

Title: Asset Retirement Obligations (ARO)

Policy No: 1041

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Motion Number: 22.02.107

Supersedes Policy No: None

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Purpose: The objective of this Policy is to stipulate the accounting treatment for asset retirement obligations (ARO) so that users of the financial report can discern information about these assets, and their end-of-life obligations. The principal issues in accounting for ARO's is the recognition and measurement of these obligations.

The Municipal District of Greenview No. 16 shall account for and report on asset retirement obligations (ARO) in compliance with the Public Sector Accounting Board (PSAB) Handbook, section 3280.

1. DEFINITIONS

- 1.1. **Accretion expense** is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.
- 1.2. **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,
 - B) constructed, developed, or leased;
 - C) remediation of contamination of a tangible capital asset created by its normal use;
 - D) post-retirement activities such as monitoring; and
 - E) constructing other tangible capital assets to perform post-retirement activities.
- 1.3. **Asset retirement cost** is the estimated amount required to retire a tangible capital asset.
- 1.4. **Asset retirement obligation** is a legal obligation associated with the retirement of a tangible capital asset.
- 1.5. **Controlled asset** means an asset that is owned or controlled, directly or indirectly, by the Municipality.
- 1.6. **Greenview** means Municipal District of Greenview No.16.
- 1.7. **Tangible capital assets** are non-financial assets having physical substance that:
 - A) Are 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 Municipal District of Greenview tangible capital assets;

- B) Have useful economic lives extending beyond an accounting period;
- C) Are to be used on a continuing basis in the municipality's operations; and
- D) Are not for sale in the ordinary course of operations.

1.8. **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. POLICY STATEMENT

2.1. This Policy applies to all departments, branches, boards, and agencies falling within the reporting entity of Greenville, that possess asset retirement obligations including:

- A) Assets with legal title held by the Greenville;
- B) Assets controlled by the Greenville;
- C) Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes.

2.2. 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 judgments, or lease arrangements.

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

2.4. Asset retirement obligations result from acquisition, construction, development, or normal use of the 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. PROCEDURE

3.1. Recognition

- A) A liability should be recognized when, as at the financial reporting date:
 - i. there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
 - ii. the past transaction or event giving rise to the liability has occurred;
 - iii. it is expected that future economic benefits will be given up; and
 - iv. a reasonable estimate of the amount can be made.
- B) A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.
- C) 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.
- D) The estimate of a liability should include costs directly attributable to asset retirement activities. Costs would include post-retirement operation, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset.

- E) 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.
- F) Upon initial recognition of a liability for an asset retirement obligation, Greenview 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 which is no longer in service, and not providing economic benefit, or to an item not recorded by Greenview as an asset, the obligation is expensed upon recognition.
- G) 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.

3.2. Subsequent Measurement

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. 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.

3.3. Presentation and Disclosure

The liability for asset retirement obligations will be disclosed.

3.4. Decision Tree

Scope of applicability is attached to this Policy as Schedule A.

4. LEGISLATIVE AND ADMINISTRATIVE AUTHORITIES

- 4.1. Public Sector Accounting Board, Public Sector Handbook, Section PS 3280 Asset Retirement Obligations.

5. COUNCIL RESPONSIBILITIES

- 5.1. Council's responsibility for this policy is to approve it via resolution and review and monitor it as per the PSAB Handbook.

6. ADMINISTRATION RESPONSIBILITIES

Roles and Responsibilities of Departments

- 6.1. **Departments** are required to:

- A) Communicate with Finance and Asset Management Officer 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.

- 6.2. **Corporate Services** to implement the asset retirement obligation policy in accordance with the legal obligation of the Federal and Provincial legislation.

- 6.3. **Finance and Asset Management Officer** are 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 Greenview and other statutory financial documents,
 - B) Monitoring the application of this Policy,
 - C) Managing processes within the TCA accounting module, and
 - D) Investigating issues and working with asset owners to resolve issues
- 6.4. **Planning & Development and Community Services** with adherence to the, Official Community 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.

Schedule A

Decision Tree – Scope of applicability

