

Council Policy

Council Policy No.:	01-2023
Council Policy Name:	Asset Retirement Obligation Policy
Date Approved by Council:	January 16, 2023
Date of Last Revision:	January 16, 2023
Related Documents	

Policy Statement and Rationale:

This policy is to stipulate the accounting treatment for asset retirement obligation (ARO) so that users of the financial report can discern information about these assets and their end-of-life obligations.

This policy is based on Public Sector Accounting Board (PSAB) Section 3280.

Scope:

This Policy applies to all departments, boards and agencies included in the financial reporting of The Corporation of the Municipality of West Perth (West Perth) that possess assets with asset retirement obligations including:

- a) Assets with legal title held by West Perth
- b) Assets controlled by West Perth
- c) Assets that have not been capitalized or recorded as tangible capital assets for financial statement purposes

Existing laws and regulations require public sector entities to take specific actions to retire certain tangible capital assets at the end of their useful lives. This includes activities such as removal of asbestos, and retirement of landfills. Other obligations to retire tangible capital assets may arise from contracts, court judgements, or lease arrangements.

The legal obligation, including obligations created by promises made without formal consideration, associated with the retirement of tangible capital assets controlled by the Municipality, will be recognized as liability in the books of the Municipality, in accordance with PS3280 which the Municipality will be adopting starting January 1, 2023.

Asset retirement obligations result from acquisition, construction, development or normal use of the asset. These obligations are predicable, likely to occur and unavoidable. Asset retirement obligations are separated 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.

Definitions:

Accretion expense is the increase in the carrying amount of the liability for assets retirement obligation due to the passage of time.

Asset retirement activities include all activities related to an asset retirement obligation. These may include, but not limited to:

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

Asset retirement cost is the estimated amount required to retire a tangible capital asset

Asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.

Retirement of a tangible capital asset is the permanent removal of a tangible capital asset from service. This term encompasses sale, abandonment or disposal in some other manner but not its temporary idling.

Procedure and Implementation:

Recognition

- i. A liability should be recognized when, as at the financial reporting date:
 - a. There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
 - b. The past transaction or event giving rise to the liability has occurred;
 - c. It is expected that future economic benefits will be given up; and
 - d. A reasonable estimate of the amount can be made
- ii. A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied

- iii. 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.
- iv. The estimate of a liability should include costs directly attributed to asset retirement activities. Costs would include post-retirement operations, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset.
- v. Directly attribute costs would include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees, and overhead costs directly attributed to the asset retirement activity.
- vi. Upon initial recognition of a liability for an asset retirement obligation, the Municipality will recognize an asset retirement cost by increasing the carrying amount of the related tangible capital assets (or a component thereof) by the same amount as the liability. Where the obligation relates to an asset which is not longer in service, and not provided economic benefit, or to an item not recorded by the Municipality as an asset, the obligation is expensed upon recognition.
- vii. The capitalization threshold applicable to the different asset categories will also be applied to the asset retirement obligations to be recognized within each of those asset categories.

Subsequent Measurement

The asset retirement costs will be allocated to accretion expenses in a rational and systemic manner (straight-line method) over the useful life of the tangible capital asset or a component of the asset.

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

Presentation and Disclosure

The liability for asset retirement obligations will be disclosed.

Roles and Responsibilities of Departments

- i. Departments are required to:
 - a. Communicate with Finance on retirement obligations, and any changes in asset condition or retirement timelines,
 - b. Assist in the preparation of cost estimates for retirement obligations, and
 - c. Inform Finance of any legal or contractual obligations at inception of any such obligation
- ii. Corporate Management to implement the asset retirement obligation policy in accordance with the legal obligation of the Federal and Provincial legislation
- iii. Finance is responsible for the development of and adherence to policies for the accounting and reporting of asset retirement obligations in accordance with Public Sector Accounting Board section 3280. This includes responsibility for:

- a. Reporting asset retirement obligations in the financial statements of the Municipality and other statutory financial documents,
 - b. Monitor the application of this Policy
 - c. Managing processing within the accounting systems, and
 - d. Investigating issues and working with asset owners to resolve issues
- iv. Municipal Services with adherence to Perth County Official Plan, are responsible for providing cost-effective projections of asset retirement obligations, by consulting with engineers, technicians, and other personnel familiar with the assets and conditional assessments, collecting the relevant information required to minimize service cost, and providing the information to the Finance Department for processing.

Decision Tree

Scope of applicability is attached to the Policy as Appendix A.

Revision History:

Proposed Date of Next Review:

Revision	Date	Description of Changes
1	January 16, 2023	Initial Release

Appendix A

Decision Tree – Scope of applicability

