

# ASSET RETIREMENT OBLIGATIONS – PS3280

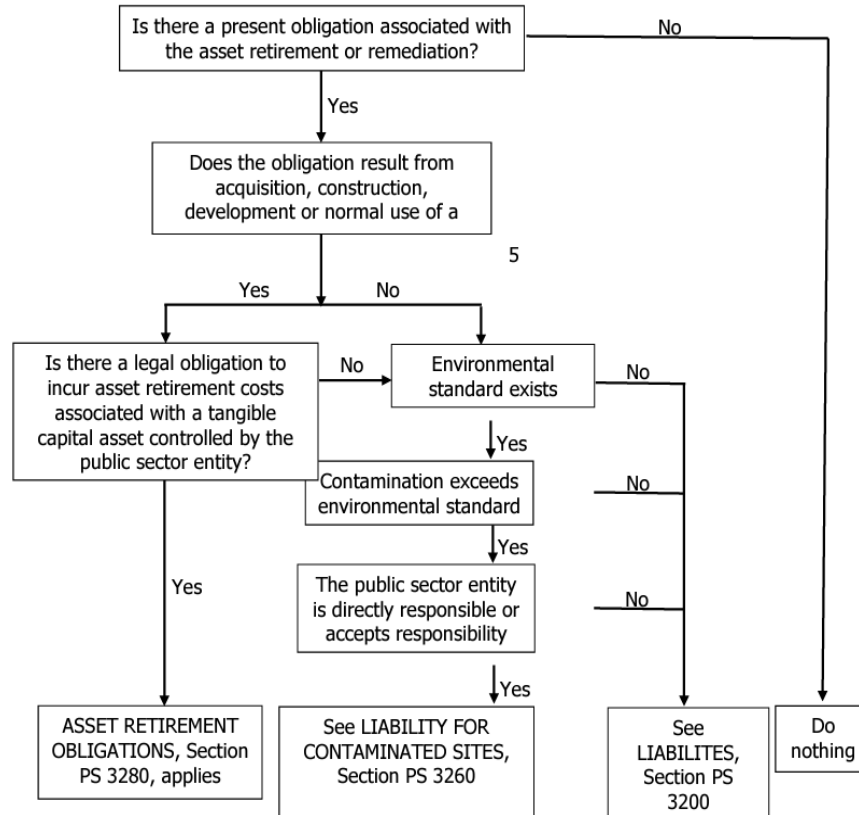
## TILLSONBURG WORK PLAN

The Public Sector Accounting Board (PSAB) has introduced standard PS3280, which requires public sector bodies to recognize a liability on their financial statements for any required retirement costs in relation to tangible capital assets (including capital leases). This standard must be implemented for financial periods beginning after April 1, 2022 which means we must include any asset retirement liabilities on our financial statements for the fiscal year 2023.

PS3280 defines an Asset Retirement Obligation (ARO) as existing when:

1. There is a legal obligation to incur retirement costs in relation to a tangible capital asset (contractual or legislative)
2. The past transaction or event giving rise to the liability has occurred (we own or have control of the asset).
3. It is expected that future economic benefits will be given up (it will cost money in the future); and
4. A reasonable estimate of the amount can be made

A decision tree (below) has been included in the standard to assist public sector bodies in determining which accounting standard (if any) applies in a particular situation.



## **Steps required to implement PS3280**

1. Create policy for Council consideration and approval
  - County of Oxford has shared their policy which is based on the template provided by MFOA, along with their internal procedure document for initial assessment and annual reviews
  - adapt this policy to Town's needs based on the assets involved for us and the choices made for transitional provisions (see Financial Impacts)
  - this policy development will likely need to be done in conjunction with identify assets with ARO so that we ensure our particular situations are covered by the policy
  - as part of the policy development we must decide if the retirement costs will be discounted to present value; this will be best done once assets with retirement obligations are identified so that possible impacts to financial statements can be taken into consideration
  
2. Identify assets with ARO
  - This will be a very labour intensive part of the process, Directors and departmental staff will be essential in identifying possible AROs.
  - All contracts that may be related to capital assets or leases will need to be reviewed for any contractual obligations
  - Any areas with legislative conditions on disposal of assets (eg. Arenas) will need to identify these
  - Financial obligations arising from a catastrophic event are not included as an ARO as they are outside the scope of the standard
  - To satisfy the audit's "completeness" principle, it would be good to provide each area with a list of capital assets so that they can review and indicate whether they believe there is an ARO or not (yes/no/unsure)
  - Asset Management Coordinator is checking to see if Building Condition Assessment identifies known asbestos in facilities and if there are any estimates of removal actions required (costs)
  
3. Estimate Cost of obligation
  - Determine estimate of costs to fulfill the legal or contractual obligations at the end of the asset's useful life
  - Estimates do not have to be complete and perfect; estimates require professional judgement and could be supplemented by experience, third-party quotes or reports of independent experts
  - MFOA notes that municipalities should first look at what information they can obtain from our own team members (in-house engineers, Public Works or Facility Mgmt) before considering the need to engage external experts; should also reference estimation techniques used by peers (other municipalities)
  - All estimates and the basis behind them should be well documented by those estimating and placed on file for audit review and future reference; this will be a high priority area for auditors as it is a new item for our financial statements
  - Determine remaining useful life of asset and timing of cashflows to fulfill retirement obligation

- Calculate present value of obligation (if discounting)
- Costs include only costs directly attributable to the retirement obligation (eg. Removal of asbestos, landfill closure and post monitoring expenses). They can include any permits required for such work but not general overhead (accounting or management costs).

