

To:	Warden Milne and Members of Grey County Council
Committee Date:	April 11, 2024
Subject / Report No:	FR-CW-13-24
Title:	Asset Retirement Policy
Prepared by:	Matt Hooghiem, Financial Analyst Sue Murray, Deputy Treasurer
Reviewed by:	Mary Lou Spicer, Director of Finance
Lower Tier(s) Affected:	
Status:	

Recommendation

1. That report FR-CW-13-24 Asset Retirement Policy be received: and
2. That the attached draft Asset Retirement Policy be approved

Executive Summary

Changes to reporting standards by the Public Sector Accounting Board (PSAB) requires municipalities to identify, measure, and report certain costs associated with the retirement of a tangible capital asset. Finance staff reviewed County assets and determined that a liability exists for buildings that contain asbestos.

Municipalities must prepare an Asset Retirement Obligation (ARO) Policy that establishes guidelines to ensure compliance with the new standard PSAB PS 3280 – Asset Retirement Obligations. Staff has developed a draft Asset Retirement Obligation Policy for Council’s consideration that has been attached to this report.

The identified liabilities will be measured and included in the County’s financial statements beginning with the 2023 fiscal year.

Background and Discussion

The intent of PSAB 3280 is to replace PSAB 3270 Solid Waste Landfill Closure and Post Closure Liabilities and enhance the assets that recognition of retirement obligations to include other assets.

An ARO arises when there is a legal obligation to retire tangible capital assets. Asset retirement is defined as removing a capital asset from service and includes sale transactions, asset

abandonment and asset disposal. These costs may include, but are not regularly limited to, decommissioning, dismantling, and remediation of a tangible capital asset and meeting any legislative mandates around environmental cleanup and/or restoring assets to their original condition.

Once an asset retirement obligation liability has been estimated, a liability and an asset of equal value are recorded on the Statement of Financial Position. This effectively increases the carrying cost of the existing asset at the same time as registering the liability. If the asset is no longer in use, then the liability for the asset retirement obligation will be expensed immediately rather than creating an asset. Estimates will include costs directly related to the asset retirement activities but will be limited to those legally enforceable. An estimate will be made for the future cost of extinguishing the liability and then the future cost will be discounted using a discount rate.

Each year there will be an accrued expense in the Statement of Operations to increase the liability with time. This recognizes the expenses while the asset is in use and results in the liability growing to equal the estimated costs on the date of retirement of the asset.

The identified liabilities will be measured and included in the County's financial statements beginning in the 2023 fiscal year. Staff has developed a draft Asset Retirement Obligation Policy which has been attached to this report.

Staff has worked with other departments throughout 2023 to review all assets owned and controlled by the County against the Asset Retirement Obligation Policy requirements to identify future liabilities. The only identified ARO is the removal of asbestos in buildings as the last underground fuel tank was removed in 2023 from the Clarksburg Depot. Grey County staff will use information from the County's Asbestos Management & Surveillance and Building Condition Assessment data to determine the asset retirement liability at December 31, 2023. The liability was estimated based on the most recent cost estimates to remove asbestos on a per gross square footage rate for the housing units based on work that was completed in 2022. For all other buildings, a componentized cost was used based on information from abatement companies as Grey County did not have any recent removal costing.

Legal Considerations

None

Financial and Resource Implications

Public Sector Accounting Board (PSAB) 3280 must be applied by all public sector entities who prepare their financial statements under PSAB.

The asset retirement obligation will be recognized and presented in the financial statements. To assist financial statement users in understanding the obligation, certain information would be disclosed in the notes including: a description of the liability and related tangible capital asset; the amortization method used; the basis for the estimate of the liability; a reconciliation of the beginning and ending liability balances; and any estimated recoveries.

Relevant Consultation

- Internal – Asset owning departments
- External – Municipal Finance Officers' Association (MFOA) ARO working group

Appendices and Attachments

Draft Asset Retirement Obligation Policy