

The Corporation of the Municipality of Grey Highlands

By-law No. 2023-114

Being a By-law to adopt Asset Retirement Obligations Policy

Whereas, Section 8 of the Municipal Act 2001, S.O. 2001, as amended provides that a municipality has the authority to govern its affairs as it considers appropriate and enables the municipality to respond to Municipal issues; and

Whereas, PS 3280 "Asset Retirement Obligations" is a new accounting standard that will come into effect for our 2023 Financial Statements. This new standard requires that all public sector entities, including all Canadian municipalities, must recognize obligations related to retirement of assets as liabilities in the financial statements;

Now Therefore the Council of the Municipality of Grey Highlands hereby enacts as follows:

1. That the Policy known as A09-F-08 Asset Retirement Obligations be adopted in substantively the same form as attached as Schedule A and forming part of this By-law; and
2. That this policy come into full force and effect upon the final passage thereof.

Read a first, second and third time, and finally passed on August 16 2023.

The Corporation of the
Municipality of Grey Highlands

Original Signed By

Paul McQueen, Mayor

Original Signed By

Raylene Martell, Municipal Clerk

Status: Passed

[DRAFT]

Municipality of Grey Highlands Policy

Policy Name: Asset Retirement Obligations

Policy Number: A09-F-08

Department: Finance

Authority: Council

Effective Date: 2023-08-16

1 Purpose

The purpose of this policy is to specify the accounting treatment for asset retirement obligations (ARO) so that information regarding assets and end-of-life obligations is available to users of the reports.

The Municipality shall account for and report on asset retirement obligations in compliance with the Public Sector Account Board section 3280.

2 Scope

The Municipality of Grey Highlands owns a wide range of assets and asset types that deliver services to its residents. This policy applies to all tangible assets owned or managed by the Municipality of Grey Highlands.

3 Definitions

Asset Management: The coordinated activity of an organization to realize value from assets.

Asset retirement activities include all activities related to an asset retirement obligation. These include, but are not limited to:

- decommissioning or dismantling a tangible capital asset
- remediation of contamination of a tangible capital asset
- post-retirement activities such as monitoring
- constructing other tangible capital assets to perform post-retirement activities

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

Tangible Capital Assets: Assets having physical substance that:

- a) Are used on a continuing basis in the Municipality's operations

- b) Have useful lives extending beyond 1 year
- c) Are not held for re-sale in the ordinary course of operations
- d) Maintenance and expenditures for repairs that do not prolong an asset's economic life or improve its efficiency are not capitalized.

Lifecycle activities: activities undertaken with respect to a municipal infrastructure asset over its service life, including constructing, maintaining, renewing, operating and decommissioning, and all engineering and design work associated with those activities

4 Policy Statement

This policy applies to all departments and assets that are owned, managed, or for which the municipality has legal title.

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.

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 accordance with PS3280.

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.

5 Procedure

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 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.

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.

Subsequent Measurement

The asset retirement costs will be allocated to accretion expense in a rational and systemic manner 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.

Presentation and Disclosure

The liability for asset retirement obligations will be disclosed.

6 Legislative and Administrative Authorities

Public Sector Accounting Board, Public Sector Handbook, Section PS 3280
Asset Retirement Obligations.

7 Council Responsibilities

Council is responsible for approving this policy, and for reviewing and monitoring its implementation and reporting in the annual audited financial statements.

8 Administrative Responsibilities

Roles and Responsibilities of Departments

All Departments and the Asset Management Team are required to:

- A) Communicate with Finance Department on retirement obligations, and any changes in asset condition or retirement timelines
- B) Assist in the identification and preparation of cost estimates for retirement obligations, and
- C) Inform Finance of any legal or contractual obligations at inception of any such obligation.

Treasurer/Deputy Treasurer/Asset Management Coordinator are required to:

- A) Reporting asset retirement obligations in the financial statements of the Municipality and other statutory financial documents,
- B) Monitoring the application of this Policy,
- C) Managing processes within the TCA accounting module
- D) Investigating issues and working with asset owners to resolve issues
- E) Recommending updates to the Policy