



Asset Retirement Obligation

Number:	CP-14	Approved:	January 23, 2024
Department:	Finance		
Resolution No:	TP/24/237	Replaces:	FIN-001-035
Last Review Date:	January 23, 2024	Next Review Date:	January 2026

Policy Statement

The Town of Ponoka shall account for and report on asset retirement obligations in compliance with the Public Sector Accounting Board Standards, Section 3280 which came into effect for municipalities for the fiscal year ending 2023.

Purpose

The objective of this policy is to define the accounting processes for asset retirement obligations so that readers of the financial statements can discern information about these assets, and their end-of-life obligations and the future costs associated with decommissioning aging infrastructure. The principal issues in accounting for asset retirement obligations are the recognition and measurement of these obligations.

Definitions

Accretion expense – the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.

Administration – Chief Administrative Officer and General Managers.

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 assets to perform post-retirement activities.

Asset retirement cost – the estimated amount required to meet the asset retirement obligations.

Asset retirement obligation (“ARO”) – a legal obligation associated with the retirement of a tangible capital asset.

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Council – the elected officials of the Town of Ponoka.

Retirement of a tangible capital asset – the permanent sale, abandonment or disposal of a tangible capital asset from service.

Tangible capital assets – non-financial assets having physical substance.

Threshold amount – the minimum estimated cost of an individual asset retirement obligation to be recognized as a liability.

Town – the Town of Ponoka.

Requirements

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; and
 - 1.1.2 The past transaction or event giving rise to the liability has occurred; and
 - 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; and
 - 1.1.5 The estimated remediation cost of the individual ARO exceeds a present value threshold amount of \$50,000.
- 1.2 A liability for an ARO cannot be recognized unless all of the criteria above are satisfied.
- 1.3 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.
- 1.4 The estimate of the 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.
- 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.

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- 1.6 Upon initial recognition of a liability for an ARO, 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 not providing economic benefit, or to an item not recorded by the Town as an asset, the obligation is expensed upon recognition.

2. Subsequent Measurement

- 2.1 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.
- 2.2 On an annual basis, the existing AROs 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. Presentation and Disclosure

- 3.1 The liability for AROs will be disclosed in the annual financial statements.

4. Roles and Responsibilities

- 4.1 Council
 - 4.1.1 Approve the ARO policy via resolution.
- 4.2 All departments
 - 4.2.1 Communicate with Finance Department on retirement obligations, and any changes in asset condition or retirement timelines;
 - 4.2.2 Assist in the preparation of cost estimates for retirement obligations; and,
 - 4.2.3 Inform Finance Department of any legal or contractual obligations at inception of any such obligation.
- 4.3 Administration
 - 4.3.1 Shall implement and support the ARO policy in accordance with the legal obligation of Federal and Provincial legislation.
- 4.4 Planning and Infrastructure
 - 4.4.1 Assist in providing reasonable cost estimates of AROs 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

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the information to the Finance Department for processing.

4.5 Finance Department

4.5.1 Responsible for the development of and adherence to policies for the accounting and reporting of AROs in accordance with Public Sector Accounting Board section 3280. This includes responsibility for:

4.5.1.1 Recording of accretion expenses in the financial system;

4.5.1.2 Monitoring the application of this policy;

4.5.1.3 Submitting financial data for review by the Town's financial auditor for inclusion in the financial statements of the Town; and,

