Policy: Asset Retirement Obligation Policy

Department: Corporate Services

Effective Date: January 1, 2023

Revision Date: November 2, 2023 Review Date:

## 1. Coverage

All County Departments.

## 2. Purpose

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 stakeholders at the County.

## 3. Policy Statement

An asset retirement obligation is a "legal obligation associated with the retirement of a tangible capital asset." This policy serves to ensure that the County complies with the accounting and reporting requirements of Public Sector Accounting Standard PS 3280.

## 4. Scope

This Policy applies to all departments, branches, boards and agencies within the reporting entity of the Corporation of the County of Bruce (the County) that possess assets, including, but not limited to:

a) Assets with legal title held by the County;
b) Assets controlled by the County;
c) Assets owned by the County that have not been capitalized or recorded as tangible capital assets for financial statement purposes.

Assets that are controlled by the County and associated with a legal obligation can give rise to an ARO. A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability. A legal obligation can result from:

a) Agreements or contracts;
b) Legislation of another government;
c) A government's own legislation; or
d) A promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel.

This policy applies to all assets that have an obligation in relation to the retirement of a tangible capital asset. This includes assets in productive use and assets no longer in productive use. The costs related to asset retirement obligations are both predictable and unavoidable. Refer to **Appendix 1** for a decision tree of assets in scope of asset retirement obligations.

Asset retirement obligations **<u>include</u>** activities such as (but not limited to):

- The removal and remediation of contaminants, such as asbestos and lead, within building or construction materials;
- Restoration of leased property to its former condition at the end of the lease;
- Removal of underground storage tanks (fuel).

Asset retirement obligations **<u>exclude</u>** activities such as:

- Routine maintenance and replacement;
- Remediation of contaminated sites;
- Improper use of a tangible capital asset;
- Preparing a tangible capital asset for an alternative use;
- The occurrence of an unexpected event such as an unexpected contamination;
- Costs arising solely from a plan to sell or otherwise dispose of an asset.

Asset retirement obligations are different from contaminated site liabilities (PS 3260). The liability for contaminated sites normally results from unexpected contamination exceeding environmental standards. Asset retirement obligations are not necessarily associated with contamination but rather result from the acquisition, construction, development or normal use of a tangible capital asset. Refer to **Appendix 2** for a decision tree on determining which standard is applicable.

## 5. Definitions

**Accretion Expense**
The increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.

**Asset Retirement Activities**
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**
The estimated amount required to retire a tangible capital asset.

**Asset Retirement Obligation**
A legal obligation associated with the retirement of a tangible capital asset.

**Capitalization Thresholds**
The value above which tangible capital assets are capitalized and reported in the financial statements.

**Discount Rate**
The cost of borrowing money or the return investors expect.

**Productive Use**
The tangible capital asset is held to supply goods or services or perform regular activities for the County.

**Promissory Estoppel**
The principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did rely on the promise to their detriment.

**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 not its temporary idling.

## 6. Roles and Responsibilities

The implementation and maintenance of this standard requires the involvement of multiple stakeholders across the County to perform the responsibilities outlined below.

### Corporate Services

- Lead the initial implementation and annual maintenance of Public Sector Accounting Standard PS 3280 Asset Retirement Obligations.
- Meet financial statement reporting and disclosure requirements.

- Monitor the application of this policy.
- Investigate and work with departments to provide resolutions for issues pertaining to asset retirement obligations.
- Act as the liaison between the External Auditors and the operational departments impacted by the Standard.
- Continually monitor and assess ARO inputs for calculating estimates on an annual basis.
- Obtain clarity and/or opinion from external subject matter experts where necessary for matters such as contractual obligations, terms and conditions, ARO regulations and legislations.
- Work with departments to identify changes to legislation/regulations that impact ARO's on a go-forward basis.
- Perform long-term financial planning to ensure the County is able to meet its financial obligations associated with ARO's.

**Departments**

- Provide Corporate Services with accurate and relevant information related to asset retirement obligations and activities, including updating timelines and costs for disposal of assets or remediation of ARO's.
- Inform Corporate Services of any potential obligation(s) associated with a County asset when identified.
- Identify changes to legislation/regulations that impact ARO's on a go-forward basis.
- Communicate changes in asset conditions and retirement timelines to Corporate Services.
- Review contracts and agreements and assess assets to determine if ARO's exist.
- Assist in the preparation of cost estimates for asset retirement obligations, whether obtained from internal staff or external parties.

**Council**

- Review and approve the ARO policy along with any policy updates.

## 7. Recognition

According to PS 3280, 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.

At initial recognition, if the tangible capital asset is in productive use and not fully amortized, the County will increase the carrying amount of the related tangible capital asset and recognize a corresponding liability. The ARO will then be amortized over the asset's remaining estimated useful life.

If the related tangible capital asset is fully amortized, no longer in productive use, or was never recognized as an asset the treatment will be as follows:

| **Circumstance** | **Treatment under PS 3280** |
|---|---|
| 1. TCA is fully amortized but still in productive use | 1. ARO is added to the existing cost base and amortized over the revised estimate of the remaining useful life |
| 2. TCA is no longer in productive use | 2. ARO is expensed immediately |
| 3. Unrecognized TCA (expensed at purchase) | 3. ARO is expensed immediately (no cost base) |

The policy for thresholds, recognition and componentization of assets as detailed in the County's Tangible Capital Asset Policy are observed and applied in the execution of this ARO Policy. Updates and/or changes to the TCA policy are incorporated into this ARO Policy.

## 8. Initial Measurement

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

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. Costs will include only those related to the nature and extent of the asset retirement obligation in accordance with the agreement, contract, legislation or a legally enforceable obligation establishing the liability.

