Municipality of the District of Lunenburg

Policy Details	
Name	**Asset Retirement Obligations**
Number	**095**
Legislative Authority	**Public Sector Accounting Board, Handbook, section PS 3280**
Effective Date	**September 27, 2022**

Purpose

1 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.

Definitions

2 In the Policy,

(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 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) **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** are non-financial assets, which have physical substance and which:

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 economic useful lives extending beyond an accounting period;
iii) are used on a continuing basis;
iv) are not intended for sale in the ordinary course of operations**.**

See Tangible Capital Assets Policy 047 for more information.

Applications

3 (1) This Policy applies to all departments, branches, boards and agencies falling within the reporting entity of the Municipality of the District of Lunenburg (MODL), that possess asset retirement obligations including:

a) Assets with legal title held by MODL
b) Assets controlled by MODL
c) Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes

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

(3) The legal obligation, including obligations created by promises made without formal consideration, associated with retirement of tangible capital assets controlled by MODL, will be recognized as liability in the books of MODL, in accordance with PS3280 which MODL will be adopting starting April 1, 2022.

(4) 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.

Procedures

4 (1) 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 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, MODL 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 MODL 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.

(2) 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.

(3) Presentation and Disclosure

(a) The liability for asset retirement obligations will be disclosed.

Responsibilities

5 (1) Departments are required to:

(a) Communicate with Finance 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 of any legal or contractual obligations at inception of any such obligation.

(2) Finance 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:

(a) Reporting asset retirement obligations in the financial statements of MODL and other statutory financial documents
(b) Monitoring the application of this Policy
(c) Managing processes within the accounting system
(d) Investigating issues and working with asset owners to resolve issues.

Appendix A

Decision Tree – Scope of applicability

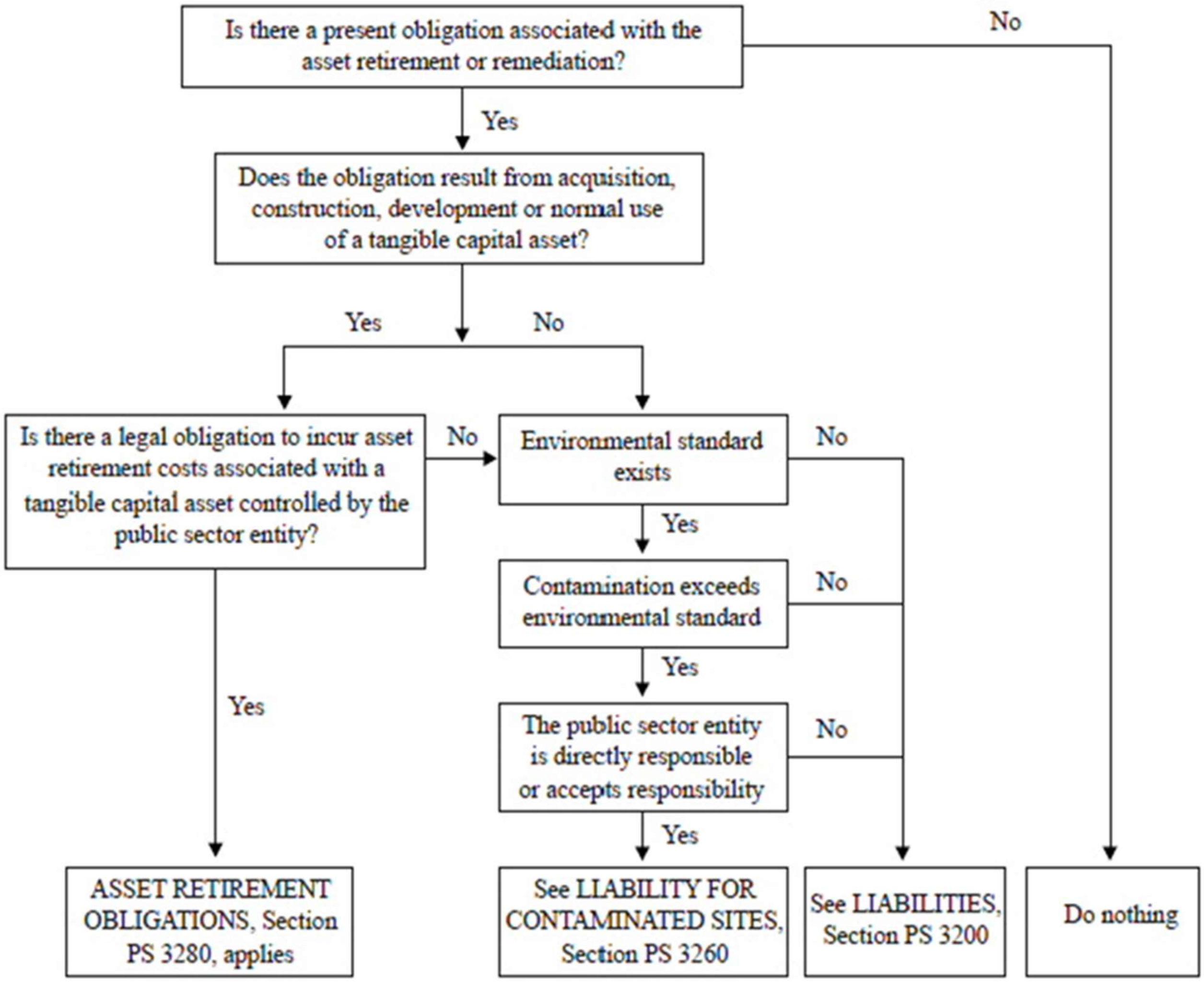

Figure 1 Decision Tree from PS3280 for determination of Asset Retirement Obligations

Policy Adoption	
Date of Original Passage	September 27, 2022
Date of Notice of Intent to Amend/Repeal	N/A
Date of Council Approval	September 27 2022
Date of Effective Date	September 27, 2022
I certify that this Policy 095 Asset Retirement Obligations was adopted by Municipal Council as indicated above.	
Signature of Municipal Clerk 	**Date** October 13, 2022

Version	Amendment Description	Approval Date
Original V1	Asset Retirement Obligation	Sep 27, 2022