COUNTY OF WELLINGTON
POLICY & PROCEDURE MANUAL

DEPARTMENT	TREASURY	**POLICY NUMBER**	TR-23-01
SECTION	FINANCIAL SERVICES	**EFFECTIVE DATE**	**SEPTEMBER 28, 2023**
SUBJECT	**ASSET RETIREMENT OBLIGATIONS (PSAB 3280) POLICY**		
AUTHORITY	PENDING APPROVAL BY COUNTY COUNCIL ON SEPTEMBER 28, 2023		

POLICY STATEMENT:

It is the policy of the County of Wellington to report, recognize, and measure the legal obligations associated with the retirement of long-lived Tangible Capital Assets (TCA) in accordance with Public Sector Accounting Board standards (PS3280).

PURPOSE:

The objective of this policy is to stipulate the accounting treatment for asset retirement obligations (ARO) so that users of the financial reports 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.

APPLICATION:

This policy applies to all departments and boards falling within the reporting entity of the County of Wellington, that possess asset retirement obligations including:

- assets with legal title held by the County
- assets controlled by the County
- assets reported in any entities that are consolidated with the County for financial statement purposes
- assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes
- the standard applies to all assets, including leased assets, whether they are in productive use or not, as well as fully amortized and unrecognized tangible capital assets

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 from buildings
- removal of underground fuel storage tanks
- retirement of landfills
- retirement of radiologically contaminated medical equipment (x-rays or MRIs)
- leases with requirements to restore property

POLICY REQUIREMENTS

A. RECOGNITION

A liability should be recognized when, as at the financial reporting date:

1. there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
2. the past transaction or event giving rise to the liability has occurred;
3. it is expected that future economic benefits will be given up; and
4. a reasonable estimate of the amount can be made.

A liability for an asset retirement obligation cannot be recognized unless all four of the criteria above are satisfied. These obligations are predictable, likely to occur and unavoidable.

1. Legal Obligation - A legal obligation can result from:

   - Agreements or contracts
   - Legislation of another government
   - A governments own legislation
   - Promises made without formal consideration

2. Past Transaction or event – Postponing the incurrence of the retirement costs does not relieve the obligation. An obligating event can result from:

   - Acquisition, construction, development, or normal use of a TCA.
   - The obligating event occurs when the asset is acquired.
   - If an asset was not previously required to be retired must now be retired due to new legislation, an ARO would be created. This would not be reported as a prior period adjustment since new legislation is a current period event.

3. Future economic benefits are given up when it is expected that the asset will be retired at the end of its useful life.

4. The estimate of the ARO liability is the best estimate of the amount required to retire a tangible capital asset at the financial statement date (see Measurement). 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.

Recoveries **–** a recovery related to asset retirement obligations should be recognized when:

- The recovery can be appropriately measured
- A reasonable estimate of the amount can be made
- It is expected that future economic benefits will be obtained
- A recovery should not be netted against the liability, it must be reported as a separate asset when the criteria for recognition are met.

A recovery related to an asset retirement liability may result when the County is able to recover asset retirement costs from a third party.

Upon initial recognition of a liability for an ARO, the County will:

- Recognize an asset retirement cost by increasing the carrying amount of the related TCA (or component thereof) by the same amount as the liability.

Fully Amortized Tangible Capital Assets - An ARO may exist for a fully amortized tangible capital asset that is still in productive use. Even though the asset is fully amortized, its cost base exists and the liability for an asset retirement obligation related to the initial acquisition, construction or development of the asset would increase its cost base. The costs would be amortized to expense over the revised estimate of the remaining useful life.

Tangible Capital Assets No Longer in Productive Use - Where the obligation relates to an asset which is no longer in service, and not providing economic benefit, the asset retirement costs would be expensed, since there is no longer any period of future benefit associated with the costs.

Unrecognized Tangible Capital Assets - Where an item is not recorded by the County as an asset, the obligation is expensed upon recognition since there is no cost base of the underlying asset to which the asset retirement cost can be attached.

B. MEASUREMENT

The liability estimate encompasses costs directly attributable to asset retirement activities including:

- Post-retirement operations, maintenance and monitoring that is an integral part of the retirement of the tangible capital asset.
- Costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use.
- Directly attributable costs may include:
  - payroll and benefits
  - equipment and facilities
  - materials
  - legal and other professional fees
  - overhead costs

Costs considered to be outside the scope of the standard include routine replacement or maintenance, improper use of a tangible capital asset, remediation of contaminated sites related to unexpected events, waste and by-products produced by tangible capital assets, and preparing a tangible capital asset for an alternative use.

