



MUNICIPALITY OF THE DISTRICT OF CLARE

ASSET RETIREMENT OBLIGATION POLICY

PURPOSE

1. The purpose of this Policy is to stipulate the accounting treatment for Asset Retirement Obligations (ARO) 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 ARO's is the recognition and measurement of these obligations.

SCOPE

2. All municipal employees, who manage municipal assets shall fall within the scope of this policy and must adhere to the policy statements contained within this document.

DEFINITIONS

3. In this policy:
 - a. "Accretion Expenses" means the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.
 - b. "Asset Retirement Activities" means 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.
 - c. "Asset Retirement Cost" means the estimated amount required to retire a tangible capital asset.
 - d. "Asset Retirement Obligation" means legal obligation associated with the retirement of a tangible capital asset.

- e. “Retirement of Asset” means 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.
- f. “Tangible Capital Assets” means tangible capital assets are non-financial assets having physical substance that:
 - 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 municipal tangible capital assets;
 - have useful economic lives extending beyond an accounting period;
 - are to be used on a continuing basis in municipal operations; and
 - are not for sale in the ordinary course of operations.

POLICY STATEMENT

- 4. The Municipality shall account for and report on Asset Retirement Obligations (ARO) in compliance with the Public Sector Accounting Board (PSAB) Handbook, section 3280.

5. Recognition

- a. 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.
- 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 Municipality 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 Municipality 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.

6. Subsequent Measurement

- a. 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.
- b. 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.

7. Presentation and Disclosure

- a. The liability for asset retirement obligations will be disclosed in the financial statements.

ROLES AND RESPONSIBILITIES

8. In this policy:

- a. Employees – The Employees will adhere to the contents of this policy.
- b. Director of Finance – The Director of Finance is a person having managerial and policy-making responsibility related to the writing, compilation and revision of content and will:
 - Ensure policies in their care and control are always up-to-date and reviewed annually, or sooner if necessary;
 - Draft new or edit existing policy content;
 - Be able to interpret and explain policy content;
 - Ensure policy documents are branded and any supporting documents, i.e., applications forms are also branded and content consistent with the policy;
 - Ensure policy content is relevant and accurate;
 - Seek and secure approval recommendation of the policy from the CAO;
 - Seek and secure approval of the policy from the Council; and,
 - Provide the final approved policy document to the CAO.
- c. Chief Administrative Officer (CAO) – The CAO will:
 - Provide oversight to ensure policies in their care and control are always up to date, reviewed annually or sooner, if necessary, by the Director of Finance;

- Be able to interpret and explain policy content;
 - Provide oversight to ensure policy documents are branded and any supporting documents, i.e., application forms are also branded and content consistent with the policy;
 - Provide oversight to ensure policy content is relevant and accurate; and
 - Review the policy and make recommendation for approval by Council.
 - Facilitate an annual Policy Review; and
 - Ensure final approved policies are maintained, stored and posted where appropriate.
- d. Council – Council will:
- Review Policy recommendations for approval consideration (approve, reject or edit); and,
 - Notify the Director of Finance and CAO of decision.

RELATED DOCUMENTATION

9. Related forms, processes, procedures, and other documents that support the policy.

Document Name	Document Type
Public Sector Accounting Standards, Section 3280	Legislation
Financial Reporting & Accounting Manual	Legislation
Municipal Government Act	Legislation
NS Utility & Review Board Accounting & Reporting Handbook	Legislation

Chief Administrative Officer’s Annotation for Official Policy Book	
Date of First Reading: _____	
Date of Passage of Policy: _____	
I certify that this Policy was adopted by Council as indicated above.	
_____ Warden	_____ Date
_____ Chief Administrative Officer	_____ Date