Grand River Conservation Authority
Asset Retirement Obligations Policy

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Policy Statement

The Grand River Conservation Authority (GRCA) shall account for and report on asset retirement obligations (ARO) in compliance with the Public Sector Accounting Board (PSAB) Handbook, section 3280.

Policy Approval

This policy will be reviewed by the Audit Committee and recommended for approval by the Board of Directors.

Purpose

The objective of this Policy is to outline the accounting treatment for asset retirement obligations (ARO) so that users of the financial statements can discern information about these assets, and their end of life obligations. The principal issues in accounting for ARO's is the recognition and measurement of these obligations.

Definitions

Accretion expense is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time. This will not apply to the GRCA as AROs will not be discounted.

Asset retirement activities include all activities related to an asset retirement obligation. These may include, but are not limited to:

- decommissioning or dismantling a tangible capital asset that was acquired, constructed, developed, or leased;
- remediation of contamination of a tangible capital asset created by its normal use;
- post-retirement activities such as monitoring; and
- constructing other tangible capital assets to perform post-retirement activities.

Asset retirement cost is the estimated amount required to retire a tangible capital asset.

Asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset.

A **legal obligation** establishes a clear duty or responsibility to another party that justifies recognition of a liability. For purposes of this Section, a legal obligation can result from:

(a) agreements or contracts;

(b) legislation of another government;

(c) a government's own legislation; or

(d) a promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor under the doctrine of promissory estoppel.

Retirement of a tangible capital asset is the permanent removal of a tangible capital asset from service. This term encompasses sale, abandonment or disposal in some other manner but not its temporary idling.

Application

This Policy applies to all departments within the reporting entity of the Grand River Conservation Authority that possess asset retirement obligations including:

- Assets with legal title held by the GRCA
- Assets controlled by the GRCA

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

This includes activities such as:

- removal of asbestos
- retirement of landfills
- underground fuel storage tank removal
- wells, sewage, septic tank, septic bed, wastewater environmental ordinances

Other obligations to retire tangible capital assets may arise from contracts, court judgments, or lease arrangements.

The legal obligation associated with retirement of tangible capital assets controlled by the GRCA will be recognized as a liability in the financial statements of the GRCA in accordance with PS3280, adopted for the Financial Statements reporting on the fiscal year ending December 31, 2023. A monitoring exercise will occur annually to ensure accuracy and completeness – see appendix C.

Asset retirement obligations result from acquisition, construction, development, or normal use of the asset. These obligations are predictable, likely to occur, and unavoidable. Asset retirement obligations are separate and distinct from contaminated site liabilities. The liability for contaminated sites is normally resulting from unexpected contamination exceeding the environmental standards. Asset retirement obligations are not necessarily associated with contamination.

Policy Requirements

A. Recognition

A liability should be recognized when, as at the financial reporting date:

- there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- the past transaction or event giving rise to the liability has occurred;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

A liability for an asset retirement obligation cannot be recognized unless all of the criteria above are satisfied.

The estimate of the liability would be based on requirements in existing agreements, contracts, legislation, or legally enforceable obligations expected to be used in asset retirement activities.

B. Measurement

The estimate of a liability should include costs directly attributable to asset retirement activities. Costs could include post-retirement operation, maintenance, and monitoring if they are an integral part of the retirement of the tangible capital asset. Professional judgment is required when measuring the extent and complexity of future costs, and the time frame over which activities will occur.

Directly attributable costs include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees, and overhead costs directly attributable to the asset retirement activity.

Upon initial recognition of a liability for an asset retirement obligation, the GRCA will recognize an asset retirement cost by increasing the carrying amount of the related tangible capital asset (TCA), or a component thereof, by the same amount as the liability.

Where an active asset is expected to operate in perpetuity (i.e., buildings, dams), the useful life of the ARO will be established using the same useful life terms as the correlated tangible capital asset, starting from the date of asset retirement obligation establishment (triggered by ARO adoption, new asset acquisition, new legislation, or contractual obligation). The ARO asset will be depreciated using the straight-line method.

For water control structures, there would be a trigger point when the asset is nearing inactivity or is inactive which would be at the stage the entity is performing a terminal engineering assessment to determine if the dam is sound and safe and can be left as is, or if additional work needs to be completed to return it to an adequate structure. At this trigger point, an ARO would be set up. Costs of remediation (ARO) are to return the structure to this state (safe), and not to extend the assets life (betterments). Betterments would be accounted for as a TCA addition.

