

To: Corporate and Finance Services Committee

From: Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department

Report Number: CF-24-04

Date of Report: January 31, 2024

Date of Meeting: February 5, 2024

Subject: Asset Retirement Obligation Policy

Ward: All Wards

File: 03-05

1.0 Purpose

The purpose of this report is to provide the Council with an Asset Retirement Obligation (A.R.O.) Policy for consideration.

2.0 Recommendation

That the Corporate and Finance Services Committee recommend to City Council:

That pursuant to Report CF-24-04 dated January 31, 2024, the Asset Retirement Obligation Policy be approved.

3.0 Executive Summary

The Public Sector Accounting Board (P.S.A.B.) created a new accounting standard, P.S. 3280: Asset Retirement Obligation that will apply to the City's financial reporting, starting with the 2023 financial statements.

This report provides information on the new accounting standard, how it will impact future City financial statements and a project plan that meets the new requirements.

The Asset Retirement Obligation Policy (Attachment 1) provides for the recognition, measurement, disclosure and roles and responsibilities. To ensure the City's compliance with the P.S.A.B. standards on A.R.O., the policy requires Council approval.

4.0 Input From Other Sources

Deloitte LLP (City's external auditors)

5.0 Analysis

The new Public Sector Accounting Board standard P.S. 3280 on Asset Retirement Obligations relates to quantifying and disclosing, on the financial statements all legal obligations associated with the retirement of tangible capital assets. Retirement activities include, but are not limited to:

- Decommissioning or dismantling an asset;
- Removal and remediation of contaminants, such as asbestos and lead within building or construction material;
- Restoration of leased property to its former condition at the end of lease.

According to P.S. 3280, an A.R.O. should be recognized when all of the following criteria are satisfied:

- There is a legal obligation to incur retirement costs associated with the tangible capital asset;
- The past transaction or event given rise to the liability has occurred;
- It is expected that future economic benefits will be given up;
- Reasonable estimate of the amount can be made.

Per the Standard, for the initial measurement, only costs directly associated with the asset retirement activities should be considered. At each subsequent period, the A.R.O. must be reassessed to consider new information and/or any new assumptions used.

P.S. 3280 requires all public sector entities to comply for fiscal years beginning on or after April 1, 2022. As the City has a January 1 to December 31 fiscal year, compliance is required when reporting the City's 2023 financial statements.

Staff began work on the Asset Retirement Obligation project in 2022. The project included research into P.S. 3280, development of a project plan to complete the required work by March 2024, the creation of an A.R.O. policy, as well as the creation of an A.R.O. staff working group. The project is defined by four distinct phases:

- **Planning:** Develop a work plan with tasks required and time lines;
- **Scoping:** Identify items that are within Section P.S. 3280 scope;
- **Measurement:** For each item in scope, determine if they meet the recognition criteria within paragraph P.S. 3280.9;
- **Reporting:** Asset Retirement Obligation will be recognized and presented in financial statements.

The project planning and scoping phase has been completed, with the measurement and reporting phases currently underway.

Finance continues to collaborate with the various departments within the City to assist with identifying, assessing and estimating A.R.O. within P.S. 3280.

6.0 Financial Implications

There are no financial implications arising from the recommendation of this report.

7.0 Relationship to the Oshawa Strategic Plan

The establishment of financial policies supports the Oshawa Strategic Plan goals of Economic Prosperity & Financial Stewardship and Accountable Leadership by ensuring respect, responsiveness and transparency.



Stephanie Sinnott, Commissioner,
Corporate and Finance Services Department

Policy: ASSET RETIREMENT OBLIGATIONS			
Issued:	Revised:	Page: 1 of 5	Number:
Related Policies	<i>Insert names of related policies</i>		

PURPOSE / BACKGROUND

The objective of this policy is to provide guidance on the accounting treatment for asset retirement obligations (A.R.O.) so that users of the financial statements can discern information about these assets and their end of life obligations. The principal issues in accounting for A.R.O.'s is the recognition and measurement of these obligations.

POLICY STATEMENT

An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset. The Public Sector Accounting Board (P.S.A.B.) has instituted a new accounting standard P.S. 3280 which requires all municipal governments to comply. This policy serves to ensure the City of Oshawa is in compliance with the accounting and reporting requirements.

SCOPE / APPLICATION

This policy applies to all departments, branches, boards and agencies falling within the reporting entity of the City of Oshawa that possess asset retirement obligations, including:

- Assets with legal title held by the City
- Assets controlled by the City
- Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes

This policy applies to all assets that have an obligation in relation to the retirement of a tangible capital asset. This includes assets in productive use and assets no longer in productive use.

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.

The legal obligation, including obligations created by promises made without formal consideration, associated with retirement of tangible capital assets controlled by the City, will be recognized as liability in the book of the City of Oshawa, in accordance with P.S. 3280 which the City will be adopting on January 1, 2023.

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 environmental standards. Asset retirement obligations are not necessarily associated with contamination.

DEFINITIONS

Accretion expense is the increase in 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 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.

RESPONSIBILITIES

1. Department Managers shall, related to the assets under their responsibility:
 - a. Communicate with Finance Services on retirement obligations and any changes in asset condition or retirement timelines
 - b. Assist in the preparation of cost estimates for retirement obligations
 - c. Inform Finance Services of any legal or contractual obligation at inception of any such obligation

2. Finance Services
 - a. Development of and adherence to policies
 - b. Reporting asset retirement obligations in the financial statements of the City and other statutory financial documents
 - c. Monitoring the application of this policy
 - d. Managing processes with the fixed asset and asset management inventory registers
 - e. Investigating issues and working with asset owners to resolve issues

3. Council

- a. Reviewing and approving policy
- b. Reviewing and approving any policy updates

PRACTICE / PROCEDURES

A. Recognition

According to P.S. 3280, a liability should for an asset retirement obligation 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;
- 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 all of the criteria above are satisfied.

