



## THE CORPORATION OF THE TOWNSHIP OF TAY CORPORATE POLICY MANUAL

<b>Policy/Program:</b> Asset Retirement Obligation Policy	
<b>Administrator:</b> Financial Analyst	<b>Approved by:</b>
<b>Date Last Reviewed:</b>	<b>Date Last Revised:</b> May 29, 2024

### 1. Purpose

The purpose of this Policy is to provide guidance on the accounting treatment for asset retirement obligations (ARO) and to establish roles and responsibilities for the various departments in the Municipality in accordance with regulations set out in PSAB PS3280 – Asset Retirement Obligations.

### 2. Scope

This Policy applies to all departments, boards, and agencies included in the financial reporting of The Corporation of the Township of Tay, that possess assets with asset retirement obligations including:

- i) Assets with legal title held by the Township;
- ii) Assets controlled by the Township;
- iii) Assets that have not been capitalized or recorded as tangible capital assets for financial statement purposes.

### 3. Definitions

**“Accretion expense”** - The increase in the carrying amount of the liability for asset retirement obligations due to the passage of time.

**“Asset retirement activities”** - All activities related to an asset retirement obligation. These may include, but are not limited to:

- i) decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed;
- ii) remediation of contamination of a tangible capital asset created by its normal use;
- iii) post-retirement activities such as monitoring; and
- iv) constructing other tangible capital assets to perform post-retirement activities.



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**“Asset retirement cost”** - The estimated amount required to retire a tangible capital asset.

**“Asset retirement obligation”** A legal obligation associated with the retirement of a tangible capital asset.

**“Discount Rate”** - The cost of borrowing money or the return investors expect.

**“Retirement of a tangible capital asset”** - 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.

### 4. Responsibility

The Senior Leadership Team is required to:

- i) Communicate to the Financial Services Division any retirement obligations, and any changes in asset condition or retirement timelines;
- ii) Assist in the preparation of cost estimates for retirement obligations and are responsible 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 the Financial Services Division for processing; and
- iii) Inform the Financial Services Division of any legal or contractual obligations at the inception of any such obligation.

The Financial Services Division 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 responsibility for:

- i) Monitoring the application of this Policy;
- ii) Managing processes within the accounting systems;
- iii) Ensuring asset management software reflects accurate asset retirement obligation costs; and
- iv) Reporting asset retirement obligations in the financial statements and other statutory financial documents.

### 5. Reporting Requirements

The Treasurer shall, for each fiscal year, prepare annual financial statements for Tay Township in accordance with Generally Accepted



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Accounting Principles (GAAP) for municipalities as recommended by the Public Sector Accounting Board of Chartered Professional Accountants of Canada (PSAB). This includes the reporting of ARO in the annual financial statements in accordance with PSAB PS 3280.

### 6. Guiding Principles

**6.1** Existing provincial and federal laws and regulations require 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 fuel tank storage removal. Other obligations to retire tangible capital assets may arise from contracts, court judgments, or lease arrangements.

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

**6.3** 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.

### 7. Recognition

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

- i) there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- ii) the past transaction or event giving rise to the liability has occurred;
- iii) it is expected that future economic benefits will be given up; and
- iv) a reasonable estimate of the amount can be made.

A liability for an asset retirement obligation cannot be recognized unless all the above criteria is satisfied.

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

**7.3** The estimate of a liability will include costs directly attributable to asset retirement activities. Costs will include post-retirement operation,



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maintenance, and monitoring which are an integral part of the retirement of the tangible capital asset.

**7.4** Directly attributable costs will 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.

**7.5** Upon initial recognition of a liability for an asset retirement obligation, the Township will recognize an asset retirement cost by increasing the carrying value 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 Township as an asset, the obligation is expensed upon recognition.

**7.6** The policy for thresholds, recognition and componentization of assets as detailed in the Township's Strategic Asset Management (SAM) Policy are observed and applied in the execution of this Policy. Updates and/or changes to the SAM Policy are incorporated into this Policy.

**7.7** The Township will implement the Prospective Application method. Under this method, the liability is incurred as of the year PS 3280 is adopted. This approach involves recognition of an asset and liability equal to the present value of the expected outflows: amortization of the asset over its remaining useful life and accretion of liability over the life of the asset where discounting is applied to arrive at the future ARO.

### **8. Subsequent Measurement**

**8.1** 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 a component of the asset.

**8.2** 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.

**8.3** The discount rate to accrete the retirement obligation is the current indicative rate for a 25 year term Infrastructure Ontario Loan or about December 22<sup>nd</sup> of every year.

### **9. Presentation and Disclosure**

The liability for asset retirement obligations will be disclosed.



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### 10. Policy Review

This policy will be reviewed every five years, or upon the direction of Council, or if staff identify an issue requiring revision to occur.

### 11. Related/ Referenced Policies

- Strategic Asset Management Policy

### 12. Related Documents/Legislation

- i) Public Sector Accounting Board (PSAB) Section 3280
- ii) *Municipal Act, 2001, S.O. 2001, c. 25 (Municipal Act)*

### 13. Attachments

- i) Appendix A: Decision Tree-Scope of Applicability

### 14. Approval

Approved by Council:

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Name – Print

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Signature

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Date (yyyy-mm-dd)

### 15. Revision Record

Rev.	Description of Revision	Admin	Effective	Circulation Date



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## Appendix A Decision Tree – Scope of Applicability