### **Financial Impacts**

- the ARO is set up as a liability and an increase to the carrying value of the related tangible capital asset.
- The ARO is expensed over the useful life of the asset
- If the asset is fully amortized, the ARO is expensed in the year recognized
- Town must choose between 3 Transitional provisions for recognition, each one affecting the balance sheet and income statement differently. PS3280 can be applied using retroactive application, modified retroactive application or prospective application.
- PS3280 recommends discounting the cash flows for AROs however does not require it. There is also no requirement to consistently apply discounting across all assets. If decide to discount, must determine how to establish discount rate
- PS3270 Solid Waste Landfill Closure has been withdrawn and replace with Ps3280. The liabilities for these will need to be recalculated under PS3280.

### **Subsequent Annual Requirements**

- Annually the assets will need to be reviewed to determine changes in useful life, retirement obligation cost estimate, discount rate
- Each year, an “accretion expense” will be recorded in order to reflect the increase in the liability due to the passage of time; basically the increase in liability because the retirement is one year closer to becoming necessary

## Example

We will take the example of our Public Works Building which is known to contain asbestos.

Following through the flowchart:

1. Is there a present obligation associated with the asset retirement or remediation? This can be legislative or contractual obligation, in this case, the Occupational Health and Safety Act, O.Reg. 278/05 s.6 obligates the Town to remove the asbestos at the end of the asset's useful life.

6. (1) The demolition of all or part of machinery, equipment, a building, aircraft, locomotive, railway car, vehicle or ship shall be carried out or continued only when any asbestos-containing material that may be disturbed during the work has been removed to the extent practicable. O. Reg. 278/05, s. 6 (1).

So the answer to this question is YES

2. Does the obligation result from the acquisition, construction, development or normal use of an asset? This question is designed to weed out obligations that have arisen as the result of an accident or catastrophic event which then leads to a Contaminated Sites liability instead. The obligation in this case arises from the fact that an asbestos containing material was used in the construction of this building. So the answer to this question is YES
3. Is there a legal obligation to incur asset retirement costs associated with a tangible capital asset controlled by the public sector entity? This building is a tangible capital asset for the Town of Tillsonburg, there will be costs to remove the asbestos containing material in the future, and the asset is controlled (owned or under a capital lease) by the Town. So the answer to this question is YES

Conclusion: There is an Asset Retirement Obligation (ARO) for Public Works Building

Now that we have determined that there is an ARO for this building, we need to determine the future cost of this obligation. Some possible sources:

- Do we have a cost estimate on file (unlikely in this case but possible, especially for contractual obligations)
- Do we have the in-house knowledge to develop an estimate
- Can we use the knowledge of another municipality that has a similar obligation or done a similar project recently
- Do we get a third party expert to prepare an estimate (time considerations and expense for this one, would likely use for a large financial obligation)

We also need to consider when this expense is likely to occur. When do we foresee these costs being spent? One example provided by KPMG was a question that the asset is critical to the entity's operation and will never be retired. Their answer was that does not impact whether there is an in-scope obligation and the timing of the costs is just a measurement issue. Even with regular repairs and maintenance and some point the asset will deteriorate to the point where they cannot be repaired and must be replaced.

If the retirement of the asset is many years in the future, it may mean the discounted cost is not material to today's statements; however, the obligation does still exist and needs to be re-evaluated each year and will become material when the asset retirement comes closer.

## 1. APPENDIX A – List of Potential ARO Sources

Item	Legal Obligation Source	Additional Comments
Asbestos Abatement	Occupational Health and Safety Act, O.Reg. 278/05 s.6,8	
Oil Tank Removal	O.Reg. 213/01 – Fuel Oil under the Technical Standards and Safety Act, 2000	
Lab equipment		Neutralizing tanks, transite countertops, transite fume hoods (prior to 1997). Even though neutralizing tanks are cleaned regularly, they likely still require proper disposal at end of life; therefore need ARO recorded. Transite is a type of asbestos that was used in equipment. Need to consider materiality.
Leasehold improvement	Lease Agreement	
Lead	Occupational Health and Safety Act, O. Reg. 490/09 s.10	Lead is an Occupational Health and Safety worker protection issue. The material is only dangerous when it is being disturbed during a renovation or demolition. The OHSA outlines measures workers need to take to protect themselves when disturbing the substances.
	Safe Drinking Water Act, O.Reg. 243/07, s.7	
Water wells	Ontario Water Resources Act, R.R.O. 1990, Reg. 903: WELLS, s. 21	Water wells may have ARO depending on the local circumstances. If there are local ordinances requiring the municipality to follow certain procedures for disposal, there is likely an ARO. Link to the Ministry of Environment and Climate Change site regarding obligations for well abandonment: <a href="https://www.ontario.ca/page/wells-your-property">https://www.ontario.ca/page/wells-your-property</a>

