TOWN OF HALTON HILLS
Working Together Working for You!

CORPORATE POLICY

POLICY TITLE:	Asset Retirement Obligation (ARO) Policy
POLICY #:	TBD
CATEGORY:	Finance
AUTHORITY:	Public Sector Accounting Board
POLICY APPROVED BY:	Council
EFFECTIVE DATE:	January 1, 2023
APPLICABLE TO:	All Staff

1.0 Introduction

The Corporation of the Town of Halton Hills (the "Town") is committed to providing reliable and transparent financial information to residents in a manner that is consistent with current legislation.

2.0 Scope

This policy applies to all employees of the Corporation of the Town of Halton Hills who manage municipal assets. The scope of applicability is detailed in a decision tree which is attached to this policy as Appendix A.

3.0 Purpose

The purpose of this policy is to document processes by which asset retirement obligations will be recognized, measured, updated, and integrated into existing processes to ensure users of the financial statements can understand information about these assets and their retirement obligations. The principal issues in accounting for asset retirement obligations is the recognition and measurement of these obligations.

4.0 Policy

4.1 Policy Statement

The Town must record and report on Asset Retirement Obligations (ARO) in compliance with the Public Sector Accounting Board ("PSAB") Handbook PS 3280.

4.2 Guiding Principles

4.2.1 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.

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

4.2.3 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.

4.3 Recognition

4.3.1 A liability will 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;
- 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.

4.3.2 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.

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

4.3.4 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.

4.3.5 Upon initial recognition of a liability for an asset retirement obligation, the Town 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 as an asset, the obligation is expensed upon recognition.

4.3.6 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 categories.

4.4 Subsequent Measurement

4.4.1 The asset retirement costs will be capitalized and amortized allocating the future costs of 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.

4.4.2 On an annual basis, the existing asset retirement obligations will be assessed for any changes in expected cost, term of retirement, or any other changes that may impact the estimated obligation. In addition, any new obligations identified will also be assessed.

4.5 Presentation and Disclosure

4.5.1 The liability for asset retirement obligations will be disclosed.

5.0 Responsibilities

5.1 Departmental Managers are responsible for:

- Communicating with the Treasurer and/or Deputy Treasurer any retirement obligations, and any changes in asset condition or retirement timelines;
- Assisting in the preparation of cost estimates for retirement obligations;

- Providing cost-effective projections of asset retirement obligations, by consulting with engineers, technicians, and other personnel familiar with the asset and conditional assessments, collecting the relevant information required to minimize service cost, and providing the information to Finance for processing;

- Informing the Treasurer and/or Deputy Treasurer of any legal or contractual obligations at the inception of any such obligation.

5.2 Treasurer and Deputy Treasurer are responsible for:

- The development and adherence to policies for asset retirement obligations in accordance with PSAB section 3280.

- Monitoring the application of this policy;

- Managing processes within the accounting systems and ensuring Asset Management software reflects the accurate asset retirement obligations;

- Reporting asset retirement obligations in the financial statements of the Town and other statutory financial documents.

5.3 All employees are responsible for adhering to this policy.

6.0 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 – 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 or acquiring other tangible capital assets, which will be used to perform post-retirement activities to the extent that they have no alternative use.

Asset retirement costs means 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.

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

Directly attributable costs – are the costs that are incurred to carry out an asset retirement activity. They may include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees, and related direct overhead costs. Costs would include only those related to the nature and extent of the asset retirement obligation in accordance with the agreement, contract, legislation or a legally enforceable obligation establishing the liability.

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

Legal obligation – is a clear and legally enforceable duty or responsibility related to the retirement of a tangible capital asset, and can result from:

a) An agreement or contract;
b) A legislation of another government;
c) A government's own legislation; or
d) A promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor that can be legally enforced. For example, a third party may have purchased a property near a gravel pit relying on the promise of the entity to close and decommission its pit at the end of its productive life. If legally enforceable, this would create an asset retirement obligation associated with the gravel pit.

Past transaction or event – refers to the acquisition, construction, development or normal use of a tangible capital asset, and is the event that creates or gives rise to the need to recognize an asset retirement obligation.

Productive use – a tangible capital asset that 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 / **Retirement** – the permanent removal of a tangible capital asset from productive use where the asset will no longer be used by the entity in the provision 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. This term encompasses sale, abandonment or disposal in some other manner, but not temporary idling.

Unrecognized asset – refers to a tangible capital asset that has not been recognized in the entity's financial records or was expensed at the time of acquisition rather than capitalized.

7.0 Related Documents/Legislation

- Public Sector Accounting Board (PSAB) Section 3280
- Municipal Act, 2001, S.O. 2001, c. 25 (Municipal Act)
- Tangible Capital Asset Policy

8.0 Summary of Amendments

Date	Amendment(s)
February 7, 2024	Original Policy Developed

9.0 Review and Revision

This is a new policy that will be reviewed in five (5) years, or earlier if warranted.

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Appendix A

Decision Tree – Scope of applicability

The following flowchart can be used to help determine which standard an entity should look to for guidance in accounting for an obligation.