

# Township of Brock

## PS 3280 Asset Retirement Obligations

Committee of the Whole

January 15<sup>th</sup>, 2023



DFA Infrastructure International Inc.

# The Objective of Today is to Present:

- the background of accounting standard PS 3280 Asset Retirement Obligations (ARO)
- the ARO calculation methodology
- the ARO liability analysis



**PS 3280**

**Asset Retirement Obligations**

# PS 3280

- In 2018 the Public Sector Accounting Board approved a new accounting standard (PS 3280)
- PS 3280 requires municipalities to report in their financial statements, no later than Y/E 2023, obligations associated with the retirement of tangible capital assets
- DFA Infrastructure International Inc. was retained to assist in ensuring the Township complies with the requirements of PS 3280

# What is an Asset Retirement Obligation (ARO)?


- An ARO is a legal obligation to undertake activities associated with the retirement of a tangible capital asset.
- Examples of ARO activities:
  - Remediation of a building prior demolition
  - Decommissioning of water wells and septic systems
  - Closure and post closure care of landfill sites
- An ARO can result from:
  - Legislation/Regulation/By-law
  - Court Judgement
  - Contractual or other legally binding commitment

# ARO Recognition

- An ARO 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 ARO has occurred
  - It is expected that future economic benefits will be given up
  - A reasonable estimate of the amount can be made.

# NOTE:

- The estimate of a retirement obligation should only include costs directly attributable to asset retirement activities. These costs may include:
  - Payroll and benefits
  - Equipment and facilities
  - Materials
  - Legal and other professional fees
  - Post retirement operations and maintenance expenses
  - Any other costs incurred related to the retirement



# **ARO Calculation Methodology**



# Methodology of ARO Identification, Quantification and Recognition

- Township owned and controlled capital assets were identified and confirmed.
- Existing laws and regulations, contracts, operating licences, court judgements, lease arrangements etc. (as applicable) related to the Township's capital assets were reviewed to identify potential in-scope assets and required retirement activities
- Potential in-scope capital assets were further assessed as to whether or not they met all four PS 3280 criteria to determine in-scope capital assets

# Methodology of ARO Identification, Quantification and Recognition

- The year of retirement was established for each in-scope capital asset, with costs for required retirement activities related to each in-scope capital asset being determined, both in current dollars and in future dollars (year of retirement)
- Each in-scope capital asset's associated ARO liability was calculated using an appropriate discount rate
- ARO liabilities to be recognized were identified for all in-scope assets under PS 3280 to provide the basis for all financial entries.



# **ARO Liability Analysis**

# Capital Assets Reviewed

- Of the 1790 Township capital assets reviewed, 55 capital assets fell in-scope of PS 3280. The in-scope capital assets can be broken down into the following categories:
  - 48 capital assets were related to buildings/structures
  - 2 capital assets were related to equipment
  - 5 capital assets were related to stormwater infrastructure

# ARO Summary

| <b>Asset Category</b>     | <b>2023 ARO Costs</b> | <b>Inflated ARO Costs</b> | <b>2023 Y/E ARO Liability</b> |
|---------------------------|-----------------------|---------------------------|-------------------------------|
| Buildings/Structures      | \$ 2,606,570          | \$ 6,668,419              | \$1,329,814                   |
| Equipment                 | \$ 20,000             | \$ 24,597                 | \$16,359                      |
| Stormwater Infrastructure | \$ 500,000            | \$ 2,974,252              | \$94,238                      |
| <b>TOTAL</b>              | <b>\$ 3,126,570</b>   | <b>\$ 9,667,268</b>       | <b>\$1,440,410</b>            |

# ARO Cost Categorization

- 2023 ARO Cost represents the estimated cost of the retirement activities in today's dollars
- Inflated ARO Cost represents the estimated cost of the retirement activities in the year of capital asset retirement (Asset Retirement Obligation)
- 2023 Y/E ARO liability represents ARO liability to be reported in the Township's Y/E financial statements

# Accounting of ARO Liability

- As PS 3280 is a new reporting standard, ARO liabilities may be recognized by one of three transitional provision options:
  - Retroactive Application
  - Modified Retroactive Application
  - Prospective Application
- As both the Retroactive and Modified Retroactive Applications of PS 3280 would require restatements of the prior year's financial statements, the Prospective Application method was used to account for PS 3280 liabilities
- Under the Prospective Application of PS 3280, the 2023 ARO liability will be reported in the Statement of Financial Position as an ARO liability (credit) with an offsetting balancing entry to ARO capital asset (debit)

# Accounting of ARO Liability

- Each ARO Capital Asset will be amortized over the remaining years to capital asset retirement (debit-ARO expense, credit-Accumulated ARO Amortization)
- Each year the ARO assumptions will be reviewed, with adjustments to the ARO liability being made. Any increases to the ARO liability will be expensed. (debit-ARO expense, credit-ARO Liability)
- In the year of capital asset retirement, the ARO retirement activities will occur and the ARO liability will be removed from the Statement of Financial Position (debit-ARO Liability, credit -Cash)





# Questions / Comments