Item	Legal Obligation Source	Additional Comments
		When abandoning a well, there are a series of steps that must be followed to properly plug and seal it.
Firewater holding tanks		Similar to water wells, firewater holding tanks may have ARO depending on local circumstances. Please check bylaws in local area for applicability. If there are local ordinances requiring municipalities to follow certain procedures for disposal, there is likely an ARO.
Landfill sites		Landfill sites are included under ARO standards.
Wastewater or sewage treatment facilities	Ontario Water Resources Act, O. Reg. 435/93: WATER WORKS AND SEWAGE WORKS	Will depend on environmental zoning
Septic tanks and septic beds	Ontario Water Resources Act, O. Reg. 435/93: WATER WORKS AND SEWAGE WORKS	
Storm interceptors		Similar to water wells and firewater holding tanks, storm interceptors may have ARO depending on local circumstances. Please check bylaws for applicability. If there are local ordinances requiring municipalities to follow certain procedures for disposal, there is likely an ARO.
Polychlorinated Biphenyls (PCBs)		Needs to be evaluated, however is likely to be below the threshold
Mercury	Occupational Health and Safety Act, O. Reg. 490/09, s. 11	Lighting needs to be disposed appropriately, however, it is not costly; therefore, no need to record ARO up front.
Ozone Depleting Substances (ODS)	Canadian Environmental Protection Act, O. Reg. 463/10: OZONE DEPLETING SUBSTANCES AND OTHER	These items need to be disposed appropriately however, it is not costly; therefore, no need to record ARO up front.

Item	Legal Obligation Source	Additional Comments
	HALOCARBONS, s. 39, 40 and 41	
E-Waste		The accounting standard applies to all tangible capital asset, not just buildings. For computers, if there is an ARO, it is likely paid up-front as a recycling fee. This ARO is likely to be negligible; therefore, it does not need to be recorded.
Radioactive materials		These items need to be disposed appropriately however, it is not costly; therefore, no need to record ARO up front.
Urea-formaldehyde foam insulation (UFFI)		Urea-formaldehyde foam insulation (UFFI) is not likely an ARO issue. UFFI was a concern when it was installed because the off gassing while it cured caused health issues. Once it has off gassed, it is basically inert and is therefore not an issue.
Silica	Occupational Health and Safety Act, O. Reg. 490/09, s. 12	Silica is an Occupational Health and Safety worker protection issue. The material is only dangerous when it is being disturbed during a renovation or demolition. The OHSA outlines measures workers need to take to protect themselves when disturbing the substances. Silica is a concern for worker safety; however, it is not like asbestos, which is a hazard during renovation/demolition AND afterwards if asbestos particles are left on the site. Asbestos particles must be removed from the site; however, silica particles can remain on site after demolition/renovation.

## 2. APPENDIX B – Potential Sources of Asbestos

Potential Sources of Asbestos		
Cement Pipes	Elevator Brake Shoes	Laboratory Hoods/Table Tops
Cement Wallboard	HVAC Duct Insulation	Laboratory Gloves
Cement Siding	Boiler Insulation	Fire Blankets
Asphalt Floor Tile	Breaching Insulation	Fire Curtains
Vinyl Floor Tile	Ductwork Flexible Fabric Connections	Elevator Equipment Panels
Vinyl Sheet Flooring	Cooling Towers	Construction Mastics (floor tile, carpet, ceiling tile, etc.)
Flooring Backing	Pipe Insulation (corrugated air-cell, block, etc.)	Caulking/Putties
Acoustical Plaster	Heating and Electrical Ducts	Adhesives
Decorative Plaster	Electrical Panel Partitions	Wallboard
Textured Paints/Coatings	Electrical Cloth	Joint Compounds
Ceiling Tiles and Lay-in Panels	Electric Wiring Insulation	Vinyl Wall Coverings
Spray-Applied Insulation	Chalkboards	Spackling Compounds
Blown-in Insulation	Roofing Shingles	High Temperature Gaskets
Fireproofing Materials	Roofing Felt	Fire Doors
Taping Compounds (thermal)	Base Flashing	Thermal Paper Products
Packing Materials (for wall/floor penetrations)	Drywall	Transite Countertops, sheeting