

THE CORPORATION OF THE
CITY OF WHITE ROCK
15322 BUENA VISTA AVENUE, WHITE ROCK, B.C. V4B 1Y6



POLICY TITLE: ASSET RETIREMENT OBLIGATIONS

POLICY NUMBER: FINANCE - 326

<i>Date of Council Adoption:</i>	<i>Date of Last Amendment:</i>
<i>Council Resolution Number:</i>	
<i>Originating Department: Finance</i>	<i>Date last reviewed by Council:</i>

Policy:

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.

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.

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.

Policy Application:

This Policy applies to all departments and agencies falling within the reporting entity of the City of White Rock (the City) that possess asset retirement obligations including:

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

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 normally resulting from unexpected contamination exceeding the environmental standards. Asset retirement obligations are not necessarily associated with contamination.

Appendix A provides a decision flow chart with respect to the application of PS3280.

Policy Requirements:

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 each 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 City 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 City as an asset, the obligation is

expensed upon recognition.

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

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.

3. ROLES AND RESPONSIBILITIES

3.1. **Departments** are required to:

- 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, including but not limited to consulting with engineers, technicians, and other personnel familiar with the assets and conditional assessments, collecting the relevant information, and providing the information to the Finance Department for processing;
- Inform Finance of any legal or contractual obligations at inception of any such obligation.

3.2. **Corporate Management** is to implement the asset retirement obligation policy in accordance with the legal obligation of the Federal and Provincial legislation.

3.3. **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:

- Reporting asset retirement obligations in the financial statements of the City and other statutory financial documents;
- Monitoring the application of this Policy;
- Managing processes within the Tangible Capital Asset accounting system;
- Investigating issues and working with asset owners to resolve issues.

Appendix A

Decision tree - Scope of applicability

