
SECTION:	ADMINISTRATIVE SERVICES
DEPARTMENT/DIVISION:	CORPORATE SERVICES / FINANCE
SUBJECT:	ASSET RETIREMENT OBLIGATIONS (ARO)

POLICY STATEMENT

It is the policy of the City of Thunder Bay to account for, and report the accounts of, the Municipality's Asset Retirement Obligations in accordance with the Canadian Public Sector Accounting Standards as established by the Canadian Public Sector Accounting Board (PSAB), specifically PS 3280.

PURPOSE

This Policy ensures that all statutory requirements with respect to the accounting for and reporting of Asset Retirement Obligations are fulfilled.

SCOPE

This policy applies to all City departments falling within the reporting entity of the City with the exception of Thunder Bay Public Library Board, Thunder Bay Hydro Corporation and Tbaytel which will be consolidated for financial statement purposes using the assumptions and policies adopted by these reporting entities.

The standard applies to tangible capital assets that are in Productive Use and those that are no longer in Productive Use, and also applies to legal obligations including obligations created by promissory estoppel associated with the retirement of a tangible capital asset that results from its acquisition, construction, development or normal use.

DEFINITIONS

When a term set out below appears in the text of this Policy with its initial letters capitalized, the term is intended to have the meaning set out for it in this section. Wherever a term below appears in the text of this Policy in lower case, it is intended to have the meaning ordinarily attributed to it in the English language.

"Accretion Expense" is the increase in the carrying amount of a liability for Asset Retirement Obligations due to the passage of time.

"Asset Retirement Obligation" or "ARO" is a legal obligation that measures the cost associated with the retirement of a tangible capital asset at the end of its expected life-cycle. AROs are associated with the City's tangible capital assets, assets with legal title held by the City, assets controlled by the City and assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes.

"Canadian Public Sector Accounting Board" or "PSAB" is an independent body created to serve the public interest by developing accounting standards for the public sector that contribute to transparency and quality financial information to support decision-making.

"City" refers to the Corporation of the City of Thunder Bay.

“Finance” is a division of the Corporate Services department within the corporation of the City of Thunder Bay.

“Productive Use” means the tangible capital asset is held for use in the production or supply of goods or services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets.

“Promissory estoppel” refers to a legal principle that defends the validity of a promise in absence of a written contract.

“PS 3280” is an accounting standard in effect for fiscal years beginning on or after April 1, 2022, that covers asset retirement obligations for all tangible capital assets of a public sector entity that are predictable and unavoidable.

“Straight-Line Method” is a method of calculating periodic depreciation that spreads the cost evenly over the anticipated number of periods of useful life of the asset.

CONDITIONS

SCOPING

Asset Retirement Obligations result from acquisition, construction, development or normal use of the asset. These obligations are predictable, likely to occur and unavoidable, due to legislation or contractual agreements.

Asset Retirement Obligations **includes**, but is not limited to:

1. Asbestos removal (e.g. building materials);
2. Leasehold improvements;
3. Removal of underground storage tanks (oil or gas); and
4. Retirement of landfills.

Asset Retirement Obligations **exclude** activities such as:

1. Costs relating to routine replacement or life cycle maintenance;
2. Remediation of contaminated sites;
3. Improper use of a tangible capital asset;
4. Unexpected events, such as contamination; and
5. Costs arising from a plan to sell.

ACCOUNTABILITY

Finance is responsible for the development of policies for accounting and reporting of Asset Retirement Obligations in accordance with PS 3280. This includes:

- 1.1. Financial Statement reporting and disclosure requirements for the City, in accordance with guidelines set out by PSAB.
- 1.2. Monitoring the application of this policy.
- 1.3. Investigation and resolution of any issues pertaining to AROs with the respective stakeholder.
- 1.4. Acting as the liaison between the external auditors and City departments as needed.

- 1.5. Continuous monitoring and assessment of the AROs for financial statement reporting on an annual basis, including discount rate assumptions.
- 1.6. Support City departments with the identification and assessment of legislation and regulations that could impact AROs.
- 1.7. Ultimate responsibility for the oversight of PS 3280 and the accuracy of the financial statements.

