POLICY – FN 25	ASSET RETIREMENT OBLIGATIONS

APPROVAL DATE:	**2025-02-24**	**CROSS-REFERENCE:**	
RESPONSIBILITY:	Administration		
APPROVER:	Council	**APPENDICES:**	
REVISION DATE (s):		**REVIEW DATE:**	2027

POLICY STATEMENT

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

a) assets with legal title held by the Village
b) assets controlled by the Village
c) 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 is 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

BACKGROUND

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.

OBJECTIVE

To stipulate the accounting treatment for asset retirement obligations so that users of the financial report can discern information about these assets, and their end-of-life 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 (ARO) 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.

Village means the Village of Marwayne in the Province of Alberta.

GUIDING PRINCIPLES

- **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 threshold to determine whether an asset retirement obligation is to be recorded will be based on the significance of the liability to the Village. This will require professional judgment.
  - Asset retirement obligations should be evaluated on an individual basis for large or unique tangible capital assets where information is available. For small, homogenous tangible capital assets, the asset retirement obligation may be aggregated for the group and assessed for significance.
  - Upon initial recognition of a liability for an asset retirement obligation, the Village 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.
  - For unrecognized tangible capital assets, the asset retirement obligation will be expensed. There is no cost basis to which the asset retirement costs can be attached, and asset retirement costs are not a separate asset by themselves, since there is no separate economic benefit resulting from them.
  - 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 Village as an asset, the obligation is expensed upon recognition.

- **INITIAL MEASUREMENT**
  - 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.
  - A liability for an asset retirement obligation should be estimated based on information available at the financial statement date. This is the best estimate based on professional judgment, previous experience, third party quotes, the use of experts, and the expected technology 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.

- **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.
  - The discount rate applied shall be based on the MFA borrowing rate for the term that coincides with the projected recognition date of the liability.
  - 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.
  - The liability for an asset retirement obligation must continue to be recognized until it is settled or otherwise extinguished.

ROLES & RESPONSIBILITIES

ROLE/TASK	TITLE (s) OF PERSON RESPONSIBLE
HANDLING INQUIRIES & COMMUNICATING POLICY	Chief Administrative Officer
MONITORING REVIEWS AND REVISIONS	Administrative Assistant

SCHEDULE "A" – Decision Tree – Scope of Applicability