



**TOWN OF MINTO**

**MEETING DATE:** April 16, 2024

**REPORT TO:** Mayor and Council

**SERVICE AREA:** Finance

**SUBJECT:** FIN 2024-005 – Asset Retirement Obligations (ARO) Policy

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**RECOMMENDATIONS:**

THAT Council of the Town of Minto receives report FIN 2024-005 regarding Asset Retirement Obligations and adopts the Policy as attached.

**BACKGROUND:**

The Public Sector Accounting Board, 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.

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 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.

Municipalities are required to adopt an Asset Retirement Obligations Policy and incorporate the associated financial obligations into their financial statements beginning in the 2023 fiscal year. The asset retirement obligations should be capitalized and amortized, allocating the future costs of retirement in a rational and systematic manner over the remaining life of the asset.

The recognition of the liability for future costs associated with the retirement of certain assets will ensure that funds will be available for the full cost of the asset disposal at the end of its useful life.

Common assets with these types of associated costs for disposal include buildings with asbestos, asbestos concrete pipes, below ground fuel tanks, septic beds and any asset which has a legal regulation or obligation to follow certain procedures at the end of its useful life or when taken out of service.

## **COMMENTS:**

Staff have attended many seminars and workshops regarding the concept of AROs and the methods for assessing the risks associated with various types of assets and the calculation of these future costs.

An internal working group composed of most municipal departments and our municipal engineer was formed to work with our consultants, PSD Citywide, in order to gather the information required to meet this new standard. Several meetings of this group have been held and we are working towards gathering all of the data necessary to complete these calculations.

A preliminary desktop review of our Asset Management Inventory database and municipally-owned properties was undertaken to produce a list of assets which have a risk of containing substances which could fall under the ARO provisions.

Designated Substances Reports have been obtained for all three Minto Community Centres and the Deputy Chief Building Official is reviewing the conditions of satellite facilities and other assets. Benchmark costs have been supplied by the municipal engineer and our consultants.

We will use the Prospective Method to account for these costs which is a forward-looking approach in the application of PS 3280 to the current year and subsequent periods. This will entail the calculation of the present value of ARO obligations as at January 1, 2023. This amount will then be added to the carrying amount of the related tangible capital assets, offset by an equal liability amount. Going forward, these accounts would be Amortized/Accreted on a straight-line basis over the remaining useful life of the asset.

Each year, there will be an accrued expense in the Statement of Operations which will increase the amount of the liability over time in order to recognize the effects of inflation over time. Ideally, the liability will grow to equal the estimated costs of disposal/decommissioning on the date of retirement of the asset.

Reporting of ARO transactions is required to be included in the 2023 Financial Statements and in several new fields as part of the annual Financial Information Return (FIR).

The attached policy has been circulated to the municipal auditor for review and comment if there are any concerns. There were no concerns noted.

## **FINANCIAL CONSIDERATIONS:**

The net results of these accounting calculations will be reflected in the annual Financial Statements and Returns.

**STRATEGIC PLAN:**

**Goal 5: Responsible Government**

Deliver Services in an open, accountable, and transparent manner while providing an outstanding working environment for our employees and community.

**PREPARED BY:** Gordon Duff, Treasurer

**RECOMMENDED BY:** Mark Potter, Interim Chief Administrative Officer