ATTACHMENT 1

COUNCIL POLICY

ASSET RETIREMENT OBLIGATIONS POLICY

1. PURPOSE

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

2. SCOPE

This Policy applies to all departments, branches, boards and agencies falling within the reporting entity of the District of North Cowichan that possess asset retirement obligations including:

- Assets with legal title held by the District
- Assets controlled by the District
- Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes

3. DEFINITIONS

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 meet the asset retirement obligations.

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.

4. POLICY

4.1. 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 or court judgments, or lease arrangements.

4.2. The legal obligation, including obligations created by promises made without formal consideration, associated with retirement of tangible capital assets controlled by the District, will be recognized as a liability in the books of the District of North Cowichan, in accordance with PS3280 which the District will be adopting starting January 1, 2023.

4.3. 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. POLICY REQUIREMENTS

5.1 Recognition

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; and
- a reasonable estimate of the amount can be made.

A liability for an asset retirement obligation cannot be recognized unless <u>all</u> of the criteria above are satisfied.

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.

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

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.

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

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.

5.2 Subsequent Measurement

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.

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.

5.3 Presentation and Disclosure

The liability for asset retirement obligations will be disclosed.

5.4 Roles and Responsibilities of Departments

1. Departments are required to:
    a. Communicate with Finance on retirement obligations, and any changes in asset condition or retirement timelines;
    b. Assist in the preparation of cost estimates for retirement obligations;
    c. Inform Finance of any legal or contractual obligations at inception of any such obligation.
2. Corporate Management is to implement the asset retirement obligation policy in accordance with the legal obligation of the Federal and Provincial legislation.
3. Finance is responsible for the development of and adherence to policies for the accounting and reporting of asset retirement obligations in accordance with Public Sector Accounting Board section 3280. This includes responsibility for:
    a. Reporting asset retirement obligations in the financial statements of the District and other statutory financial documents;
    b. Monitoring the application of this Policy;
    c. Managing processes within the Citywide Tangible Capital Asset accounting program;
    d. Investigating issues and working with asset owners to resolve issues.
4. Planning and Building, Engineering Services, Environmental Services, Fire and Bylaw Services, Operations and Parks and Recreation with adherence to the Official Community Plan, are responsible for providing cost-effective projections of asset retirement obligations, by consulting with engineers, technicians, and other personnel familiar with the assets and conditional assessments, collecting the relevant information required to minimize service cost, and providing the information to the Finance Department for processing.

5.3 Decision Tree

Scope of applicability is attached to this Policy as Appendix A.

RELATED POLICIES & PROCEDURES

- Capital Asset Policy
- Asset Management Policy

APPROVAL HISTORY

WRITTEN BY: Jamie Goodman	APPROVED BY:	DATE: Click here to enter a date.

Appendix A

Decision tree – Scope of applicability