

**CORPORATION OF THE TOWNSHIP  
OF SOUTH ALGONQUIN  
BY-LAW NO. 2024-786**

**Being a By-Law to establish an Asset Retirement Obligation (ARO) Policy**

**WHEREAS municipalities are required to prepare an Asset Retirement Obligation Policy that establishes guidelines to ensure compliance with the Public Sector Accounting Board (PSAB) 3280, Asset Retirement Obligations standards.**

**NOW THEREFORE** the Municipal Council for the Corporation of the Township of South Algonquin enacts as follows:

1. **THAT** Council hereby approves the policy “Asset Retirement Obligation (ARO)” as Schedule “A” to this By-Law.
2. **THAT** all previous By-Laws related to the matters herein described are hereby repealed.
3. **THAT** this By-law will come into force and take effect on the date of the final passing thereof.

**READ A FIRST AND SECOND TIME this 6th day of March 2024.**

\_\_\_\_\_  
Ethel LaValley, Mayor

\_\_\_\_\_  
Bryan Martin, CAO/ Clerk-Treasurer

**READ A THIRD TIME AND PASSED AND ENACTED this 6th day of March 2024.**

\_\_\_\_\_  
Ethel LaValley, Mayor

\_\_\_\_\_  
Bryan Martin, CAO/ Clerk-Treasurer

<b>POLICY MANUAL</b>	<b>POLICY NO. FIN-004-01</b>
<b>For Township of South Algonquin</b>	<b>EFFECTIVE DATE: March 6, 2024</b> <b>Revised:</b>
<b>SUBJECT: Asset Retirement Obligation (ARO) Policy</b>	<b>DEPARTMENT: Finance</b>

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**Introduction**

1.1 Recent changes to reporting standards by the Public Sector Accounting Board (PSAB) require municipalities to identify, measure, and report certain costs associated with asset retirement.

Municipalities must prepare an Asset Retirement Obligation Policy that establishes guidelines to ensure compliance with the new standard PSAB 3280 – Asset Retirement Obligations.

**2. Policy Statement**

2.1 A policy governing the recording of qualifying Asset Retirement Obligations (AROs) under Public Sector Accounting Board (PSAB) Section 3280.

**3. Purpose**

3.1 To document processes by which asset retirement

obligations will be recognized, measured, updated, and integrated into existing processes, and related roles and responsibilities.

#### 4. Scope

4.1 This Policy applies to all departments, boards, and agencies included in the financial reporting of The Corporation of the Township of South Algonquin (South Algonquin), that possess assets with asset retirement obligations including:

- a) Assets with legal title held by South Algonquin;
- b) Assets controlled by South Algonquin;
- c) Assets reported in any entities that are consolidated with South Algonquin for financial statement purposes; and
- d) Assets that have not been capitalized or recorded as tangible capital assets for financial statement purposes.

4.2 The scope of applicability is detailed in a decision tree which is attached to this Policy as Appendix A.

#### 5. Legislative Authority

5.1 *Municipal Act, 2001, S.O. 2001, c. 25 (Municipal Act)*

#### 6. Definitions

6.1 **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** include 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 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.

**Productive use** means the tangible capital asset 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.

**Promissory estoppel** is defined in *Black's Law Dictionary* as "the principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to his or her detriment."

**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.

## 7. Administration and Accountability

7.1 Departments Heads are required to:

- a) Communicate to finance department any retirement obligations, and any changes in asset condition or retirement timelines;
- b) Assist in the preparation of cost estimates for retirement obligations and are responsible for providing cost-effective projections of asset retirement obligations, by consulting with engineers, technicians, and others 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; and
- c) Inform the finance department of any legal or contractual obligations at the inception of any such obligation.

7.2 The Finance Department 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 PS 3280. This includes responsibility for:

- a) Monitoring the application of this Policy;
- b) Managing processes within the accounting systems;
- c) Investigating issues and working with asset stewards to resolve issues;
- d) Ensuring asset management software reflects accurate asset retirement obligation costs; and
- e) Reporting asset retirement obligations in the financial statements of South Algonquin and other statutory financial documents.

- 7.3 Building, Development, and Planning Department with adherence to the South Algonquin Official Plan.

## **8. Reporting Requirements**

- 8.1 The Finance Department shall, for each fiscal year, prepare annual financial statements for South Algonquin in accordance with Generally Accepted Accounting Principles (GAAP) for municipalities as recommended, from time to time, by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. This includes the reporting of ARO in the annual financial statements in accordance with PSAB PS 3280.

There are no additional reporting requirements at the time of the development of this policy.

## **9. Guiding Principles**

- 9.1 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.
- 9.2 The legal obligations, including obligations created by promises made without formal consideration, associated with the retirement of tangible capital assets controlled by South Algonquin, will be recognized as a liability in the books of South Algonquin, in accordance with PSAB PS 3280 effective January 1, 2023.
- 9.3 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.

## 10. Recognition

- 10.1 A liability should be recognized when, as at the financial reporting date:
- a) there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
  - b) the past transaction or event giving rise to the liability has occurred;
  - c) it is expected that future economic benefits will be given up; and
  - d) a reasonable estimate of the amount can be made.

Liabilities for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.

- 10.2 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.
- 10.3 The estimate of liabilities should include costs directly attributable to asset retirement activities. Costs would include post-retirement operation, maintenance, and monitoring which are an integral part of the retirement of the tangible capital asset.
- 10.4 Directly attributable costs would 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.
- 10.5 Upon initial recognition of a liability for an asset retirement obligation, South Algonquin 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 South Algonquin as an asset, the obligation is expensed upon recognition.
- 10.6 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 asset categories.

- 10.7 Methods are Prospective application, retroactive with restatement or modified retrospective application with restatement.

South Algonquin will be using the Modified retrospective application.

### **11. Subsequent Measurement**

- 11.1 The asset retirement costs will be capitalized and amortized allocating the future costs of the 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.
- 11.2 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.

### **12. Presentation and Disclosure**

- 12.1 The liability for asset retirement obligations will be disclosed.

### **13. Policy Review**

- 13.1 This policy will be reviewed every five years, or upon the direction of South Algonquin Council, or if staff identify an issue requiring a revision to occur.

**Exhibit A: Scope of Applicability**