Where the obligation relates to an asset which is no longer in service, and not providing economic benefit, the obligation is expensed upon recognition.

The capitalization thresholds applicable to the different tangible asset categories will also be applied to the asset retirement obligations to be recognized within each of the asset categories.

The GRCA will not be applying the present value technique. The estimated costs of the ARO will be represented by the best current estimate of the costs to retire the asset. These costs will not be discounted, as estimated retirement dates are often unknown, and discount rate volatility would negatively impact estimation accuracy.

C. Transition Method

Upon the year of adoption, the GRCA will apply the prospective approach to asset retirement obligation adoption as at December 31, 2023. The benefit of this adoption method allows the GRCA to avoid adjusting opening surplus and provides the ability to recognize the ARO expenses over the remaining useful life of the ARO asset.

D. Subsequent Measurement

On an annual basis, the existing asset retirement obligations will be assessed for any material changes in expected cost, term to retirement, or any other changes that may materially impact the estimated obligation. In addition, any new obligations identified will also be assessed. See Appendix C for Annual ARO Monitoring Inquiries that will be circulated to staff listed under ‘Responsibilities’.

Materiality will be considered as determined in the annual audit findings report prepared by GRCA’s external auditor.

E. Presentation and Disclosure

The liability for asset retirement obligations will be disclosed. See Appendix B for an illustration of journal entries applicable to ARO.

Responsibilities

- Financial Controller – lead (project management, develop project plan, determine transition method, measurement approaches, prepare audit documentation)
- Senior Accountant – analyst role
- Manager of Central Services – Central Services team representative
- Manager of Water Infrastructure – Water Infrastructure team representative
- Property Analyst or Manager of Conservation Lands – Conservation Lands representative

Other staff may be included and/or consulted as required. The above-mentioned positions will participate in the annual monitoring exercise (see Appendix C).

Departments

Central Services and Water Infrastructure departments are required to:

- Communicate with Finance on retirement obligations, and any changes in asset condition or retirement timelines.
- Assist in the preparation of cost estimates for retirement obligations.
- Inform Finance of any legal or contractual obligations at inception of any such obligation

- Sign off on Annual ARO Monitoring Inquiries document circulated at interim and year end audit (Appendix C)

Finance department is responsible for the development of and adherence to policies for the accounting and reporting of asset retirement obligations in accordance with Public Sector Accounting Board section 3280. This includes responsibility for:

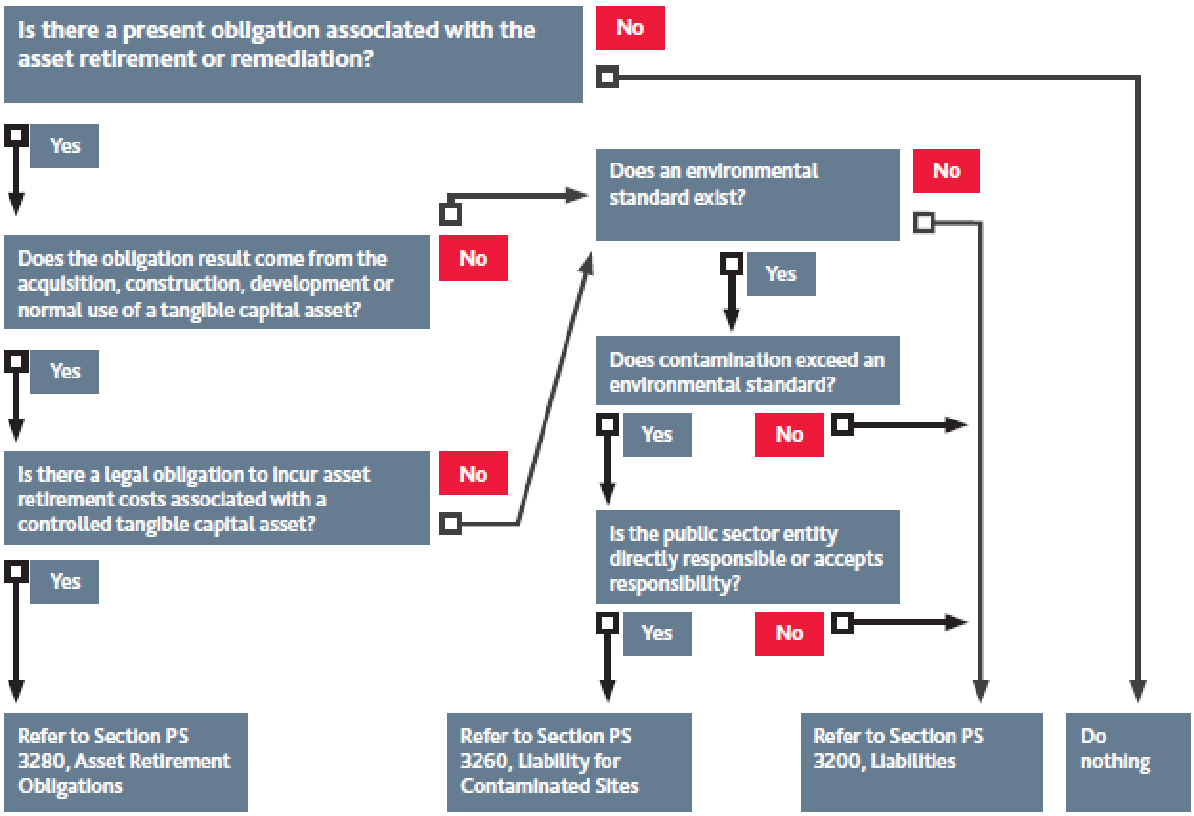
- Reporting asset retirement obligations in the audited financial statements of the GRCA and other financial documents as required
- Monitoring the application of this Policy
- Circulating the Annual ARO Monitoring Inquiry document to the staff listed under 'Responsibilities' section of this policy (Appendix C)
- Managing processes within the financial software Fixed Asset accounting module
- Investigating issues and working with other departments to resolve issues.

