# GENERAL POLICY MANUAL

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| SECTION: | Finance | APPROVED BY: | |
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| REFERENCE POLICY: | 6.04 | REVISED: | |

**Asset Retirement Obligations Policy**

## POLICY

### 1.0 Purpose of the Asset Retirement Obligations Policy

1.1 To stipulate the accounting treatment for asset retirement obligations (ARO) so that users of the financial report can discern information about Tangible Capital Assets, and their end of life obligations. The principal issues in accounting for AROs is the recognition and measurement of these obligations.

1.2 The County of Oxford accounts for and reports on AROs in compliance with the Public Sector Accounting Board (PSAB) Handbook, section 3280.

## DEFINITIONS

### 2.0 Definitions

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

**"Asset Retirement Activities"** shall 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"** shall mean the estimated amount required to meet the asset retirement obligations.

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

**"Controlled Asset"** shall mean an asset that is owned or controlled, directly or indirectly, by the County.

**"Council"** shall mean the Council of the County of Oxford. Herein also referred to as County Council.

**"County of Oxford"** herein is also referred to as the County, or Oxford County.

**"Public Sector Accounting Board (PSAB)"** shall mean the board created to serve the public interest by establishing accounting standards for the public sector in addition to providing guidance for financial and other performance information.

**"Retirement of a Tangible Capital Asset"** shall mean 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.

**"Tangible Capital Asset (TCA)"** shall mean a non-financial asset having physical substance that 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, repair or maintenance of other tangible capital assets; has a useful economic life extending beyond one year; is to be used on a continuing basis; and is not for sale in the ordinary course of operations.

**"Useful Life"** shall mean the total period during which a Tangible Capital Asset is in use or is available to be used.

## PROCEDURES

### 3.0 Application

3.1 This Policy applies to all departments, branches, boards and agencies falling within the reporting entity of the County, that possess asset retirement obligations including:

- Assets with the legal title held by the County
- Assets controlled by the County
- Assets reported in any entities that are consolidated with the County for financial statement purposes

- Assets that have not been capitalized or recorded as a Tangible Capital Asset for financial statement purposes

3.2 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, court judgements, or lease arrangements.

3.3 The legal obligation, 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 on the statements of the County, in accordance with PS 3280, and take effect January 1, 2023.

3.4 Asset Retirement Obligations result from acquisition, construction, development or normal use of the asset. These obligations are predictable, likely to occur and are unavoidable. Asset Retirement Obligations are separate and distinct from contaminated sites 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.

## 4.0 Responsibilities

### 4.1 General Responsibilities for All Departments

4.1.1 Communicate with Corporate Services on Asset Retirement Obligations, and any changes in asset condition or retirement timelines.

4.1.2 Assist in the preparation of cost estimates for Asset Retirement Obligations.

4.1.3 Inform Corporate Services of any legal or contractual obligations at inception of any such obligation.

### 4.2 Council

4.2.1 Ensure, through administration, that policies and procedures are in place to provide for the recording and reporting of the County's Asset Retirement

Obligations.

4.3 **Corporate Services**

4.3.1 Responsible for administration and compliance monitoring of this Policy.

4.3.2 Establish procedures for use as guidelines in compliance with this Policy.

4.3.3 Reporting Asset Retirement Obligations in the financial statements of the County and other statutory financial documents.

4.3.4 Managing processes within the County's financial and asset management systems.

4.3.5 Investigating issues and working with departments to resolve issues.

## 5.0 Recognition

5.1 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.

5.2 A liability for an Asset Retirement Obligation cannot be recognized unless all of the criteria in Section 5.1 are satisfied.

5.3 The estimate of the liability should be based on requirements in existing agreements, contracts, legislation or legally enforceable obligations, and technology expected to be used in asset retirement activities.

5.4 The estimate of the 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.

5.5 Directly attributable costs would include, but are not limited to, payroll and benefits related to retirement activities, equipment and facilities, materials, legal and other professional or contracted fees, and overhead costs directly attributable to the asset retirement activity.

5.6 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 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 County as an asset, the obligation is expensed upon recognition.

5.7 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.

## 6.0 Scope of Applicability

6.1 A decision tree outlining the scope of applicability is illustrated in Appendix A.

## 7.0 Subsequent Measurement

7.1 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 component thereof).

7.2 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.

## 8.0 Presentation and Disclosure

8.1 The liability for Asset Retirement Obligations will be disclosed in the County’s financial statements.

## 9.0 Retention Policy

9.1 All documents shall be retained in accordance with the County of Oxford's Records Retention By-law 4957-2008 (Policy 6.18 Records Management).

## 10.0 Review of Asset Retirement Obligations Policy and Procedures

10.1 This Policy shall be reviewed at least once every five years.

## 11.0 References and Related Statements of Policy and Procedure

Accounting Treatment for Capital Assets Policy 6.04
Records Management Policy 6.18 (Records Retention By-law 4957-2008)
Asset Management Policy

## 12.0 References and Related Statements of Legislation

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

**Appendix A**

Decision Tree – Scope of Applicability