



Administrative Policy #2023-05

Asset Retirement Obligations Policy

Purpose

The purpose of this Policy is to identify the accounting treatment for Asset Retirement Obligations (ARO) to comply with the public Sector Accounting Board (PSAB) Section 3280, as well as inform Council and the users of the end-of-life asset obligations.

Scope

All full time and part time Town employees, who manage Municipal assets shall fall within the scope of this policy and must adhere to the policy statements contained within this document.

Definitions

- a. "ACCRETION EXPENSES"- The increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.
- b. "ASSET RETIREMENT ACITIVITES"- 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.
- c. "ASSET RETIREMENT COST"- The estimated amount required to retire a tangible capital asset.
- d. "ASSET RETIREMENT OBLIGATION"- Legal obligation associated with the retirement of a tangible capital asset.
- e. "RETIREMENT OF 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.
- f. "TANGIBLE CAPITAL ASSETS"- Tangible capital assets are non-financial assets having physical substance that:

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- are held for use in the production or supply of goods and services, for rental to other, for administrative purposes or for the development, construction, maintenance, or repair of other Municipal tangible capital assets.
- have useful economic lives extending beyond an accounting period;
- are able to be used on a continuing basis in the Town's operations; and
- are not for sale in the ordinary course of operations.

Policy Statement

The Town shall account for and report on Asset Retirement Obligations (ARO) in compliance with the Public Sector Accounting Board (PSAB) Handbook, section 3280.

1. Recognition

1.1 A liability should be recognized when, as at the financial reporting date:

- 1.1.1 There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- 1.1.2 The past transaction or event giving rise to the liability has occurred;
- 1.1.3 It is expected that future economic benefits will be given up; and
- 1.1.4 A reasonable estimate of the amount can be made.

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

1.3 The estimate of the liability would be based on requirements in existing agreements, contracts, legislations or legally enforceable obligations, and technology expected to be used in asset retirement activities.

1.4 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.

1.5 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.

1.6 Upon initial recognition of a liability for an asset retirement obligation, the Town 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 no longer providing economic benefit, or to an item no recorded by the Town as an asset, the obligation is expensed upon recognition.

1.7 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.

1.8 The increased carrying amount of the asset will be amortized in a rational and systematic manner over the useful life of the tangible capital asset as amortization expense.

2. Subsequent Measurement

2.1 In periods subsequent to initial measurement, the town will recognize period-to-period changes in the ARO liability resulting from revisions to either the timing, the amount of the original estimate of undiscounted cash flows or the discount rate, as part of the cost of the related tangible capital asset. Period-to-period changes in the ARO liability related to the passage of time, are to be recognized as accretion expense.

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- 2.2 On an annual basis, the existing asset retirement obligations will be assessed for any changes in expected cost, term to retirement, or any changes that may impact the estimated obligation. In addition, any new obligations identified will also be assessed.
3. Presentation and Disclosure
- 3.1 A public sector entity should disclose the following information:
- (a) a general description of the liability for an asset retirement obligation and the associated tangible capital asset (or a component thereof);
 - (b) the amortization method used for the asset retirement costs;
 - (c) the basis for the estimate of the liability, including the estimated total undiscounted expenditures, the time period over which the undiscounted expenditures are to be incurred, the estimated timing of settlement of these expenditures and the discount rate used;
 - (d) a reconciliation of the beginning and ending aggregate carrying amount of the liability showing separately the changes attributable to:
 - (i) the liability incurred in the current period;
 - (ii) the liability settled in the current period;
 - (iii) the change resulting from the passage of time (i.e., accretion expense); and
 - (iv) revisions in estimated cash flows;
 - (e) how any requirements for financial assurance and funding associated with asset retirement obligations, if legally required, are being met;
 - (f) when a reasonable estimate of the amount of an asset retirement obligation cannot be made, that fact and the reasons therefor; and
 - (g) the estimated recoveries.

OTHER

This policy will be reviewed from time to time and can be changed because of experience or new knowledge but shall be reviewed no later than five (5) year from the date of adoption.

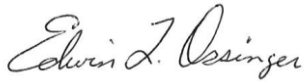
Clerk's Annotation for Official Policy Book

Date of Notice: August 21, 2023

Date of adoption: September 5, 2023

Policy effective date: September 5, 2023

I certify that this **Administrative Policy # 2023-05 Asset Retirement Obligations Policy** was adopted by Council as indicated above.



September 5, 2023

Clerk

Date