COUNTY of ANNAPOLIS
NATURALLY ROOTED

Policy 103
ASSET RETIREMENT OBLIGATIONS (ARO) POLICY

1. PURPOSE

The purpose of this Policy is to comply with Section 3280 of the Public Sector Accounting Board (PSAB) Handbook (PS3280) that requires a municipality to define the accounting processes for asset retirement obligations (ARO) of its physical assets so that readers of the Municipality's financial statements can interpret information about these assets, and their end-of-life obligations. The principal issues in accounting for ARO's are the recognition and measurement of these obligations.

2. DEFINITIONS

Words is this policy shall have their normal dictionary definition of the Canadian language, except the following:

Accretion expense is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.

Asset retirement activities include all activities related to an asset retirement obligation. These may include, but are not limited to:
- decommissioning or dismantling a tangible capital asset that was acquired, constructed, developed, or leased;
- remediation of contamination of a tangible capital asset created by its normal use;
- post-retirement activities such as monitoring; and
- constructing other tangible capital assets to perform post-retirement activities.

Asset retirement cost is 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.

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.

3. IMPLEMENTATION

a. The Municipality shall account for and report on asset retirement obligations for all of its departments, boards and agencies falling within the legal reporting requirements of the Municipality that possess asset retirement obligations including assets owned or under the legal ownership of the Municipality and assets controlled by the Municipality.

b. The policy applies to all applicable assets, including those that have not been capitalized or recorded as a tangible capital asset for financial statement purposes.

c. 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 a liability in the Municipality's books in accordance with PS3280 which will be adopted starting April 1, 2023.

d. Asset retirement obligations may result from the acquisition, construction, development or normal use of an asset where these obligations are predictable, likely to occur, and unavoidable, and shall not include retirement obligations from contaminated site liabilities as asset retirement obligations are not necessarily associated with contamination.

4. RECOGNITION

a. A liability shall 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 will not be recognized unless <u>all</u> the criteria above are satisfied.

c. 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.

d. Discount rates will be based on the 15-year borrowing rate and inflation rates will be based on the previous 20-year average rate for building construction.

e. The estimate of a liability shall include costs directly attributable to asset retirement activities including post-retirement operation and maintenance and monitoring that are an integral part of the retirement of the tangible capital asset.

f. Directly attributable costs shall 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.

g. 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. 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 the Municipality as an asset, the obligation shall be expensed upon recognition.

h. The capitalization thresholds applicable to different asset categories will be applied to the asset retirement obligations to be recognized within each of those asset categories.

5. 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.

6. PRESENTATION AND DISCLOSURE

The liability for asset retirement obligations will be disclosed in the notes of the consolidated financial statements of the Municipality each year.

Municipal Clerk's Annotation for Official Policy Book
I certify that this policy was adopted by Municipal Council as indicated below:
Seven (7) Day Notice.. ***October 10, 2023***
Council Approval .... ***October 17, 2023***

Carolyn Young — ***October 18, 2023***
Municipal Clerk — Date
*At **Annapolis Royal** Nova Scotia*

SCHEDULE “A”

DECISION TREE - SCOPE OF APPLICABILITY