According to PS 3280, a liability for an asset retirement obligation should be estimated based on information available at the financial statement date. 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. When the amount of the liability is not determinable at a specific point in time, the County will recognize the liability based on the best estimate of future asset retirement costs. In this case, the estimate of the liability will require professional judgement and may be supplemented by experience, third-party quotes and, in some cases, reports of independent experts.

The County will implement the modified retrospective provision as this is the most practical approach. Under this method, the liability is measured at the date the legal obligation was incurred (past) by nature of the acquisition or construction of the asset, while the discount rate and assumptions used are measured based on current period facts and assumptions (current). This is a transitional provision only whereby the discount rate and assumptions will be as of the date of adoption, January 1, 2023, and new assets after implementation will follow subsequent measurement practices using rates and assumptions at the date of acquisition or construction. Comparative figures are restated and an adjustment is made to opening accumulated surplus, while the opening 2023 figures are rolled forward from restated comparative amounts. Therefore, all pre-existing ARO liabilities will be recognized on the financial statements effective January 1, 2022.

## 9. Subsequent Measurement

The carrying amount of a liability for an asset retirement obligation is to be reassessed annually for each financial reporting date. This includes evaluating any changes in the expected cost, term to retirement, applicable discount rate, or any other changes that may impact the estimated obligation.

Asset retirement costs will be allocated to accretion expense in a rational and systematic manner (straight-line method) over the remaining estimated useful life of the related tangible capital asset.

The discount rate used to accrete the retirement obligation is the long-term debenture interest rate as obtained periodically from Infrastructure Ontario.

A liability for an asset retirement obligation will continue to be recognized until it is settled or otherwise extinguished.

## 10. Presentation and Disclosure

The County will meet all presentation and disclosure requirements for asset retirement obligations in the audited financial statements.

## 11. References and Related Documents

*Tangible Capital Asset Policy*

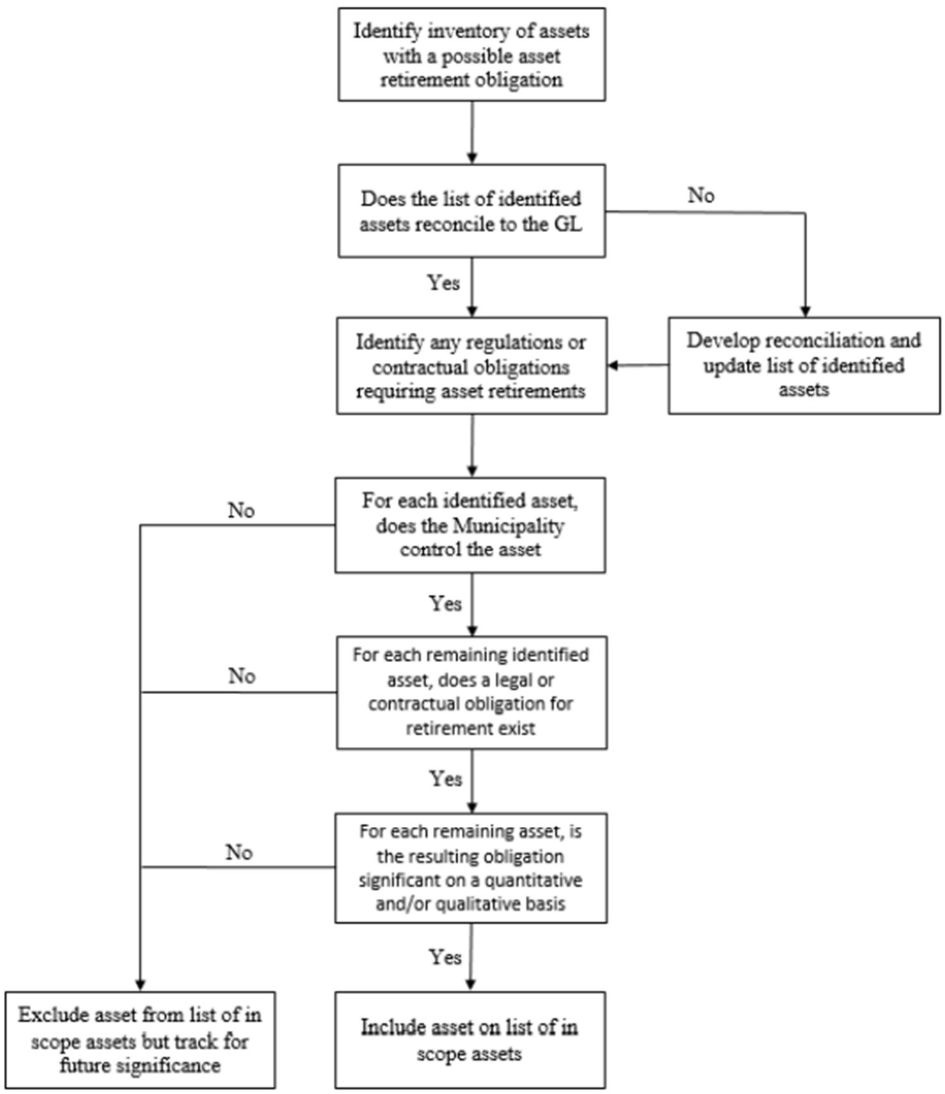
*Capital Asset Amortization Policy*

*Strategic Asset Management Policy*

*Public Sector Accounting Standard PS 3280 – Asset Retirement Obligations*

# Appendix 1

Decision Tree – Scoping Assets for ARO's



## Appendix 2

Decision Tree – Scope of Applicability