C. SUBSEQUENT MEASUREMENT

The carrying amount of an ARO liability is reconsidered at each financial reporting date. In periods after initial measurement, the County will recognize period to period changes in a liability resulting from:

- Revision to either the timing, the amount of the original estimate of undiscounted cash flows, or the discount rate, as part of the cost of the related tangible capital asset
- The revised carrying amount of the related tangible capital asset should be amortized in a rational and systematic manner (straight-line method) over the useful life of the TCA (or component thereof).
- Once the tangible capital asset (or component thereof) is no longer in productive use, all subsequent changes in the estimate of the ARO liability should be recognized as an expense in the period they are incurred.
- A liability for an ARO continues to be recognized until it is settled or otherwise extinguished.
- As AROs are longer term, a present value measurement technique will be used to estimate the liability including discounting cashflows. The discount rate to be used will consider what the interest rate would be if the County were to borrow to fund retirement costs.
- The passage of time as an accretion expense as the ARO to be paid at a future date has been discounted to present value at initial recognition and subsequently increased over time.

Measurement Uncertainty – If a settlement date for the ARO is indeterminate and timing of associated cashflows is uncertain, the obligation is not removed but the measurement of the liability will be affected and the use of a present value measurement technique may not be used.

D. IMPLEMENTATION

PS 3280 will be implemented using the modified retrospective approach with restatement of prior year comparatives which involves the following:

- Liability is measured as of the date the legal obligation was incurred
- The discount rate and assumptions used are those as of the first date of the current period (not the date the legal obligation was incurred)
- The opening comparative figures are recorded as an adjustment to the opening accumulated surplus (January 1st, 2022)
- The opening figures for January 1st, 2023 are rolled forward from restated comparative figures.

E. PRESENTATION AND DISCLOSURE

The asset retirement obligation will be recognized and presented in the financial statements. To assist financial statement users in understanding the obligations, certain information is disclosed in the notes to the financial statements including:

- A description of the liability and related tangible capital asset
- The amortization method used
- The basis for the estimate of the liability
- A reconciliation of the beginning and ending liability balances
- Any estimated recoveries

F. RESPONSIBILITIES

Departments:

- Communicate with Finance on retirement obligations, and any changes in asset condition or retirement timelines.
- Assist in the preparation of cost estimates for retirement obligations.
- Inform Finance of any legal or contractual obligations at inception of any such obligation.
- Inform Finance when an obligation has been removed through remediation

Finance:

- Development and adherence to policies for the accounting and reporting of asset retirement obligations in accordance with Public Sector Accounting Board Section 3280 including:
    - Reporting asset retirement obligations in the financial statements of the County and other statutory financial documents.
    - Monitoring the application of this Policy.
    - Management of processes within the asset accounting software of record.
    - Investigating issues and working with assets owners to resolve issue.

Appendix: Schedule A – Legal Obligations Related to Asset Retirement

Schedule A

Legal Obligations Related to Asset Retirement

Asbestos

Asbestos is the name given to several minerals that were commonly used for insulating buildings and homes against cold weather and noise. It was widely used prior to the 1990s. Since that time, the health risks of asbestos have been discovered, resulting in regulations impacting the handling, monitoring, and eventual removal of asbestos by the building owner.
The liability would be based on the cost to remove the asbestos or to handle the asbestos through building demolition.

Applicable Regulations:

- Ontario Regulation 278/05: Designated Substance – Asbestos on Construction Projects and in Buildings and Repair Operations

Fuel Storage

An underground tank is a container that is buried and contains fuel oil to be used in appliances, such as furnaces and boilers. Ontario regulations require underground storage tanks to be removed when no longer in use. In certain instances, the TSSA can issue variances allowing underground tanks to be abandoned in the ground. The liability would be based on the cost to remove the underground storage tank.

Applicable Regulations:

- TSSA Storage Tanks
- Ontario Regulation 217/01: Liquid Fuels

Landfills

Ontario Regulation 232/98 contains detailed requirements for the design, operation, closure, and post-closure care of municipal landfilling waste landfilling sites.
The costs associated with activities of all landfill sites are recognized as they incurred.

Applicable Regulations:

- Ontario Regulation 232/98: Landfilling Sites