County of Essex Policy and Procedures Manual

Asset Retirement Obligations Policy

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Policy Type:	Corporate Policy
Approval Authority:	Department Head
Office of Responsibility:	Financial Services
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Scheduled Review Date:	2027-11-01
Replaces Policy:	N/A

1.0 Introduction

The Corporation of the County of Essex (the "County") is committed to providing reliable and transparent financial information to residents in a manner that is consistent with current legislation.

2.0 Scope

This policy applies to all employees of the Corporation of the County of Essex who manage municipal assets. The scope of applicability is detailed in a decision tree which is attached to this policy as Appendix A.

3.0 Definitions/Glossary

Asset retirement activities include all activities related to an asset retirement obligation. These may include, but are not limited to:

a) Decommissioning or dismantling of 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 means the estimated amount required to retire a tangible capital asset.

Asset retirement obligation ("ARO") means a legal obligation associated with the retirement of a tangible capital asset.

Retirement of a tangible capital asset means the permanent removal of a tangible capital asset from service. This includes sale transactions, abandonment, or disposal is some other manner, but not its temporary idling.

4.0 Purpose/Description

The purpose of this policy is to stipulate the accounting treatment for asset retirement obligations so that users of the financial statements can discern information about these assets, and their end-of-life obligations. The principal issues in accounting for AROs is the recognition and measurement of these obligations.

5.0 Policy

5.1 Policy Statement

The County shall account for and report on AROs in compliance with the Public Sector Accounting Board ("PSAB") Handbook PS 3280.

5.2 Guiding Principles

5.2.1 Existing provincial and federal laws and regulations required 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.

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

5.2.3 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.

5.3 Recognition

5.3.1 A liability will be recognized with, as at the financial reporting date:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset; and
- The past transaction or event giving rise to the liability has occurred; and
- 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.

5.3.2 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.

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

5.3.4 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.

5.3.5 Upon initial recognition of a liability for an asset retirement obligation, the County 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 the County as an asset, the obligation is expensed upon recognition.

5.3.6 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.

5.4 Subsequent Measurement

5.4.1 The asset retirement costs will be capitalized and amortized allocating the future costs of the retirement in a rational and systematic allocation (straight-line method) over the useful life of the tangible capital asset or a component of the asset.

5.4.2 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.

5.5 Presentation and Disclosure

5.5.1 The liability for asset retirement obligations will be disclosed.

6.0 Responsibility

6.1 Department Heads are responsible for:

- Communicating with the Director of Financial Services / Treasurer on any retirement obligations, and any changes in asset condition or retirement timelines;
- Assisting in the preparation of cost estimates for retirement obligations;
- 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 Financial Services department for processing; and
- Informing the Director of Financial Services / Treasurer of any legal or contractual obligations at the inception of any such obligation.

6.2 The Director of Financial Services / Treasurer is responsible for the development of and adherence to policies for the accounting and reporting of asset retirement obligations in accordance with PSAB section 3280. This includes responsibility for:

- Monitoring the application of this policy;
- Managing processes within the accounting systems and ensuring Asset Management software reflects accurate ARO costs;
- Investigating issues and working with asset owners to resolve issues; and
- Reporting AROs in the financial statements of the County and other statutory financial documents.

