Corporate Policy

Title: Asset Retirement Obligations

Number: FIN-24-01

Approved By: Council

Administered By: Finance Services

Effective Date: February 26, 2024

Revision Date(s):

1.0 Purpose/Background

The objective of this policy is to provide guidance on the accounting treatment for asset retirement obligations (A.R.O.) 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 A.R.O.'s is the recognition and measurement of these obligations.

2.0 Policy Statement

An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset. The Public Sector Accounting Board (P.S.A.B.) has instituted a new accounting standard P.S. 3280 which requires all municipal governments to comply. This policy serves to ensure the City of Oshawa is in compliance with the accounting and reporting requirements.

3.0 Scope/Application

This policy applies to all departments, branches, boards and agencies falling within the reporting entity of the City of Oshawa that possess asset retirement obligations, including:

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

This policy applies to all assets that have an obligation in relation to the retirement of a tangible capital asset. This includes assets in productive use and assets no longer in productive use.

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 City, will be recognized as liability in the book of the City of Oshawa, in accordance with P.S. 3280 which the City will be adopting on January 1, 2023.

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 environmental standards. Asset retirement obligations are not necessarily associated with contamination.

4.0 Definitions

Accretion expense is the increase in 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 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.

5.0 Responsibilities

1. Department Managers shall, related to the assets under their responsibility:

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

2. Finance Services

    a. Development of and adherence to policies
    b. Reporting asset retirement obligations in the financial statements of the City and other statutory financial documents

c. Monitoring the application of this policy
d. Managing processes with the fixed asset and asset management inventory registers
e. Investigating issues and working with asset owners to resolve issues

3. Council

a. Reviewing and approving policy
b. Reviewing and approving any policy updates

6.0 Practice/Procedures

A. Recognition

According to P.S. 3280, a liability should for an asset retirement obligation 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.

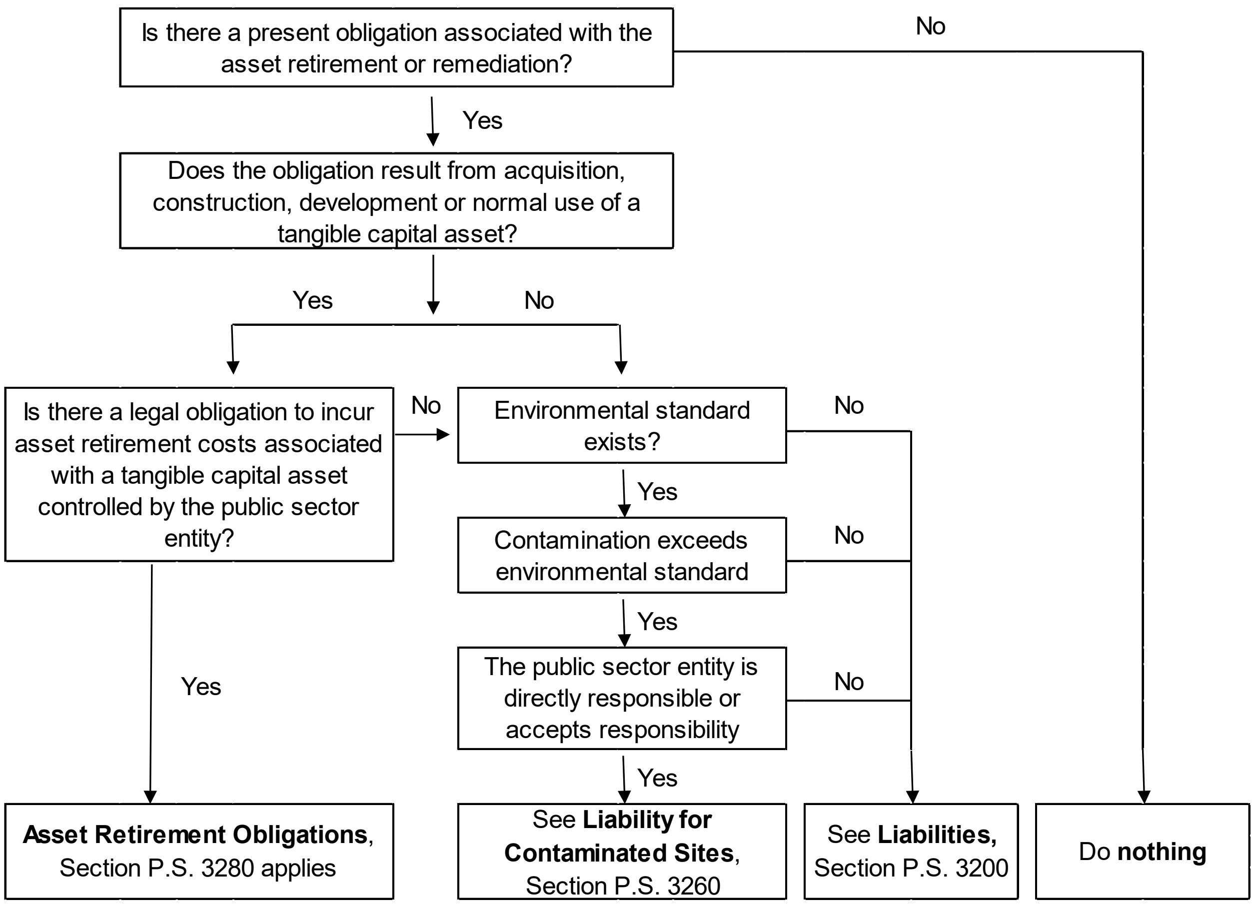
When measuring an A.R.O. liability, the best estimate of the cost to retire the tangible capital asset should be used. This estimate is based on the available information at the financial statement date. To determine the best estimate, professional judgement is required. Professional judgement can include internal expertise, external consultants or third party quotes.

Upon initial recognition of a liability for an asset retirement obligation, the City will recognize an asset retirement cost by increasing the carrying amount of the related tangible capital asset (or a component thereof) and recognize a corresponding 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 City 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.

A decision tree, to be used to determine the scope of applicability, is presented below:

Decision Tree - Scope of Applicability



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. Transitional Provisions

There are three options for transitional provisions when implementing P.S. 3280; prospective, retrospective and modified retrospective. The City will disclose and present the transition provision within its 2023 Financial Statements.

D. Presentation and Disclosure

The liability for asset retirement obligations will be disclosed in the 2023 City's Annual Financial Statements.

E. Integration with Other Processes

The requirements as defined within P.S. 3280 will be integrated with the various processes already established at the City. Specifically, A.R.O. will be tracked and recorded within the City's Asset Inventory. It will also be included in a departmental year end checklist to ensure the financial statement reporting is accurate and complete.

7.0 Monitoring/Review

Not Applicable.

8.0 References

Public Sector Accounting Board, Public Sector Handbook, Section P.S. 3280 Asset Retirement Obligations

9.0 Approval

Authority	Date	Signature
Council	February 26, 2024	