

# COUNTY OF ST. PAUL NO. 19

*Our Mission - To create desirable rural experiences*



## ADM-38 Asset Retirement Obligation (ARO) Policy

Department: Finance

### POLICY OBJECTIVE:

In August 2018, the Public Sector Accounting Board released a new public sector accounting standard, PS 3280, Asset Retirement Obligations (ARO). This section takes effect for fiscal years beginning on or after April 1, 2022, which means that reporting year ending December 31, 2023, will be the first year impacted. The application of Section PS 3280 will relate to all public sector entities following Public Sector Accounting Standards.

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.

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, reclamation of gravel pits (leased or owned), closing of landfills or discontinuing the use of inground fuel tanks. Other obligations to retire tangible capital assets may arise from contracts, 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 records of the municipality, in accordance with Public Sector Accounting Board (PSAB) Handbook, Section 3280.

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 normally results from unexpected contamination exceeding the environmental standards. Asset retirement obligations are not necessarily associated with contamination.

## **POLICY STATEMENTS:**

### **1.0 Definitions**

In this policy, these listed words shall have the intended meaning as follows:

- a) **Accretion expense** is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.
- b) **Asset retirement activities** include 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, developed, or leased;
  - 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.
- c) **Asset retirement cost** is the estimated amount required to retire a tangible capital asset.
- d) **Asset retirement obligation** is a legal obligation associated with the retirement of a tangible capital asset.
- e) **Controlled asset** means an asset that is owned or controlled, directly or indirectly, by the Municipality.
- f) **County** means the County of St. Paul No.19.
- g) **Tangible capital assets** are non-financial assets having physical substance that:
  - i. are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance, or repair of other tangible capital assets;
  - ii. have useful economic lives extending beyond an accounting period;
  - iii. are to be used on a continuing basis in the municipality's operations; and
  - iv. are not for sale in the ordinary course of operations.
  - v. are roads and bridges regardless of whether that title to rural roads is vested in the Crown.

- h) **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.

## 2.0 Responsibilities

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

- a) Assets with legal title held by the County of St. Paul;
- b) Assets controlled by the County of St. Paul;
- c) 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, and retirement of landfills. Other obligations to retire tangible capital assets may arise from contracts, court judgments, or lease arrangements.

All Departments are required to:

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

Specific Departments are required to:

- a) **Corporate Services** to implement the asset retirement obligation policy in accordance with the legal obligation of the Federal and Provincial legislation.
- b) The **Finance Officer** 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:
  - i. Reporting asset retirement obligations in the financial statements of County of St. Paul and other statutory financial documents,
  - ii. Monitoring the application of this Policy,
  - iii. Managing processes within the TCA accounting software module, and
  - iv. Investigating issues and working with asset owners to resolve issues

- v. Ensuring this policy is reviewed at least once per council term, to ensure it is in compliance with any legislative changes.
- c) **Public Works, Planning & Development and Community Services** with adherence to the Official Community Plan, are responsible for 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 Finance Department for processing.

The legal obligation, including obligations created by promises made without formal consideration, associated with retirement of tangible capital assets controlled by County of St. Paul, will be recognized as liability in the books of the County of St. Paul, in accordance with the Public Sector Accounting Board Handbook (PS3280) which the County of St. Paul has adopted starting January 1, 2023, and incorporated in to the County's normal business practices.

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.

### **3.0 Recognition:**

- a) 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.
- b) A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.
- c) 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.
- d) 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

- e) 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.
- f) Upon initial recognition of a liability for an asset retirement obligation, the County of St. Paul 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 County of St. Paul as an asset, the obligation is expensed upon recognition.
- g) 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.

#### **4.0 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.

#### **5.0 Presentation and Disclosure**

The liability for asset retirement obligations will be disclosed and included in our Annual Audited Financial Statements.

#### **6.0 Decision Tree**

The scope of applicability for asset retirement obligations under this policy is outlined in Appendix A.

Common examples of asset retirement obligations include:

- Asbestos and Lead – Older buildings purchased or constructed by the municipality may contain asbestos and/ or lead materials (like paint, tiles, pipes, etc.) requiring a future cost to remediate upon retiring the building

- Leasehold Improvements in Buildings – Lease agreements may require leasehold improvements to be removed upon termination. If the probability of the occurrence can be assessed greater than 70%, then it must be recorded.
- Petroleum Storage Tanks – Petroleum management regulations prescribe requirements for out of service storage tank systems and decommissioning of storage tanks.
- Wells – Well construction regulations prescribe decommissioning requirements for drinking water wells and monitoring wells.
- Other – Mercury, medical equipment, landfills, gravel pit and quarry remediation, and other regulated materials may fall under this policy.

#### Related Policies

- ADM-12 Tangible Capital Assets Policy
- ADM-12 Appendix A-2020
- ADM-12 TCA Appendix B

Council Approved: November 26, 2024

**Schedule A – Scope of Applicability**

