

Lac La Biche County *Policy*

TITLE: Asset Retirement Obligation Policy

POLICY NO: FIN-10-023

RESOLUTION: 24.122

EFFECTIVE DATE: December 31, 2023

DEPARTMENT RESPONSIBLE: Finance

NEXT REVIEW DATE: December 31, 2025

1. PURPOSE

The purpose 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 Obligation (ARO) in accordance with Public Sector Accounting Standards (PSAS) 3280 – Asset Retirement Obligations.

2. POLICY STATEMENT

Lac La Biche County will review and report an Asset Retirement Obligation, as at the financial reporting date for each calendar year, for those assets that meet all the criteria established by PSAS 3280.

3. DEFINITIONS

- a. “Asset Retirement Obligation (ARO)” means a legal obligation associated with the retirement of a tangible asset;
- b. “ARO Asset” refers to an asset retirement obligation associated with the economic resources controlled by the County as a result of past transactions or events and from which future economic benefits are expected to be obtained;
- c. “Accretion Expense” means the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time;
- d. “Discount Rate” means the time value of money and the risk specific to the liability for asset retirement obligations, for which future ARO cash flow estimates will be adjusted based on risk-free rate from *Local Authorities Capital Financing Act, SA 2019, Chapter L-20.8*.
- e. “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 an accounting period,
 - iii. Are to be used on a continuing bases, and
 - iv. Are not for sale in the ordinary course of operation;

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- f. “Asset Retirement Activities” include all activities related to an asset retirement obligation, which may include, but are not limited to:
 - i. Decommissioning or dismantling a tangible capital asset that was acquired,
 - ii. Constructing, developing, or leasing;
 - iii. Remediation of contamination of a tangible capital asset created by its normal use;
 - iv. Post-retirement activities such as monitoring; or
 - v. Constructing other tangible capital assets to perform post-retirement activities

- g. “Legal Obligation” means a clear duty or responsibility to another party that justifies recognition of a liability, which can result from:
 - i. Agreements of contracts;
 - ii. Legislation of another government;
 - iii. A government’s own legislation; or
 - iv. A promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel;

- h. “Promissory estoppel” is the legal principle that a promise is enforceable by law, even if made without formal consideration when a promisor has made a promise to a promisee who then relies on that promise to his subsequent detriment;

- i. “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.

4. LEGISLATIVE AUTHORITIES

Lac La Biche County is required to present its annual financial statements in accordance with the Public Sector Accounting Standards (PSAS) as established in the Chartered Professional Accountants (CPA) Handbook. Fulfilling this requirement includes accounting for and reporting liabilities related to Asset Retirement Obligations.

5. RESPONSIBILITIES

- a. The 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.

- b. The Finance Manager is responsible for:
 - i. All matters related to the corporate financial accounting and reporting of AROs,
 - ii. Interpreting this policy, resolving disputes, and determining appropriate corporate financial reporting practices for AROs,

- iii. Ensuring compliance with ARO standard PSAS 3280, federal, provincial and municipal regulations which result in a legal obligation to the County,
 - iv. Overseeing the County's compliance with this policy, including the presentation and disclosure of reported assets and liabilities, accretion expense, amortization expense, settlements, and revisions of AROs in the County's annual financial reports in accordance with PSAS 3280,
 - v. Approving the ARO discount rate and ARO inflation rate every three years, and
 - vi. Establishing supporting procedures regarding the management, financial accounting, and reporting of AROs.
- c. Departments are responsible for:
- i. Analyzing and reviewing their TCA stewarded for legal obligations that may require an asset retirement obligation,
 - ii. Accounting for the stewardship of the AROs, and
 - iii. Requesting the funds to meet the liability for AROs and funding any shortfalls.

6. RECOGNITION AND MEASUREMENT

- a. Initial Recognition
- i. 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 as defined in FIN-10-006 Tangible Capital Assets Policy,
 - 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.
 - ii. A liability for an asset retirement obligation cannot be recognized unless all the criteria above are satisfied.
 - iii. The estimate of the liability would be based on the judgement of a subject matter expert and technology expected to be used in asset retirement activities.
 - iv. The estimate of a liability should include costs directly attributable to asset retirement activities. Cost would include post-retirement operation, maintenance and monitoring that are an integral part of the retirement of the tangible capital asset.
 - v. 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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- vi. Upon initial recognition of a liability for an asset retirement obligation, Lac La Biche County 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 Lac La Biche County as an asset, the obligation is expensed upon recognition.

- b. Subsequent Measurement
 - i. The asset retirement costs will be allocated to accretion expense in a rational and systematic manner 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.

- c. Presentation and Disclosure
 - i. The liability for asset retirement obligations will be disclosed.

- d. Decision Tree
 - i. Scope of applicability is attached to this policy as Appendix A.

"Original Signed" _____

April 6, 2024 _____

Mayor

Date

"Original Signed" _____

April 5, 2024 _____

Chief Administrative Officer

Date

SPECIAL NOTES/CROSS REFERENCE:

AMENDMENT DATE:



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welcoming by nature.

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APPENDIX A

Decision Tree – Scope of Applicability