6.3 All employees are responsible for adherence to this policy.

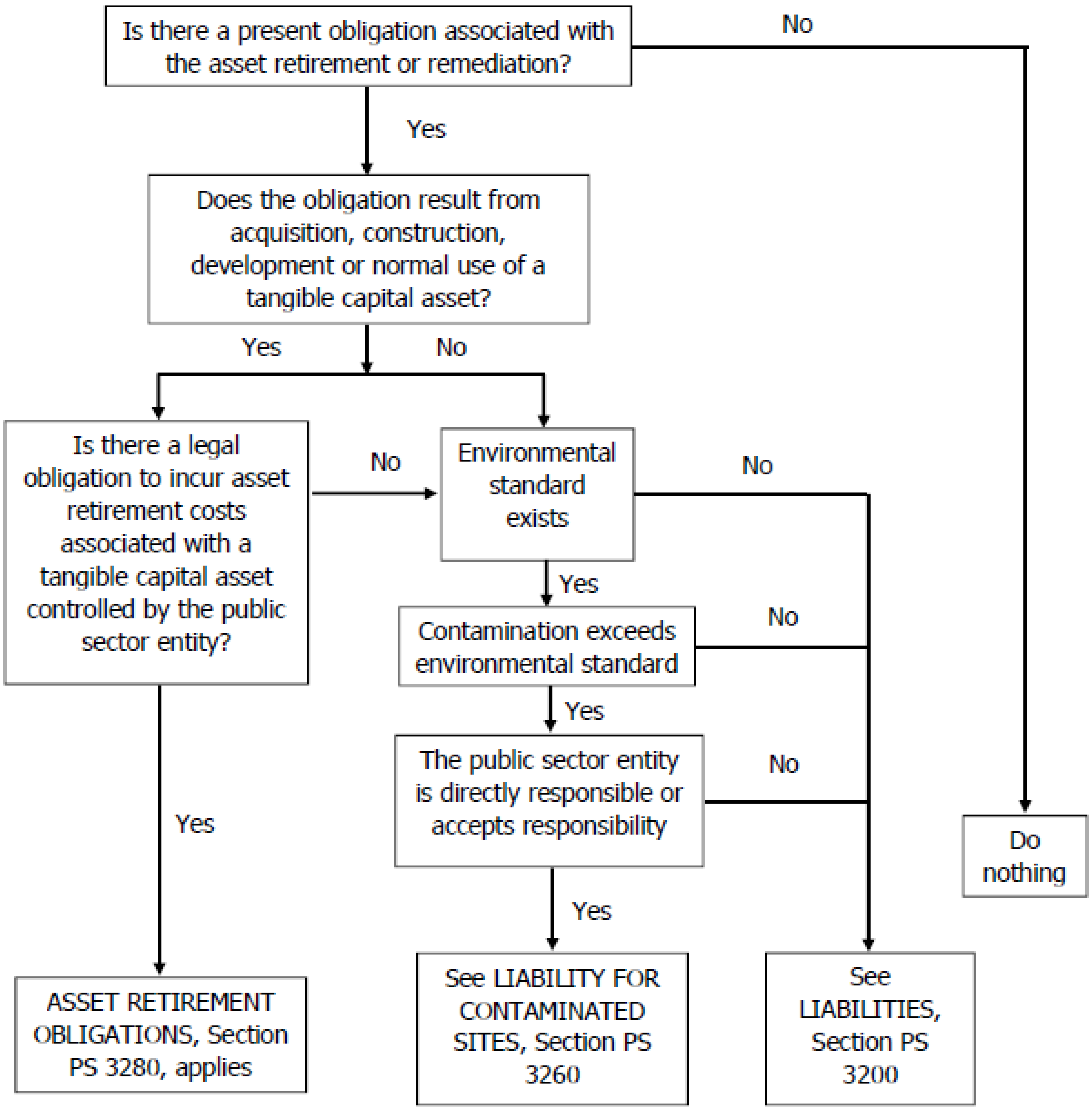
7.0 Related Documents/Legislation

- *Municipal Act, 2001, S.O. 2001, c. 25 (Municipal Act)*
- Tangible Capital Assets Policy
- Strategic Asset Management Policy

8.0 Summary of Amendments

Date	Amendment(s)
2023-08-29	Original policy developed

Appendix A


Is there a present obligation associated with the asset retirement or remediation?
No
Yes
Does the obligation result from acquisition, construction, development or normal use of a tangible capital asset?
Yes
No
Is there a legal obligation to incur asset retirement costs associated with a tangible capital asset controlled by the public sector entity?
No
Environmental standard exists
No
Yes
Contamination exceeds environmental standard
No
Yes
The public sector entity is directly responsible or accepts responsibility
No
Yes
Yes
Do nothing
ASSET RETIREMENT OBLIGATIONS, Section PS 3280, applies
See LIABILITY FOR CONTAMINATED SITES, Section PS 3260
See LIABILITIES, Section PS 3200