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.

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.

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.

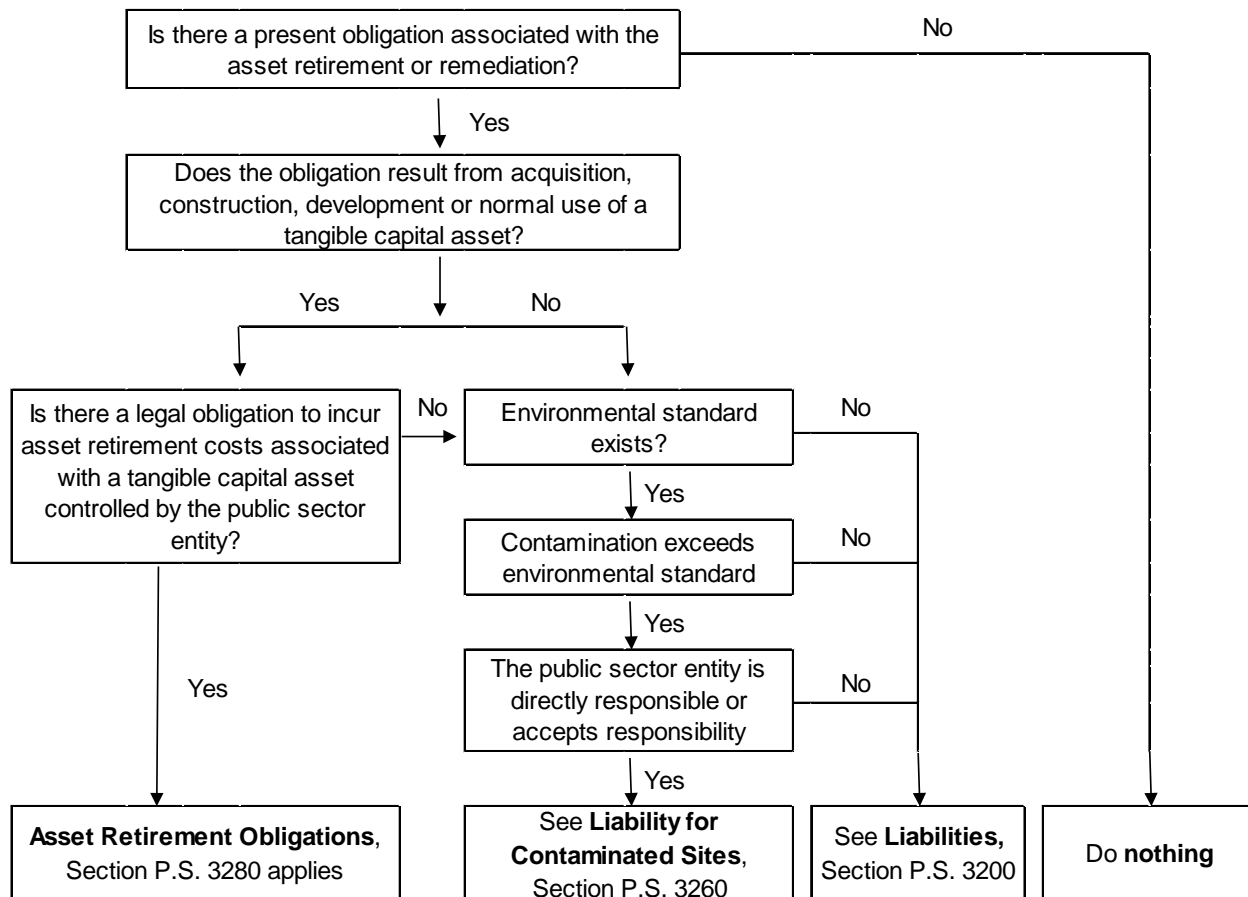
When measuring an A.R.O. liability, the best estimate of the cost to retire the tangible capital asset should be used. This estimate is based on the available information at the financial statement date. To determine the best estimate, professional judgement is required. Professional judgement can include internal expertise, external consultants or third party quotes.

Upon initial recognition of a liability for an asset retirement obligation, the City will recognize an asset retirement cost by increasing the carrying amount of the related tangible capital asset (or a component thereof) and recognize a corresponding 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 City as an asset, the obligation is expensed upon recognition.

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.

A decision tree, to be used to determine the scope of applicability, is presented below:

Decision Tree - Scope of Applicability



B. 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.

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. Transitional Provisions

There are three options for transitional provisions when implementing P.S. 3280; prospective, retrospective and modified retrospective. The City will disclose and present the transition provision within its 2023 Financial Statements.

D. Presentation and Disclosure

The liability for asset retirement obligations will be disclosed in the 2023 City's Annual Financial Statements.

E. Integration with Other Processes

The requirements as defined within P.S. 3280 will be integrated with the various processes already established at the City. Specifically, A.R.O. will be tracked and recorded within the City's Asset Inventory. It will also be included in a departmental year end checklist to ensure the financial statement reporting is accurate and complete.

REFERENCES

Public Sector Accounting Board, Public Sector Handbook, Section P.S. 3280 Asset Retirement Obligations

APPROVED

Authority Stephanie Sinnott, Commissioner, Corporate and Finance Services	Date Date approved	Signature Branch head signature
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