



MUNICIPALITY OF LAMBTON SHORES
CORPORATE POLICY
Asset Retirement Obligations (ARO) Policy

POLICY NO.:
CP-FS-POL-006

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| Responsible Dept.: Finance | Effective Date: January 1, 2023 |
| Approval Authority: Council | Next Review: January 1, 2028 |

1 PURPOSE

- 1.1 The purpose of this policy is to provide guidance on the accounting treatment for Asset Retirement Obligations (ARO) under Public Sector Accounting Board (PSAB) section 3280.

2 OBJECTIVE

- 2.1 This policy will comply with section 294.1 of the Municipal Act, 2001, with regards to AROs and identify related roles and responsibilities for the various departments in the Municipality for asset end of life obligations.

3 SCOPE

- 3.1 This policy applies to all departments, boards and agencies included in the financial reporting of The Corporation of the Municipality of Lambton Shores (Lambton Shores) that possess assets with asset retirement obligations including:
- Assets with legal title held by Lambton Shores
 - Assets controlled by Lambton Shores
 - Assets reported in any entities that are consolidated with the Lambton Shores financial statement purposes
 - Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes

4 DEFINITIONS

- 4.1 **Accretion expense** is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.
- 4.2 **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.
- 4.3 **Asset Retirement Cost** is the estimated amount required to retire a tangible capital asset.
- 4.4 **Asset Retirement Obligation** is a legal obligation associated with the retirement of a tangible capital asset.
- 4.5 **Productive Use** means the tangible capital asset is 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 tangible capital assets.

- 4.6 **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 is not temporary idling.
- 4.7 **Tangible Capital Asset** are non-financial assets that are physical in nature such as roads, bridges, vehicles, equipment etc.

5 ASSET RETIREMENT OBLIGATIONS

- 5.1 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.

The legal obligation, including obligations created by promises made without formal consideration, associated with retirement of tangible capital assets controlled by the Municipality of Lambton Shores, will be recognized as a liability in the books of the Municipality in accordance with PS3280 which the Municipality will adopt in its financial statement reporting effective January 1, 2023.

Asset retirement obligations result from the 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 normally results from unexpected contamination exceeding the environmental standards. Asset retirement obligations are not necessarily associated with contamination.

5.2 Recognition

A liability should be recognized when, as at the financial reporting date:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up; and
- 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.

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.

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.

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.

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 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 the Municipality as an asset, the obligation is expensed upon recognition.

The capitalization thresholds: identified in the Tangible Capital Asset (TCA) Policy, applicable to the different asset categories will also be applied to the asset retirement obligations to be recognized within each of those asset categories. Updates and/or changes to the TCA policy will also be incorporated into this policy.

5.3 Subsequent Measurement

The asset retirement costs will be allocated to accretion expense in a rational and systematic manner (straight-line method) over the useful life of the TCA 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.

5.4 Presentation and Disclosure

The liability for asset retirement obligations will be disclosed.

6 RELATED LEGISLATION

6.1 Municipal Act 2001, Subsections 294 (1) A Municipality shall, for the fiscal year, prepare annual financial statements for the municipality in accordance with generally accepted accounting principles for local governments as recommended, from time to time, by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. 2006, c. 32, Sched. A, s. 123; 2017, c. 10, Sched. 1, s. 38.

7 REFERENCES & RELATED DOCUMENTATION

- 7.1 Asset Management Plan (as amended from time to time)
- 7.2 Strategic Asset Management Policy CP-FS-POL-002
- 7.3 Appendix "A" of this policy

8. ADMINISTRATION AND ACCOUNTABILITY

8.1 All Departments (Directors) are required to:

- Communicate with the Director of Financial Services on retirement obligations, and any changes in asset condition or retirement timelines;
- Assist in the preparation of cost estimates for retirement obligations and 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 Finance for processing; and
- Inform Finance of any legal or contractual obligations at inception of any such obligation.

Director of Financial Services

- 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:
 - a) Monitoring the application of this Policy;
 - b) Managing processes within the accounting systems;
 - c) Investigating issues and working with all Directors to resolve issues;
 - d) Ensuring asset management software reflects accurate asset retirement obligation costs; and
 - e) Reporting asset retirement obligations in the financial statements and other statutory financial reporting requirements.

9. APPROVAL

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| Council | (Staff Report #) | (Resolution #) |
| Authority | Clerk (Name of Clerk) | Date (Month, Day, Year) |
| Amended/Modified/Replaced | Date: (Month, Day, Year) | |