



FORTFRANCES
BOUNDLESS

**ASSET RETIREMENT OBLIGATIONS
POLICY**

ADMINISTRATION & FINANCE 1.25

POLICY

Created: 2023-12-05
Revised: 2024-09-27
Authorized: By-Law 06-24
Superseded:

1. PURPOSE

Recent changes to reporting standards by the Public Sector Accounting Board (PSAB) requires municipalities to identify, measure, and report certain costs associated with asset retirement.

Municipalities must prepare an Asset Retirement Obligation Policy that establishes guidelines to ensure compliance with the new standard PSAB 3280 – Asset Retirement Obligations.

The purpose is to document processes by which asset retirement obligations will be recognized, measured, updated and integrated into existing processes and related roles and responsibilities.

2. APPLICATION

- 1) This Policy applies to all departments and boards included in the financial reporting of the Corporation of the Town of Fort Frances, that possess assets with asset retirement obligations including:
 - a) Assets with legal title held by the Town of Fort Frances;
 - b) Assets controlled by the Town of Fort Frances; and
 - c) Assets that have not been capitalized or recorded as tangible capital assets for financial statement purposes.
- 2) Scope of applicability is detailed in a decision tree which is attached to this Policy as Appendix A.

3. ADMINISTRATION AND ACCOUNTABILITY

3.1. SENIOR MANAGERS:

Senior Managers are required to:

- a) Communicate to Asset Management Coordinator any retirement obligations, and any changes in asset condition or retirement timelines;
- b) 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 Asset management Coordinator for processing; and
- c) Inform the Treasurer and Asset Management Coordinator of any legal or contractual obligations at the inception of any such obligation.

3.2. TREASURER:

The Treasurer 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:

- a) Monitoring the application of this Policy;
- b) Managing processes within the accounting systems;
- c) Investigating issues and working with asset stewards to resolve issues;
- d) Ensuring asset management software reflects accurate asset retirement obligation costs; and
- e) Reporting asset retirement obligations in the financial statements of the Town of Fort Frances and other statutory financial documents.

3.3. ASSET MANAGEMENT COORDINATOR:

The Asset Management Coordinator is responsible for 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:

- a) Monitoring the application of this Policy;
- b) Investigating issues and working with asset stewards to resolve issues; and
- c) Ensuring asset management software reflects accurate asset retirement obligation costs.

4. REPORTING REQUIREMENTS

The Treasurer shall, for each fiscal year, prepare annual financial statements for the Town of Fort Frances in accordance with Generally Accepted Accounting Principles (GAAP) for municipalities as recommended, from time to time, by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. This includes the reporting of ARO in the annual financial statements in accordance with PSAB PS 3280.

5. GUIDING PRINCIPLES

- 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 the retirement of landfills. Other obligations to retire tangible capital assets may arise from contracts, court judgments, or lease arrangements.

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

6. RECOGNITION

- 1) A liability should be recognized when, as at the financial reporting date:
 - a) there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
 - b) the past transaction or event giving rise to the liability has occurred;
 - c) it is expected that future economic benefits will be given up; and
 - d) a reasonable estimate of the amount can be made.

Liabilities for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.

- 2) 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.
- 3) The estimate of liabilities should include costs directly attributable to asset retirement activities. Costs would include post-retirement operation, maintenance, and monitoring which are an integral part of the retirement of the tangible capital asset.
- 4) 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.
- 5) Upon initial recognition of a liability for an asset retirement obligation, the Town of Fort Frances 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 that is no longer in service, and not providing economic benefit, or to an item not recorded by the Town of Fort Frances as an asset, the obligation is expensed upon recognition.

- 6) 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.

7. SUBSEQUENT MEASUREMENT

- 1) The asset retirement costs will be capitalized and amortized allocating the future costs of the retirement in a rational and systematic allocation (straight-line method) over the useful life of the tangible capital asset or a component of the asset.
- 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. PRESENTATION AND DISCLOSURE

The liability for asset retirement obligations will be disclosed.

9. POLICY REVIEW

This policy will be reviewed every five years, or upon changes to legislation, or staff identifying an issue requiring revisions to the policy.

10. DEFINITIONS

Accretion expense is the increase in the carrying amount of the 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:

- 1) decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed;
- 2) remediation of contamination of a tangible capital asset created by its normal use;
- 3) post-retirement activities such as monitoring; and
- 4) 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.

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Productive use means the tangible capital asset 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, maintenance, or repair of other tangible capital assets.

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.

APPENDIX A

Decision Tree – Scope of applicability