Legislative and Administrative Authorities

Public Sector Accounting Board, Public Sector Handbook, Section PS 3280 Asset Retirement Obligations

Appendix A - Decision tree – Scope of Applicability

The following flowchart can be used to help determine which standard an entity should look to for guidance in accounting for an obligation.



Appendix B - Journal Entries Illustration

December 31, 2023 → To record the ARO asset and liability upon ARO adoption (will be set up through GP's fixed asset subledger; using the liability account as the clearing CR for all ARO Assets)

DR ARO Asset	[PV of estimated future costs]	
CR ARO Liability		[PV of estimated future costs]

December 31, 2024 → To record ARO Asset depreciation (done through the fixed asset subledger)

DR Depreciation Expense	[Amount using straight line method]	
CR Accumulated Depreciation		[Amount using straight line method]

Subsequent measurement; if material changes to ARO information exist at the financial reporting date (for reasons other than accretion):

- Adjust the ARO Asset and Liability by the incremental difference
- The ARO asset will be depreciated over the ARO asset's useful life

Appendix C – Annual ARO Monitoring Inquiries

The following questions will be reviewed annually in preparation for interim audit (October/November) AND at year-end in preparation for adjustments required for ARO financial reporting:

1. Has any asbestos abatement occurred during the year?
a. If so, where?
2. Have any buildings been sold or demolished where an ARO has been established for asbestos abatement?
3. Have any buildings been acquired where asbestos exists?
4. Is there an updated asbestos inspection report that can be reviewed against ARO to ensure completeness?
5. Has a demo permit been issued where the removal of a septic system is now required?
6. Has a demo permit been issued where a well decommissioning is now required?
7. Has a condition assessment been completed on any septic systems where removal of the septic system is now required?
8. Has a dam or water control structure been identified as inactive or nearing inactivity?
9. Has an engineering assessment been completed on any dams, dykes or gauges that require an ARO be quantified?
10. Are there any new contracts, condition assessments or environmental legislation that requires any of our water supply or monitoring wells to be decommissioned?
11. Are there any new contracts or leases that require end of term expenditures (usually to put the asset back into a pre-lease state)?
12. Have any new underground fuel tanks been installed?
13. Have any underground fuel tanks been removed?
14. Have any above ground fuel tanks had a condition assessment completed and now require removal?
15. Is there any new information regarding an asset that has post retirement costs – i.e. Legal, equipment, overhead, staff time, changes in cost estimates previously utilized.
16. Is there any new legislation, or contractual obligations related to a GRCA asset?

Specific Inquiries:

- Conservation Lands – review ARO Property Agreements Review and Summary and provide updates as required.

Signoff:

Position	Name	Signed	Dated
Financial Controller			
Senior Accountant			
Manager of Central Services			
Manager of Water Infrastructure			
Property Analyst or Manager of Conservation Lands			

Resources:

Perspectives on PS3280 Asset Retirement Obligations (kpmg.com)

3280_ARO.pdf (bdo.ca)

2020 06 PSAS 3280 Asset Retirement Obligations - FINAL (mnp.ca)