MUNICIPALITY OF COLCHESTER
Asset Retirement Obligations Policy

Policy Statement

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

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.

Application

This Policy applies to all departments~~,~~ falling within the reporting entity of the Municipality~~,~~ that possess asset retirement obligations including:

- Assets with legal title held by the Municipality
- Assets controlled by the Municipality
- Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes

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, 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, will be recognized as liability in the financial statements, in accordance with PS3280 which the Municipality will be adopting with effective date April 1, 2022.

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. <u>Recognition</u>

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 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.

Responsibilities

Departments

Departments are required to:

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

Finance

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:

- Reporting asset retirement obligations in the financial statements of the Municipality and other statutory financial documents
- Monitoring the application of this Policy
- Managing processes within the TCA Asset accounting module
- Investigating issues and working with asset owners to resolve issues.

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.

Clerk's Annotation For Official Policy Book

Date of Notice to Council Members of Intent to Consider (7 days minimum): January 9 , 2022

Date of Passage of Current Policy: January 26, 2023

I certify that this Policy was adopted by Council as indicated above.

Rob Simonds — February 10, 2023

Municipal Clerk — Dated

originally approved January 26, 2023

Appendix A

Decision tree – Scope of applicability