



## Staff Report

**Report Title: Asset Retirement Obligations Policy**

**Prepared By: Jodi MacArthur, Treasurer**

**Department: Treasury**

**Date: Jun. 5, 2023**

**Report Number: TR-2023-06-43**

**File Number: C11 TRE 23**

**Attachments: Draft Asset Retirement Obligations Policy**

---

### **Recommendation:**

That the Township of Huron-Kinloss Committee of the Whole hereby receives Report Number TR-2023-06-43 prepared by Jodi MacArthur, Treasurer;

AND FURTHER approves the Asset Retirement Obligations Policy as presented;

AND FURTHER authorizes the appropriate by-law coming forward.

### **Background:**

The Public Sector Accounting Board (PSAB) has established a new accounting standard known as PS 3280 – Asset Retirement Obligations. The new standard will require municipalities to identify, measure and report certain costs associated with asset retirement starting with the 2023 financial statements.

An asset retirement obligation is “a legal obligation associated with the retirement of a tangible capital asset” and arises when there is a legal obligation to retire an asset from service. Asset retirement includes sales transactions, asset abandonment and disposal. These costs may include, but are not limited to decommissioning, dismantling and remediation of tangible capital assets and meeting any legislated requirements for environmental cleanup and/or restoring assets to their original condition.

While this standard is new, the practice is not entirely new as municipalities do currently recognize the environmental liability associated with contaminated sites and solid waste facilities. The intent of this new standard is to expand the requirements to other assets which have costs associated with their disposal. Some examples where a legal obligation may exist include:

- Building with asbestos,
- Underground fuel tanks,
- Septic beds, and
- Remediation of gravel pits and landfill sites

The asset retirement obligations will be capitalized and amortized, allocating the future costs of retirement in a rational and systematic manner over the remaining useful life of the asset. The recognition of the liability for future costs will ensure that funds will be available for the full cost of the asset disposal at the end of its useful life.

**Discussion:**

Work has begun to ensure compliance with the new standard. Staff have been reviewing industry guidance on the topic from multiple sources including the Municipal Finance Officers' Association of Ontario (MFOA) and have established a Bruce County working group to work collaboratively on implementation.

Municipalities are required to adopt an Asset Retirement Policy and a draft policy is attached for consideration. The draft was developed in collaboration with the Bruce County ARO working group and has already been adopted by some neighbouring municipalities. It has also been circulated to our auditors for review.

Throughout 2023, staff will continue to work on identification of assets with asset retirement obligations and calculate the financial impact of those obligations.

**Financial Impacts:**

Throughout 2023 staff will be working on identification of asset retirement obligations and calculating reasonable estimates to record and report on the financial statements. Obligations will also be reported on a consolidated basis for joint assets.

As work progresses, we will have a better idea how the Township's financial position will be impacted as a result of reporting the asset retirement obligations.

**Strategic Alignment / Link:**

Not applicable; legislative requirement.

**Respectfully Submitted By:**

Jodi MacArthur, Treasurer

**Report Approved By:**

Mary Rose Walden, Chief Administrative Officer