



The Corporation of the Town of Tecumseh

Policy Manual

Policy Number:	TBD
Effective Date:	January 1, 2023
Supersedes:	N/A
Approval:	Click or tap here to enter text.
Subject:	FS-2024-20 Attachment 1 - Asset Retirement Obligations Policy

1. Policy Statement

- 1.1 The Corporation of the Town of Tecumseh (the “Town”) is committed to providing accurate and transparent financial information to residents in compliance with current legislation.

2. Purpose

- 2.1 The purpose of this policy is to outline the principles and procedures for the recognition and measurement of Asset Retirement Obligations (“ARO”) associated with Tangible Capital Assets (“TCA”) necessary for compliance with Public Sector Accounting Standards, PS 3280, in accordance with the *Municipal Act, 2001*, c. 25, s. 294(1).

3. Scope

- 3.1 This Policy applies to all departments, boards, and agencies included in the financial reporting of the Town that possess TCA with ARO including:
 - a) Assets with legal title held by the Town;
 - b) Assets controlled by the Town; and

- c) Assets reported in any entities consolidated with the Town for financial statement purposes.

4. Financial Reporting Guiding Principles

4.1 Recognition

4.1.1 A liability must be recognized when all the criteria below are present as at the financial reporting date:

- There is a legal obligation to incur retirement costs related to a TCA;
- The past transaction or event resulting in this obligation has already occurred;
- It is expected that the Town will have to give up future economic benefits; and
- A reasonable estimate of the amount can be made.

4.1.2 A legal obligation establishes a clear duty or responsibility that the Town must fulfill. An obligation can result from:

- Agreements or contracts;
- Legislation of another government;
- The Town's own legislation; and
- A promise made to another party that could be legally enforced.

4.1.3 An ARO results from the acquisition, construction, development, or normal use of an asset. These obligations are predictable, likely to occur, and unavoidable. An ARO is separate and distinct from contaminated site liabilities. The liability for contaminated sites normally results from unexpected contamination exceeding environmental standards. An ARO is not necessarily associated with contamination.

4.1.4 Obligations associated with the retirement of TCA controlled by the Town will be recognized as a liability in the Town's financial statements in accordance with PS 3280 effective January 1, 2023.

4.2 Exclusions

4.2.1 The following activities are not considered an ARO:

- Acquisition: Original costs to acquire, construct or develop a TCA;
- Replacement: Costs relating to routine replacement of a TCA. For example, infrastructure such as roads and bridges are typically subject to maintenance rather than permanent removal from service due to a legal requirement;
- Maintenance: Costs relating to routine maintenance of a TCA. These costs shall be expensed as incurred;
- Remediation of contamination: Remediation of contamination that is not a predictable result of normal use, such as contamination from accidents or spills. Contamination that is beyond the threshold set by environmental regulations is accounted for separately and not within the scope of this policy;
- Catastrophic events: Costs resulting from catastrophic events such as flooding or fires;
- Repurposing: Costs relating to the preparation of a TCA for an alternate use;
- Clean-up and by-products: Costs related to clean-up of waste or by-products produced by normal use of a TCA. These costs represent routine operations and are not associated with the retirement of an asset;
- Improper use: Costs caused by improper use of an asset;
- Sale or disposal: Costs to prepare a TCA for sale or disposal that arise from the plan to sell or dispose of the TCA rather than a legal or contractual requirement.

4.3 Measurement

- ### 4.3.1 The estimate of an ARO must include all costs directly attributable to retirement activities at the financial reporting date.

4.3.2 Sources of cost information to estimate an ARO may include:

- Third party proposals and quotes;
- External quotes and market data on costs of similar activities; and
- Historical costing information on similar activities completed by the Town.

4.3.3 The ARO must be amortized over the useful life of the corresponding TCA.

4.4 Remeasurement

4.4.1 The estimate of the ARO should be based on the best available information on the financial reporting date.

4.4.2 Estimates must be reviewed each fiscal year and appropriately reflected in the financial statements.

4.4.3 Examples of information that will impact the estimate include:

- Revisions to the useful life of the TCA;
- New information on the cost of the ARO activities;
- New, more cost-effective technologies; and
- Changes to legal requirements.

4.4.4 Any change in estimate should be applied prospectively as a revision to the ARO liability with a corresponding adjustment to the TCA if it is in productive use.

4.4.5 When a TCA is no longer in productive use, all subsequent changes in the estimate of the related ARO liability should be recognized as an expense in the corresponding fiscal year.

4.4.6 The liability for an ARO continues to be recognized until it is settled or otherwise extinguished.

4.4.7 On retirement of a TCA:

- Asset retirement costs should be deducted from the ARO liability as the related cash flows are incurred; and
- If the actual cash flows are higher than the ARO liability recognized by the Town, the excess cash flows should be expensed in the period incurred.

4.4.8 Any changes to the ARO estimates must be applied prospectively in the period of the change without any revision to amortization previously recorded. The revised ARO is amortized over the remaining useful life of the related TCA.

4.5 Recoveries

4.5.1 If a portion of the asset retirement costs is recoverable by the Town from another party, the recovery must be recognized as revenue in the fiscal year received.

4.5.2 A recovery related to an ARO should be recognized if the recovery can be appropriately and reasonably estimated.

4.5.3 A recovery shall not be netted against the liability.

5. Administration and Accountability

5.1 Directors and/or Managers are responsible for:

- Communicating with the Director Financial Services & CFO and/or Deputy Treasurer & Manager Financial Services 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, or other professionals familiar with the assets and condition assessments, collecting the relevant information required to minimize service costs, and providing relevant information to Finance; and
- Informing the Director Financial Services & CFO and/or Deputy Treasurer & Manager Financial Services of any legal or contractual obligations at the inception of any such obligation.

5.2 The Director Financial Services & CFO and Deputy Treasurer & Manager Financial Services are responsible for:

- The development and adherence to policies for asset retirement obligations in accordance with PS 3280;
- Monitoring the application of this policy;
- Managing processes within the accounting systems and ensuring the TCA database accurately reflects the ARO; and
- Reporting asset retirement obligations in the Town's financial statements and other statutory financial reports.

6. Review and Revision

6.1 This policy will be reviewed every five years, or earlier as warranted.