

THE MUNICIPALITY OF LAMBTON SHORES

Report TR 33-2023

Council Meeting Date: December 19, 2023

TO: Mayor Cook and Members of Council
FROM: Janet Ferguson, Director of Financial Services
RE: Asset Retirement Obligation Policy

RECOMMENDATION:

THAT Report TR 33-2023 regarding an Asset Retirement Obligation Policy be received; and

THAT the Asset Retirement Obligation Policy be approved.

SUMMARY

This report outlines a new reporting standard as required by the Public Sector Accounting Board and presents a policy for implementation.

BACKGROUND

The Public Sector Accounting Board (PSAB), an independent body created to develop accounting standards for municipalities, has further strengthened asset management practices with the development of a new standard. The new standard, PS 3280 Asset Retirement Obligation (ARO) requires municipalities across Canada to recognize costs associated with the retirement of assets.

An ARO is “a legal obligation associated with the retirement of a tangible capital asset”. 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 limited to decommissioning, dismantling, and remediation of tangible capital assets and meeting legislative mandates around environmental cleanup and/or restoring assets to their original condition.

Common assets include buildings with asbestos, fuel storage tanks, wastewater treatment facilities, septic beds, wells and properties under lease agreements requiring the return to original condition.

Municipalities must prepare an ARO policy that establishes guidelines to ensure compliance with the standard and incorporate the associated financial obligations into their financial statements beginning in the 2023 fiscal year. The ARO costs will be capitalized and amortized over the remaining life of the asset. This change in reporting

will be included in the 2023 audited financial statements that Council will receive in mid 2024.

Staff are performing the exercise of identifying, assessing, and estimating the ARO's for Lambton Shores assets. It is hoped that the work will be able to be completed in-house; however, there may be a need for outside resource assistance.

Staff have created the required policy consulting with various Municipalities, the Municipal Finance Officers Association training and our auditors BDO Canada LLP.

ALTERNATIVES TO CONSIDER

None

RECOMMENDED ACTIONS

That this report be received and Council approve the Asset Retirement Obligation Policy.

FINANCIAL IMPACT

Once an ARO 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 ARO will be expensed immediately.

Each year there will be an accrued expense in the Statement of Operations to increase the liability. 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 the retirement of the asset.

CONSULTATION

Municipal Finance Officers Association
BDO Canada LLP