THE CORPORATION OF THE

CITY OF WHITE ROCK

CORPORATE REPORT

DATE: **January 29, 2024**

TO: **Mayor and Council**

FROM: **Candice Gartry, Director, Financial Services**

SUBJECT: **Asset Retirement Obligations Policy**

RECOMMENDATION

THAT Council receive for information the January 29, 2024, corporate report from the Director of Financial Services, titled "Asset Retirement Obligations Policy" and endorse and approve Finance policy # 326, Asset Retirement Obligations (Appendix A).

EXECUTIVE SUMMARY

At the March 2018 session of the Public Sector Accounting Board ("PSAB") a new accounting standard, PS 3280, was approved which covered the treatment of asset retirement obligations ("AROs"). This accounting standard must be applied by all public sector entities who prepare their financial statements under PSAB, including all Canadian municipalities, and is effective for all fiscal years starting on or after April 1, 2022.

Part of the adaptation of this accounting standard requires entities to develop and approve an Asset Retirement Obligation policy. The City's draft policy, attached as Appendix A, was developed using examples from other municipalities as well from research conducted and published by KPMG and BDO. The objective of the policy is to outline the accounting treatment for asset retirement obligations so that users of the financial report can discern information about these assets and their end-of-life obligations.

INTRODUCTION/BACKGROUND

At the March 2018 session of the Public Sector Accounting Board ("PSAB") a new accounting standard, PS 3280, was approved which covered the treatment of asset retirement obligations ("AROs"). This accounting standard must be applied by all public sector entities who prepare their financial statements under PSAB, including all Canadian municipalities, and is effective for all fiscal years starting on or after April 1, 2022.

This new accounting standard defines an ARO as "a legal obligation associated with the retirement of a tangible capital asset." The accountant standard addresses specific guidance to retire certain tangible capital assets at the end of their useful lives, including activities ranging from the removal of asbestos to the retirement of landfills.

Prior to the establishment of PS3280, there was no specific guidance addressing the accounting for asset retirement obligations, and only limited coverage of two particular types of environmental obligations (liability for contaminated sites, and closure and post-closure liabilities associated with a solid waste landfill site).

Before the introduction of this new accounting standard, there was no formal accounting guidance on how to report, recognize, and measure legal obligations associated with the retirement of long-lived capital assets for public sector entities. Many municipalities, including the City of White Rock, have not reflected these retirement obligations in their financial statements as there was no formal standard requiring it. Instead, entities only recognized environmental obligations as mentioned above.

Common asset retirement obligations, now under the scope of the new accounting standard and not previously recognized by many municipalities, include obligations such as the retirement of buildings with asbestos or underground fuel storage tanks. As a result, the implementation of this accounting standard now requires municipalities to recognize these previously "out of the scope" asset retirement obligations.

For a capital asset to be considered an ARO, the capital asset must be under the entity's control and the obligation must arise from a legal obligation. Additionally, the entity must be compelled to retire, dismantle or remove an asset, through legislation, bylaw, regulation, contract or another binding commitment for it to fall under the scope of this accounting standard. Some examples of asset retirement obligations include:

- Solid waste landfill closure and post closure liabilities
- Removal of asbestos
- Waste disposal ground closure and monitoring
- Disposal of refrigeration equipment
- Groundwater well closure/sealing

Part of the adaptation of this accounting standard requires entities to develop and approve an Asset Retirement Obligation policy. The City's draft policy, attached as Appendix A, was developed using examples from other municipalities as well from research conducted and published by KPMG and BDO. The objective of the policy is to outline the accounting treatment for asset retirement obligations so that users of the financial report can discern information about these assets and their end-of-life obligations.

FINANCIAL IMPLICATIONS

Staff anticipate that once the measurement and calculation of the asset retirement obligations has been finalized, these amounts will be shown on the City's audited financial statements for the year ended December 31, 2023 and at that time there will likely be a charge against the accumulated surplus to account for the expense and of the liability for those assets that have already been fully amortized.

LEGAL IMPLICATIONS

No legal implication, but there is a regulatory obligation in accordance with the Canadian Public Accountant Standards Board (PSAB) under which the City's financial statements are prepared.

OPTIONS / RISKS / ALTERNATIVES

Not approving this Asset Retirement Obligations policy, and the measurements still being calculated, would result in the City's financial statements no longer being in compliance with Canada Public Accounting Standards.

CONCLUSION

Staff recommend that Council receive for information the January 29, 2024, corporate report from the Director of Financial Services, titled "Asset Retirement Obligations Policy" and endorse and approve Finance policy # 326, Asset Retirement Obligations (Appendix A).

Respectfully submitted,

Candice Gartry, CPA, CGA
Director, Financial Services

Comments from the Chief Administrative Officer

I concur with the recommendation of this corporate report.

Guillermo Ferrero
Chief Administrative Officer

Appendix A: Council Policy 326 – Asset Retirement Obligations