4.5.1.4 Investigating issues and working with responsible Departments to resolve the issue.

5. Decision Tree

5.1 A decision tree to determine applicability of this Policy is attached as Appendix A.

6. References

6.1 Public Sector Accounting Board Handbook

6.1.1 PS 3280 AROs

6.1.2 PS 3260 Liability for Contaminated Sites

6.1.3 PS 3200 Liabilities

7. Related Policies

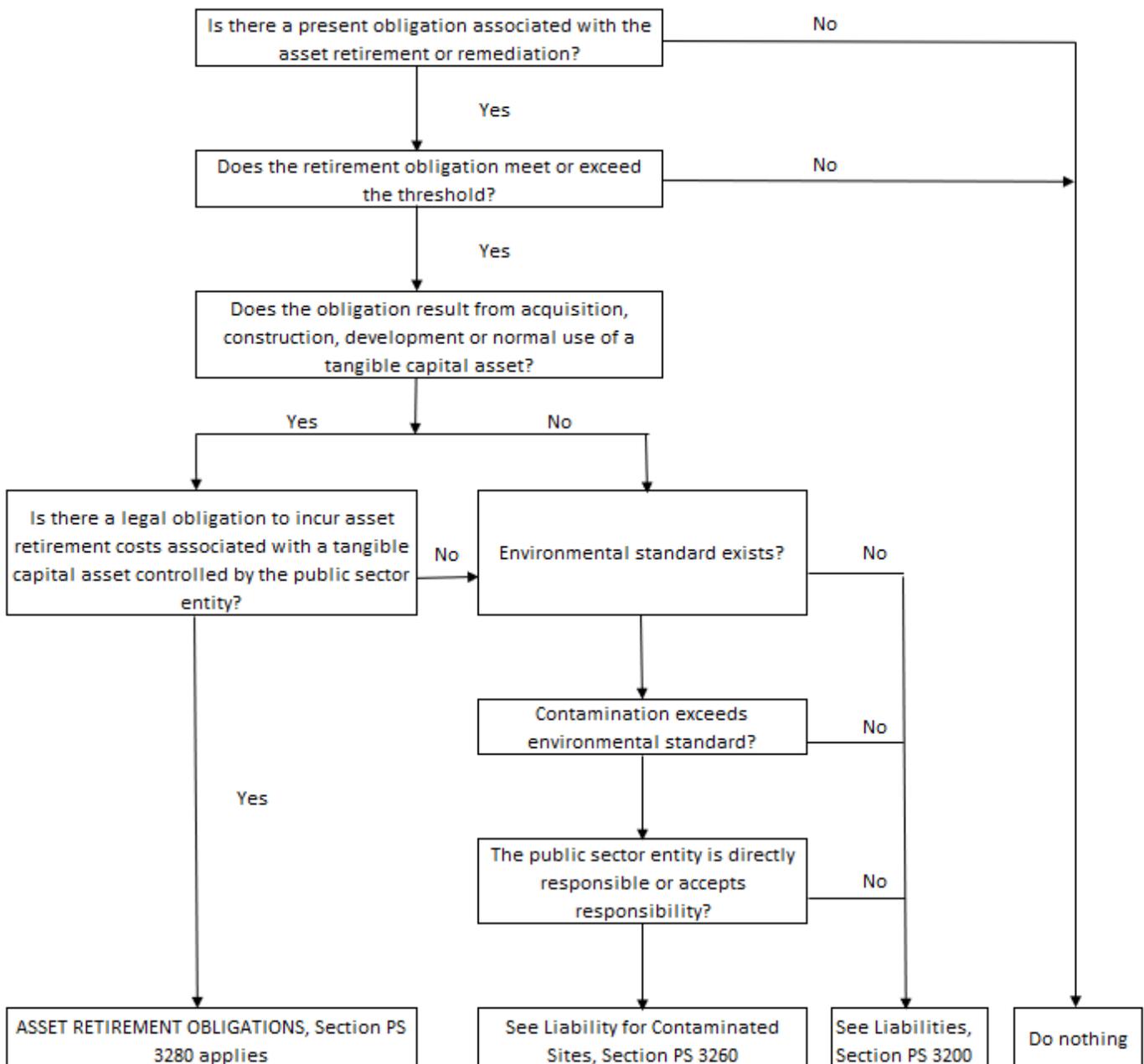
7.1 Tangible Capital Asset Policy FIN-001-031

7.2 Asset Management Policy FIN-001-035

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Appendix A

Decision Tree – Scope of Applicability



COUNCIL POLICY



Asset Retirement Obligation

APPROVAL

Original Signed

Original Signed

Signature of Mayor

Signature of CAO

Date

Date

POLICY RECORD

Approval and Amendment History

Date of Council Approval	Council Motion Number	Description	Date of Next Review
Jan. 23, 2024	TP/24/26	Asset Retirement Obligation	January 2026
July 9, 2024	TP/24/237	Update policy numbering	January 2026