



The Corporation of the Town of Tecumseh

Financial Services

To: Policies and Priorities Committee

From: Tom Kitsos, Director Financial Services & Chief Financial Officer

Date to Council: November 26, 2024

Report Number: FS-2024-20

Subject: Asset Retirement Obligations Policy

Recommendations

It is recommended:

That Report FS-2024-20 Asset Retirement Obligations Policy **be received**;

And that the Asset Retirement Obligations Policy in Attachment 1 **be recommended** by the Policies and Priorities Committee for approval and adoption at the December 10, 2024 Regular Council Meeting.

Executive Summary

Recent changes to reporting standards by the Public Sector Accounting Board (PSAB) require municipalities to identify, measure, and report certain costs associated with asset retirement on financial statements.

Municipalities must prepare an Asset Retirement Obligation (ARO) Policy that establishes guidelines to ensure compliance with the new standard PSAB PS 3280 – Asset Retirement Obligations.

Background

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

Comments

An asset retirement obligation 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 any legislative mandates around environmental cleanup and/or restoring assets to their original condition.

Some examples of when a legal obligation may exist include:

- Assets that require compliance with standards and regulations that, if sold, disposed of, or no longer in use, would require remediation, such as asbestos in buildings, fuel storage tank removal, and septic systems.
- Leases that require removal of leasehold improvements or other remediation at the end of the lease to return the land to its original state.

Municipalities are required to develop and approve an ARO Policy and incorporate the associated financial obligations into their 2023 financial statements. Asset retirement obligations are capitalized and amortized, allocating the future costs of retirement in a rational and systematic manner over the remaining life of the asset.

Financial Services staff, in consultation with other departments, have reviewed our entire Tangible Capital Asset inventory to identify potential AROs by category. From there the list was refined by asset segment before finally conducting a thorough and exhaustive review at the individual asset level. This review identified facilities as a potential source of AROs. The Financial Services and Community and Recreation Services departments worked together to select and engage a consultant to conduct an assessment and provide ARO cost estimates for inclusion on the Town’s financial statements.

A policy outlining financial reporting guidelines and responsibilities has been prepared in accordance with the PS3280 standard.

Consultations

All Departments

Financial Implications

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. Estimates will include costs directly related to the asset retirement activities but will be limited to those legally enforceable.

An estimated ARO of \$1.4 million has been identified consisting of buildings with asbestos and three septic systems. This is reflected in the Town's 2023 financial statements as an increase to both the TCAs and liabilities.

There are no financial obligations associated with the approval of the policy.

There are no immediate financial implications for the Town with respect to the \$1.4 million ARO. However, this information should be used for planning purposes with regards to rehabilitation or replacement of affected buildings. Going forward, Asset Management Plan updates will incorporate these future obligations.

Link to Strategic Priorities

| Applicable | 2023-2026 Strategic Priorities |
|-------------------------------------|---|
| <input checked="" type="checkbox"/> | Sustainable Growth: Achieve prosperity and a livable community through sustainable growth. |
| <input type="checkbox"/> | Community Health and Inclusion: Integrate community health and inclusion into our places and spaces and everything we do. |
| <input type="checkbox"/> | Service Experience: Enhance the experience of Team Tecumseh and our citizens through responsive and respectful service. |

Communications

Not applicable

Website

Social Media

News Release

Local Newspaper

This report has been reviewed by Senior Administration as indicated below and recommended for submission by the Chief Administrative Officer.

Prepared by:

Zora Visekruna, MBA
Deputy Treasurer & Manager Financial Services

Reviewed by:

Tom Kitsos, CPA, CMA, BComm
Director Financial Services & Chief Financial Officer

Recommended by:

Margaret Misek-Evans, MCIP, RPP
Chief Administrative Officer

| Attachment Number | Attachment Name |
|--------------------------|-------------------------------------|
| 1 | Asset Retirement Obligations Policy |