



POLICY 2023-07

TOWN OF CROSSFIELD ASSET RETIREMENT OBLIGATION POLICY

Purpose

The objective of this Policy is to establish a governance framework for the administration, financial accounting and reporting of assets, liabilities and expenses associated with Asset Retirement Obligations in accordance with the Public Sector Accounting Board (PSAB) Handbook, section 3280: Asset Retirement Obligations.

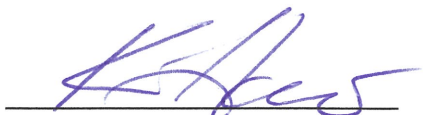
Policy

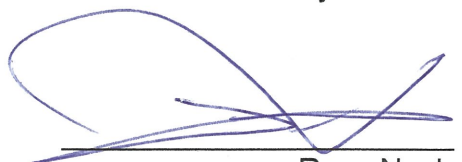
The Town of Crossfield will review and report an ARO as at the financial reporting date for each calendar year in compliance with the Public Sector Accounting Board (PSAB) Handbook, Section 3280.

This administration policy is established in accordance with the Municipal Government Act (Act) Section 276.

As attached and titled Policy 2023-07 Asset Retirement Obligation Policy.

Adopted this 3 day of October 2023



Mayor Harris

Russ Nash
Interim Chief Administrative Officer

1.0 Definitions

- 1.1 **Accretion Expense** means the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time;
- 1.2 **Asset Retirement Obligation (ARO)** means a legal obligation associated with the retirement of a Tangible Capital Asset;
- 1.3 **ARO Asset** refers to an asset retirement obligation associated with the economic resources controlled by the Town as a result of past transactions or events and from which future economic benefits are expected to be obtained;
- 1.4 **Asset Retirement Cost** means the estimated amount required to retire a Tangible Capital Asset
- 1.5 **Legal Obligation** means a clear duty or responsibility to another party that justifies recognition of a liability. A legal obligation can result from:
- i. Agreements or contracts;
 - ii. Legislation of another government;
 - iii. A government's own legislation;
- 1.6 **Retirement** means 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;
- 1.7 **Tangible Capital Asset (TCA)** means non-financial assets having physical substance that:
- i. Are 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;
 - ii. Have useful economic lives extending beyond one year;
 - iii. Are to be used on a continuing basis; and
 - iv. Are not for sale in the ordinary course of operations.
- 1.8 **Town** means Town of Crossfield, a municipal corporation in the Province of Alberta.

2.0 Responsibilities

- 2.1 **CAO** is responsible for the oversight, governance of, and adherence to this policy. The CAO may delegate, in whole or in part, this responsibility to any individual or group.
- 2.2 **Finance** is responsible for the development of an adherence to policies for the accounting and reporting of AROs in accordance with PS 3280. This includes responsibility for:
 - i. Reporting asset retirement obligations in the financial statements and other statutory documents,
 - ii. Monitoring the application of this Policy,
 - iii. Managing processes within the TCA accounting module, and
 - iv. Investigating issues and working with asset owners to resolve issues.
- 2.3 **Departments** are required to:
 - i. Communicate with Finance on retirement obligations, and any changes in asset condition or retirement timelines,
 - ii. Assist in the preparation of cost estimates for retirement obligations by consulting with engineers, technicians, and other personnel familiar with the assets and conditional assessments, and
 - iii. Inform Finance of any legal or contractual obligations at inception of any such obligation.

3.0 Procedure

Application

- 3.1 This Policy applies to all departments, boards and agencies falling within the reporting entity of the Town, that possess Asset Retirement Obligations including:
 - i. Assets with legal title held by the Town;
 - ii. Assets controlled by the Town; and,
 - iii. Assets that have not been capitalized or recorded as a Tangible Capital Assets for financial statement purposes,

- 3.2 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 sewage lagoons. Other obligations to retire Tangible Capital Assets may arise from contracts, court judgements, or lease arrangements.
- 3.3 The legal obligation, including obligations created by promises made without formal consideration, associated with Retirement of Tangible Capital Asset(s) controlled by the Town, will be recognized as liabilities in the books of the Town, in accordance with PSAB s.3280 which the Town will be adopting, starting December 1, 2023.
- 3.3 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.

Recognition

- 3.4 A liability should be recognized when, as at the financial reporting date:
 - i. There is a legal obligation to incur retirement costs in relation to a Tangible Capital Asset;
 - ii. The past transaction or event giving rise to the liability has occurred;
 - iii. It is expected that future economic benefits will be given up; and,
 - iv. A reasonable estimate of the amount can be made.
- 3.5 A liability for an Asset Retirement Obligation cannot be recognized unless all the criteria above are met.
- 3.6 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.
- 3.7 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.
- 3.8 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.

- 3.9 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 component thereof) by the same amount of 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 Town as an asset, the obligation is expensed upon recognition.
- 3.10 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

- 3.11 The Asset Retirement Costs will be allocated to Accretion Expense in a rational and systematic manner (straight-line method) over the useful life of the Tangible Capital Asset or a component of the asset.
- 3.12 On an annual basis, the existing Asset Retirement Obligation will be assessed for any changes in expected cost, term or retirement, or any other changes that may impact the estimated obligation. In addition, any new obligations identified will also be assessed.

Presentation and Disclosure

- 3.13 The liability for Asset Retirement Obligations will be disclosed in the Town's financial statements.

4.0 Appendices

- 4.1 Decision Tree – scope of applicability.

5.0 Further Information

- 5.1 For further information regarding this Policy, please contact the Director of Corporate Services or the Financial Officer.

Appendix 1

Decision Tree – scope of applicability

