1 The transfer of tangible capital assets involves the transfer from one department to another department. When an asset is transferred to another department the Owner Department must notify the Financial Services Department of the transfer using the Capital Asset Disposal, Write-Down & Transfer Form.

10.2 When an asset is transferred from one department to another, the amortization for that asset will be transferred to the new department from the date of the transfer onwards.

Article 11 ~ Surplus Assets

11.1 If an asset is being considered for sale it must be classified as a financial asset rather than a tangible capital 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 Financial Services Department when, at a minimum, the first of the following criteria is met:

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

Article 12 ~ Asset Retirement Obligations

12.1 Applies to all departments, units, branches, boards, and agencies that are within the reporting entity of Fort Erie, and possess asset retirement obligations related to the following assets:

1. Assets with legal title held by Fort Erie
2. Assets controlled by Fort Erie
3. Assets reported in any entities that are consolidated with the Town for financial statement purposes
4. Assets that have not been capitalized or recorded as tangible capital assets for financial statement purposes.

Applicability (decision tree) is attached to this policy as **Appendix B**.

12.2 Entities that are consolidated with the Town currently include:

- Fort Erie Public Library;
- Fort Erie Business Improvement Areas.

12.3 Guiding Principles

12.3.1 Existing provincial and federal laws and regulations require municipalities to take specific actions to retire certain tangible capital assets at the end of their useful lives. This includes activities such as the removal of asbestos and fuel tanks. Other obligations to retire tangible capital assets may arise from contracts, court judgments, or lease arrangements.

12.3.2 The legal obligations, including obligations created by promises made without formal consideration, associated with the retirement of tangible capital assets controlled by the Town, will be recognized as a liability in the books of the Town, in accordance with PSAB PS 3280 effective January 1, 2023.

12.3.3 Asset retirement obligations result from the acquisition, construction, development, or normal use of an asset. These obligations are predictable, likely to occur, and unavoidable. Asset retirement obligations are separate and distinct from contaminated site liabilities. The liability for contaminated sites is normally resulting from unexpected contamination exceeding the environmental standards. Asset retirement obligations are not necessarily associated with contamination.

12.4 Recognition

12.4.1 A liability should be recognized when, as at the financial reporting date:

1. There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
2. The past transaction or event giving rise to the liability has occurred;
3. It is expected that future economic benefits will be given up; and

4. A reasonable estimate of the amount can be made.

12.4.2 Liabilities for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.

12.4.3 The estimate of the liability would be based on requirements in existing agreements, contracts, legislation, or legally enforceable obligations, and technology expected to be used in asset retirement activities.

12.4.4 The estimate of liabilities should include costs directly attributable to asset retirement activities. Costs would include post-retirement operation, maintenance, and monitoring which are an integral part of the retirement of the tangible capital asset.

12.4.5 Directly attributable costs would include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees, and overhead costs directly attributable to the asset retirement activity.

12.4.6 Upon initial recognition of a liability for an asset retirement obligation, the Town will recognize an asset retirement cost by increasing the carrying amount of the related tangible capital asset (or a component thereof) by the same amount as the liability. Where the obligation relates to an asset that is no longer in service, and not providing economic benefit, or to an item not recorded by the Town as an asset, the obligation is expensed upon recognition.

12.4.7 The capitalization thresholds applicable to the different asset categories will also be applied to the asset retirement obligations to be recognized within each of those asset categories.

12.5 Subsequent Measurement

12.5.1 The asset retirement costs will be capitalized and amortized allocating the future costs of the retirement in a rational and systematic allocation (straight-line method) over the useful life of the tangible capital asset or a component of the asset.

12.5.2 On an annual basis, the existing asset retirement obligations will be assessed for any changes in expected cost, term to retirement, or any other changes that may impact the estimated obligation. In addition, any new obligations identified will also be assessed.

12.6 Presentation and Disclosure

The liability for asset retirement obligations will be disclosed.

12.7 Transitional Approach

12.7.1 The Town of Fort Erie has opted to transition to PS 3280 using the following method:

Prospective Approach

Under the prospective approach, the Town of Fort Erie will apply PS 3280 as of the year of adoption without considering previous years. Any asset retirement obligation that already exists will be adjusted for any changes resulting from adoption of PS 3280. The Prospective Approach involves recognition of an asset and liability equal to the present value of the expected outflows, amortization of the asset over its remaining useful life, and accretion of the liability over the life of the asset. Where the present value calculation is used, current rates and assumptions are appropriate. For any asset that is no longer in productive use, Fort Erie will record an expense in the year of adoption. The prospective approach does not require any adjustment to the opening deficit / surplus.