Departments responsible for tangible capital assets must inform Finance of any AROs that become known, or change, to ensure accurate reporting. This includes:

- 1.1. Advising Finance of any changes to pre-existing assets, new acquisitions, asset conditions, legislation, regulations, or contractual obligations.
- 1.2. Working with Finance to ensure all relevant legislation and regulations that would impact AROs have been identified.
- 1.3. Reviewing new and pre-existing contracts and agreements, in consultation with Finance to determine if an ARO exists.
- 1.4. Advising Finance of estimated costs to retire an asset, changes to previously estimated costs, if professional judgement and expertise can be applied, otherwise, defer to engage a consultant.

RECOGNITION

According to PS 3280, a liability for an Asset Retirement Obligation should be recognized when **all** of the criteria noted below are satisfied:

1. There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
2. The past transaction or event given rise to the liability has occurred;
3. It is expected that future economic benefits will be given up; and
4. A reasonable estimate of the amount can be made.

At initial recognition, if the tangible capital asset is in Productive Use and not fully amortized, the City will increase the carrying amount of the related tangible capital asset and recognize a corresponding liability. The City will assume that asbestos is not likely in building/construction materials after 1993 and therefore asbestos abatement is not required.

If the related tangible capital asset is fully amortized, no longer in Productive Use, or was never recognized as an asset the treatment is as follows:

1. Fully amortized, still in Productive Use – although it is fully amortized, the historical cost basis exists and the asset retirement cost is added to the asset's existing cost and expensed over the revised estimated useful life of the asset.

2. No longer in Productive Use – the asset retirement cost is expensed immediately as there is no longer a period of future economic benefit associated with the asset retirement costs, and the Asset Retirement Obligation liability is still recognized.
3. Unrecognized assets (expensed at purchase, based on capitalization threshold) – the asset retirement cost is expensed immediately as there is no cost basis for it to be attached to.

Materiality thresholds will be applied to AROs recognized within the financial statements.

Upon adoption of PS 3280, landfills under PS 3270 will be transitioned as PS 3270 is no longer applicable.

MEASUREMENT

Initial Measurement

For initial measurement, the estimate of a liability should only include costs that are directly attributable to asset retirement activities that are an integral part of the retirement of the tangible capital asset.

Directly attributable costs include, but are not limited to: post-retirement operation, maintenance and monitoring, payroll and benefits, equipment and facilities, materials, legal and professional fees, and overhead costs directly attributable to the asset retirement activity. These costs may be based on requirements established in agreements, contracts, or other legal obligations.

The City will apply the time value of money to the future cashflows related to AROs.

Subsequent Measurement

At each year end, the carrying amounts of the ARO liability must be reassessed to consider new information, the discount rate, and other assumptions used.

Finance will be responsible for assessing the discount rate applied at each reporting period to ensure it is reasonable.

At each reporting period, the City will recognize any material changes to the liability resulting from; time passing as an Accretion Expense, and any changes to the time frame or the original amount of the estimate.

Any revisions to the tangible capital asset's carrying amount are included and amortized using a straight-line method over the useful life of the asset.

When measuring an ARO liability, the best estimate of the cost to retire a tangible capital asset should be used. This estimate is based on the available information at the financial statement date. To determine the best estimate, professional judgement is required which can include internal expertise, external consultants, or third-party quotes. Depending on the complexity of the retirement costs and the time frame, external consultants may be required.

Uncertainty when predicting the timing and the amount of the ARO does not eliminate the obligation.

The liability for an ARO continues to be recognized until it is settled.

TRANSITIONAL PROVISION

Public Sector Accounting Board Handbook Section 3280, Asset Retirement Obligations, is effective for fiscal years beginning on or after April 1, 2022, making this applicable as of January 1, 2023, with the first annual reporting requirement being for the City of Thunder Bay's December 31, 2023 financial statements.

The City will implement the modified retrospective provision.

PRESENTATION AND DISCLOSURE

The liability for Asset Retirement Obligations will be disclosed in the City's audited financial statements and note disclosures.

The City should disclose the following information:

- a) a general description of the liability for an ARO and the associated tangible capital asset;
- b) the amortization method used;
- c) the basis for the estimate of the liability; and
- d) the discount rate used.

REFERENCE

- Public Sector Accounting Board, Public Sector Handbook, Section PS 3280 Asset Retirement Obligations
- Tangible Capital Asset Policy No. 05-01-15
- Corporate Report 66-2025 (Corporate Services – Finance)

APPROVED BY:	City Council	Date:	March 10, 2025
Replacing/Amending:			
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Contact:	Director, Finance		
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Affected Departments:			