MUNICIPALITY OF THAMES CENTRE

REPORT NO.	**F-001-24**
TO:	Mayor and Members of Council
FROM:	Director of Financial Services/Treasurer
MEETING DATE:	March 11, 2024
SUBJECT:	**Asset Retirement Obligation Policy**

RECOMMENDATION:

THAT Report No. F-001-24 be **RECEIVED** for information;

AND THAT Council **APPROVE** the attached Asset Retirement Obligation Policy

PURPOSE:

The purpose of this report is to provide information on the new Public Sector Accounting Board (PSAB) standard PS3280 that came into effect for years beginning on or after April 1, 2022 and to approve the associated policy.

BACKGROUND:

PS3280 is a new requirement established by PSAB and all public sector organizations, including municipalities, must incorporate this standard into their financial statements for the fiscal year beginning on or after April 1, 2022.

An asset retirement obligation (ARO) arises when there is a legal obligation to retire tangible capital assets. Retirement is defined as the permanent removal of a capital asset from service and includes sale transactions, asset abandonment and/or asset disposal. These costs may include, but are not limited to, dismantling and the remediation of a tangible capital asset. Existing laws, regulations, and contractual agreements within the Municipality may require us to take specific actions to retire certain tangible capital assets at the end of their useful lives.

COMMENTS:

This PSAB standard will require recognition of future costs related to the retirement of specific Municipal tangible capital assets. The valuation and recognition for the Municipality's AROs will be presented in the financial statements for the fiscal year ending December 31, 2023. Implementation of this new standard is a requirement of PSAB and is not optional.

Currently, the Municipality's financial statements reflect balances and disclosures aligned with public sector accounting standards addressing general liabilities, landfill liabilities, contractual obligations, contaminated sites, and contingent liabilities. The new measure extends these requirements to include liabilities related to the retirement of existing assets. The standard outlines that recognizing the cost of an asset should consist of the expenses incurred to retire that asset in the future. An ARO exists when there is a legal obligation to incur retirement costs concerning an asset. Some examples of when a legal obligation may exist are;

- Lease requires removal of leasehold improvements at the end of the lease;
- Land covenants required to be removed from a site at the end of their useful life;
- Assets that need to be returned to its natural state when the assets are no longer in use; and
- Assets that require compliance with standards and regulations that, if sold, disposed of and/or no longer in use, would require remediation, such as asbestos in buildings and in-ground piping.

Assets that have an associated retirement obligation for the Municipality include buildings, landfills, leases, above ground storage tanks, wells, gravel pits, water and wastewater facilities.

Upon initial recognition of a liability for an asset retirement obligation, the Municipality 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 on the Statement of Financial Position. Where the obligation relates to an asset which is no longer in service and is not providing economic benefit, or to an item not recorded by the Municipality as an asset, the obligation is expensed upon recognition.

Estimates will include all costs directly related to the asset retirement activities but will be limited to those legally enforceable. Each year there will be an accrued expense in the Statement of Operations to increase the liability over time. This recognizes the expense while the asset is in use and results in the liability growing to equate the estimated costs on the retirement date of the asset. Similar to amortization, this is a non-cash expense item, however, the associated costs to retire the asset (such as removing asbestos), will need to be considered during the annual budget process.

Staff have created a new Asset Retirement Obligations Policy to establish the steps to be followed regarding recognition, subsequent measurement, and staff responsibilities.

FINANCIAL IMPLICATIONS:

The liability for asset retirement obligations will be disclosed in the Municipality's financial statements. Most up-to-date impacts will be reflected in the 2023 financial statements for the estimated ARO costs.

STRATEGIC PLAN LINK

Pillar: *Sustainability*

Goal: *Ensure that the Municipality maintains fiscal prudence, along with affordable and sustainable taxation levels*

CONSULTATION:

External Auditors - Scrimgeour & Company

ATTACHMENTS:

Asset Retirement Obligation Policy

Prepared by: E. Schinbein, Director of Financial Services/Treasurer

Reviewed by: D. Barrick, Chief Administrative Officer