



POLICY PURPOSE

The objective of this Policy is to define the accounting processes for asset retirement obligations (ARO) so that readers of the financial report can interpret 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.

BACKGROUND

The Municipality of the District of Shelburne shall account for and report on asset retirement obligations (ARO) in compliance with the Public Sector Accounting Board (PSAB) Handbook, section 3280.

POLICY

1. This Policy applies to all departments, branches, boards, and agencies falling within the reporting entity of the Municipality of the District of Shelburne, that possess asset retirement obligations including:
 - Assets with legal title held by the Municipality
 - Assets controlled by the Municipality
2. The policy applies to all applicable assets, including those that have not been capitalized or recorded as a tangible capital asset for financial statement purposes.
3. 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 or court judgments, or lease arrangements.
4. The legal obligation, including obligations created by promises made without formal consideration, associated with retirement of tangible capital assets controlled by MODS, will be recognized as liability in the accounting books in accordance with PS3280 which will be adopted starting April 1, 2022.
5. 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.

POLICY REQUIREMENTS

a. 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 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 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.
- v. 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.
- vi. Upon initial recognition of a liability for an asset retirement obligation, MODS 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 MODS as an asset, the obligation is expensed upon recognition.
- vii. 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.

b. 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.

c. Presentation and Disclosure

The liability for asset retirement obligations will be disclosed.

d. Roles and Responsibilities of Departments

- i. Departments are required to:
 - a. Communicate with Finance and outside contractors 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 shall 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 MODS financial statements and other statutory financial documents,
 - b. Monitoring the application of this Policy,
 - c. Managing processes within the TownSuite accounting module,
 - d. Submitting financial statements for review and comment to the MODS financial auditor, and
 - e. Investigating issues and working with responsible Departments to resolve issues.

e. Decision Tree

A decision tree to determine applicability of this Policy is attached as Appendix A.

LEGISLATIVE AND ADMINISTRATIVE AUTHORITIES

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

DEFINITIONS

Accretion expense is the increase in the carrying amount of a 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:

- decommissioning or dismantling a tangible capital asset that was acquired, constructed, developed, or leased;
- remediation of contamination of a tangible capital asset created by its normal use;
- post-retirement activities such as monitoring; and
- 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.

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.

THIS IS TO CERTIFY that the Council of the Municipality of the District of Shelburne duly passed the policy respecting Asset Retirement Obligations (ARO) on April 26, 2023.

SIGNED this 26 day of April, 2023



WARDEN PENNY SMITH



CHIEF ADMINISTRATIVE OFFICER

Approved by Council: April 26, 2023

Effective Date: April 1, 2022

ATTACHMENT "A"

Decision tree – Scope of applicability

