

**REPORT TO GOVERNANCE AND FINANCE COMMITTEE
MEETING OF WEDNESDAY, FEBRUARY 05, 2020**

SUBJECT **Implementation of the Public Sector Accounting Standard (PSAS) 3280,
Asset Retirement Obligations (ARO)**

ISSUE SUMMARY

This report provides additional information on section PS 3280 of the Public Sector Accounting Standards which was issued in August 2018 and is effective for fiscal years beginning on or after April 1, 2021.

BACKGROUND

Following the Audit Planning Report by KPMG at the January 8, 2020 Board meetings, the CRD Board requested additional information on section PS 3280 of the Public Sector Accounting Standards on Asset Retirement Obligations.

Investigation and evaluation work will involve all CRD departments and will begin in 2020 ending with valuation and recognition in the financial statements for the year ended December 31, 2022. The standard will require recognition of future costs related to retirement of tangible capital assets.

Asset retirement obligations arise when there is a legal obligation to retire tangible capital assets. Retirement is defined as removal of a capital asset from service and includes sale transactions, asset abandonment and/or asset disposal. Costs may include, but are not limited to decommissioning, dismantling, and remediation of a tangible capital asset.

Existing laws, regulations, and contractual agreements may also require public sector entities to take specific actions to retire certain tangible capital assets at the end of their useful lives.

The consolidated financial statements of the Capital Regional District ("the District") are prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS). As such, we are required to adopt PS Section 3280 for the year ended December 31, 2022.

ALTERNATIVES

Alternative 1

The Governance and Finance Committee recommends to the Capital Regional District Board:
That this report be received for information.

Alternative 2

The Governance and Finance Committee recommends to the Capital Regional District Board:
That this report be referred back to staff for additional information.

IMPLICATIONS

Service Delivery Implications

The exercise of identifying, assessing and estimating asset retirement obligations will require a considerable effort across the organization. In some cases expertise of a third party will be required to appropriately estimate the costs and nature of the obligation. Staff efforts will also include consultation across other local government entities and will incorporate advice from the auditors. At this point, Staff do not recommend early adoption of this accounting standard.

Financial Implications

Currently, the consolidated financial statements reflect balances and disclosures in alignment with public sector accounting standards addressing general liabilities, landfill liabilities, contractual obligations, contaminated sites and contingent liabilities.

The new standard extends these requirements to include liabilities related to the retirement of existing assets. The standard outlines that the cost of an asset should also include the cost that will be incurred to retire that asset. An asset retirement obligation exists when there is a legal obligation to incur retirement costs in relation to an asset.

Some examples of when a legal obligation may exist:

- Lease requires removal of leasehold improvements at the end of lease
- Land covenants require land be returned to its natural state when assets are no longer in use
- Assets that need to be removed from site at the end of their useful life
- Assets that do not comply with standards and regulations that if sold, disposed or no longer in use, would require remediation (i.e. buildings containing asbestos)

Assets likely to have an associated retirement obligation could include buildings, leased properties, dams, docks, landfills, pump stations, reservoirs, treatment plants, parks infrastructure, and radio towers.

With the implementation of PS3280 the previous PS 3270 Solid Waste Landfill Closure and Post-Closure Liability is replaced. Under PS 3280, the liability for landfill closure and post-closure costs will be revised. Capacity assumptions and forecasts will be impacted by the Solid Waste Management Plan currently under review.

Financial Statement Impact

Once a liability is estimated a liability and asset of equal value are recorded on the Statement of Financial Position. This effectively increases the carrying value of the existing asset at the same time as reflecting the liability. The only exception is in cases where the asset is no longer in use and the liability will be expensed immediately rather than creating an asset.

Estimates will include all costs directly related to the asset retirement activities but will be limited to those legally enforceable. An estimate is made today for some point in the future at which time

the liability will be extinguished. The future value is then discounted, through a discount rate, back to today's value.

Each year there will be an accrued expense in the Statement of Operations ('accretion expense') to increase the liability with the passage of time. This recognizes the expense while the asset is in use and results in the liability growing to equal the estimated costs at the retirement date. Similar to amortization, accretion is a non-cash expense item and does not directly drive budgeted revenues. Ultimately, reserve and debt policies establish required funding levels to fund future asset liabilities.

CONCLUSION

As requested by the Board at the January 8, 2020 meeting, the report provides information on section PS 3280 of the Public Sector Accounting Standards which was issued in August 2018 and is effective for fiscal years beginning on or after April 1, 2021. Section PS 3280 provides guidance that an asset retirement obligation arises when there is a legal obligation to retire tangible capital assets. Where an obligation exists a liability will need to be reflected in the consolidated financial statements. We are required to adopt PS Section 3280 for the year ended December 31, 2022.

RECOMMENDATION

The Governance and Finance Committee recommends to the Capital Regional District Board:
That this report be received for information.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Senior Manager, Financial Services
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