

AUGUSTA TOWNSHIP



TOWNSHIP OF AUGUSTA

SECTION:	Finance	POLICY NUMBER:	POL- 0103
SUBJECT:	Asset Retirement Obligation (ARO)	DATE APPROVED:	September 2024
COVERAGE:	Finance	REVIEW DATE:	January 2026
AUTHORITY:	Township of Augusta Council		

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 Township.

2. Scope

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

- a) Assets with legal title held by Augusta;
- b) Assets controlled by Augusta;
- c) Assets that have not been capitalized or recorded as tangible capital assets for financial statement purposes.

3. 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:

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

Asset retirement cost is the estimated amount required to retire a tangible capital asset.

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Asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.

Capitalization thresholds are the value above which tangible capital assets are capitalized and reported in the financial statements.

Discount Rate is the cost of borrowing money, or the return investors expect.

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.

4. Responsibility

Departments Heads are required to:

- a) Communicate with the Treasury department 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 Treasury department for processing; and
- c) Inform the Treasury department of any legal or contractual obligations at the inception of any such obligation.

The Treasury department 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 Augusta and other statutory financial documents.

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5. Policy

5.1. Guiding Principles

- 5.1.1. 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.
- 5.1.2. The legal obligations, including obligations created by promises made without formal consideration, associated with the retirement of tangible capital assets controlled by Augusta, will be recognized as a liability in the financial records of Augusta, in accordance with PSAB PS 3280 effective January 1, 2023.
- 5.1.3. 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 normally resulting from unexpected contamination exceeding the environmental standards. Asset retirement obligations are not necessarily associated with contamination.

5.2. Recognition

- 5.2.1. 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.

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

- 5.2.2. 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.
- 5.2.3. The estimate of a liability will include costs directly attributable to asset retirement activities. Costs will include post-retirement operation, maintenance, and monitoring which are an integral part of the retirement of

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the tangible capital asset.

- 5.2.4.** 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.
- 5.2.5.** Upon initial recognition of a liability for an asset retirement obligation, Augusta 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 Augusta as an asset, the obligation is expensed upon recognition.
- 5.2.6.** The policy for thresholds, recognition, and componentization of assets as detailed in Augusta's Tangible Capital Asset (TCA) Policy are observed and applied in the execution of this ARO Policy. Updates and/or changes to the TCA Policy are incorporated into this ARO Policy.
- 5.2.7.** Augusta will implement the prospective application as this is the most practical approach. For asset retirement obligations associated with tangible capital assets in productive use, the entity would increase the carrying amount of the related tangible capital asset (including those that have been fully amortized) by the same amount as the liability. For asset retirement obligations associated with tangible capital assets no longer in productive use, the entity would recognize an expense of the same amount as the liability. All adjustments would be capitalized or expenses in the year of prospective application.

5.3. Subsequent Measurement

- 5.3.1.** 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.
- 5.3.2.** 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.
- 5.3.3.** The discount rate to accrete the retirement obligation is the long-term debenture interest rate as obtained periodically from Infrastructure Ontario.

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5.4. Presentation and Disclosure

5.4.1. The liability for asset retirement obligations will be disclosed.

6. Related Policies

Tangible Capital Asset Policy (By-Law 2010 -
2811)

Asset Management Policy (By-Law 2023 – 3656)

7. Related Documents/Legislation

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

8. Decision Tree

8.1. Scope of applicability is attached to this Policy as Appendix A

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Appendix A Decision Tree – Scope of Applicability

