APPENDIX A

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The Corporation of the City of Stratford
Policy Manual

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Policy Section:	Financial and Fiscal
Department:	Corporate Services
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Asset Retirement Obligation Policy

Policy Statement:

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

Purpose:

To document processes by which asset retirement obligations will be recognized, measured, updated, and integrated into existing processes, and related roles and responsibilities so that users of the financial reporting can discern information about these assets, and their end of life obligations. The principal issues in accounting for AROs is the recognition and measurement of these obligations.

Scope:

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

- Assets with legal title held by the City of Stratford
- Assets controlled by the City of Stratford
- Assets reported in any entities that are consolidated with the City for financial statement purposes

- Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes

The entities that are currently consolidated with the City of Stratford currently include:

Festival Hydro Inc., Festival Hydro Services Inc., Spruce Lodge and Huron Perth Public Health, Perth Stratford Housing Corporation and SEED Co./investStratford, and assets owned by the City for the Golf Course.

Scope of applicability (decision tree) is attached to this Policy as Appendix A.

Legislative Authority:

Municipal Act, 2001, Subsections 294 (1), A municipality shall, for each fiscal year, prepare annual financial statements for the municipality in accordance with generally accepted accounting principles for local governments as recommended, from time to time, by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. 2006, c. 32, Sched. A, s. 123; 2017, c. 10, Sched. 1, s. 38.

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 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.

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.

Administration and Accountability:

All Departments (Directors) are required to:

- Communicate with the Treasurer on retirement obligations, and any changes in asset condition or retirement timelines;
- Assist in the preparation of cost estimates for retirement obligations; and
- Inform Finance of any legal or contractual obligations at inception of any such obligation.

Treasurer to implement the asset retirement obligation policy in accordance with the legal obligation of the Federal and Provincial legislation.

Treasurer 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 accounting systems, and
- Investigating issues and working with asset owners to resolve issues.

All Departments (Directors), with adherence to the Official 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 Corporate Services/Finance Department for processing.

Reporting Requirements:

The Treasurer shall, for each fiscal year, prepare annual financial statements for Stratford 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.

Guiding Principles:

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 legal obligation, including obligations created by promises made without formal consideration, associated with retirement of tangible capital assets controlled by the City of Stratford, will be recognized as liability in the books of the City, in accordance with PS3280 which the City will adopt in its financial statement reporting effective January 1, 2023.

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.

Recognition:

A liability should 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 all of the criteria above are satisfied.

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.

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

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.

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 applicable to the different asset categories will also be applied to the asset retirement obligations to be recognized within each of those asset categories.

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.

Presentation and Disclosure:

The liability for asset retirement obligations will be disclosed.

Policy Review:

This policy will be reviewed every five years, or upon direction of Council, or if staff identify an issue requiring addressing.

Appendix A

Decision Tree – Scope of applicability