Policy

Section: 2.0 Finance/Treasury

Policy: Asset Retirement Obligations

By-Law: 2023-xx

Date: 19 June 2023 Revision: N/A

Coverage:

This policy applies to all departments, boards and agencies included in the financial reporting of The Corporation of the Township of Huron-Kinloss that possess assets with asset retirement obligations including:

- Assets with legal title held by Huron-Kinloss;
- Assets controlled by Huron-Kinloss;
- Assets that have not been capitalized or recorded as tangible capital assets for financial statements purposes;
- Assets of consolidated entities for financial statement purposes.

Policy Statement:

The purpose of this policy is to provide guidance on the accounting treatment for asset retirement obligations (ARO) and to establish roles and responsibilities for the various departments in the Township.

Legislative Authority:

Public Sector Accounting Board (PSAB) Section 3280, *Municipal Act*, 2001 S.O. 2001, c.25

Contents:

1. **Definitions**

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

   Asset retirement activities include all activities related to an asset retirement obligation. These may include, but are 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 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.

Capitalization thresholds is the value above which tangible capital assets are capitalized and reported in the financial statements.

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.

2. Responsibility

Departments Heads are required to:

a) Communicate with the Treasury department any retirement obligations, and any changes in asset condition or retirement timelines;
b) Assist in the preparation of cost estimates for retirement obligations and are responsible for providing cost-effective projections of asset retirement obligations, by consulting with engineers, technicians, and others familiar with the assets and conditional assessments, collecting the relevant information required to minimize service cost, and providing the information to the Treasury department for processing; and
c) Inform the Treasury department of any legal or contractual obligations at the inception of any such obligation.

The Treasury department 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 PS 3280. This includes responsibility for:

a) Monitoring the application of this Policy;
b) Managing processes within the accounting systems;
c) Investigating issues and working with asset stewards to resolve issues;
d) Ensuring asset management software reflects accurate asset retirement obligation costs; and

e) Reporting asset retirement obligations in the financial statements of The Corporation of the Township of Huron-Kinloss and other statutory financial documents.

3. Policy

3.1. Guiding Principles

3.1.1. 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 the retirement of landfills. Other obligations to retire tangible capital assets may arise from contracts, court judgments, or lease arrangements.

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

3.1.3. 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.

3.2. Recognition

3.2.1. 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.

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

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

3.2.3. The estimate of a liability will include costs directly attributable to asset retirement activities. Costs will include post-retirement operation, maintenance, and monitoring which are an integral part of the retirement of the tangible capital asset.

3.2.4. Directly attributable costs will 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.

3.2.5. Upon initial recognition of a liability for an asset retirement obligation, Huron-Kinloss 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 Huron-Kinloss as an asset, the obligation is expensed upon recognition.

3.2.6. The capitalization thresholds applicable to the different asset categories as detailed in Huron-Kinloss' Tangible Capital Asset (TCA) Policy will also be applied to the asset retirement obligations to be recognized within each of those asset categories.

3.3. Subsequent Measurement

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

3.3.2. 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.

3.4. Presentation and Disclosure

3.4.1. The liability for asset retirement obligations will be disclosed.

4. Related Policies

- 2009-22 Tangible Capital Asset and Amortization Policy
- 2017-106 Asset Management Policy

5. Decision Tree

5.1. Scope of applicability is attached to this Policy as Appendix A.

Appendix A
Decision Tree – Scope of Applicability