12.7.2 Discount and Inflation Rates

PS 3280 notes that a present value calculation is often the best available technique with which to estimate an asset retirement liability when the cash flows required to settle or otherwise extinguish the liability are expected to occur over extended future periods. However, there is no requirement for a public sector entity to use a present value technique, or to apply discounting consistently across all assets.

In situations where there is significant uncertainty about the timing of the cash flows Fort Erie may opt to not inflate and discount back the cash flows. Professional judgment will be required in assessing the appropriateness of inflation and discounting.

Fort Erie has opted to use the following discount and inflation rate at transition. Please note that rates and the methodology for selecting rates can change over time.

Discount Rate: 4.60% rate aligns with the discounted rate applied in the actuary report, which is based on a 20-year period consistent with the useful lives of our assets as of January 2023. It also corresponds with the borrowing rate and investing rates in 2023.

Inflation Rate: Using the Statistics Canada, Consumer Price Index, monthly not seasonally adjusted for Ontario.

Appendix A ~ Capital Assets Identification, Thresholds and Useful Lives

Asset Type	**Capitalization Threshold**	**Asset Category**	**Tracking Method**	**Useful Life in Years**
General Land	Zero	Land	Whole Asset	N/A
General Land Improvements	$15,000	Paved Improvements *(Includes parking lots, driveways, pathways, fencing)*	Whole Asset	20
		Park Surfaces *(Includes baseball, basketball, hockey, tennis, equestrian, football surfaces, soccer, splash pads, pool, landscaping, fencing boat ramps)*	Whole Asset	10-75
General Buildings	$15,000	Facilities as follows: *(Includes administration, libraries, community centres, arenas, mausoleums)*		
		Building Structure	Component	50
		HVAC	Component	20
		Roof	Component	20
		Buildings *(Includes shed, storage, pavilions, picnic shelters, canteens, washrooms, club houses)*	Whole Asset	30
General Machinery & Equipment	$10,000	Light Fleet Equipment *(Includes kubotas, bobcats, trailers, generators)*	Whole Asset	15
		Heavy Fleet Equipment *(Includes zambonis, graders, backhoes, boats)*	Whole Asset	15
		Fire Equipment (Includes hoses, appurtances, personal protection equipment, power equipment, scba, communications equipment)	Pooled	10-15
		Computer Hardware	Pooled	5
		Computer Software	Whole Asset	10
		Office Furniture & Equipment *(Includes copiers, AV systems, telephone, communication, kitchen equipment)*	Pooled	3-15
		Library Books	Pooled	7
		Parks & Facility Equipment *(Includes playgrounds, lighting, pool filter/chlorination systems, score clocks, parking equipment)*	Whole Asset	5-20
General Vehicles	$10,000	Light Vehicles *(Includes cars, vans, pick-up trucks)*	Whole Asset	10
		Heavy Vehicles *(Includes dump trucks, plows, pumpers, ladder fire trucks)*	Whole Asset	15
		Fire Apparatus	Whole Asset	20
Infrastructure Land	Zero	Right of Way & Infrastructure Land	Whole Asset	N/A
Infrastructure Land Improvements	$50,000	Municipal Drains	Component	30-90
		Stormwater Management Ponds	Whole Asset	75
Infrastructure Linear	$50,000	Road Base (Segments)	Whole Asset	40-60
		Road Surface (Segments)	Whole Asset	10-20
		Sidewalks	Pooled	30
		Bridges	Whole Asset	70

Asset Type	**Capitalization Threshold**	**Asset Category**	**Tracking Method**	**Useful Life in Years**
Infrastructure Linear ~ cont'd	$50,000	Culverts	Whole Asset	30-70
		Watermains (Segments)	Whole Asset	75-100
		Sanitary Sewers (Segments)	Whole Asset	75-100
		Storm Sewers (Segments)	Whole Asset	50-100
Infrastructure Buildings	$50,000	Water Stations	Whole Asset	30
Infrastructure Machinery & Equipment	$50,000	Streetlights	Pooled	30
		Traffic Signals	Whole Asset	10-25
		Storm Pumping Stations	Whole Asset	75
		Water Meters	Pooled	15
		Water Equipment	Whole Asset	6-15

Appendix B ~ A Decision Tree of Applicability