16.4 Asset Retirement Obligations

Policy Statement

It is the policy of the Province of Nova Scotia (Province) to record a liability for asset retirement obligations on an accrual basis in accordance with Canadian public sector accounting standards (PSAS).

Definitions

ACCRETION EXPENSE

The increase in the carrying amount of a liability for asset retirement obligations due to the passage of time.

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 or developed;
- 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

The estimated cost required to retire a tangible capital asset.

ASSET RETIREMENT OBLIGATION

Legal obligation associated with the retirement of a tangible capital asset.

LEGAL OBLIGATION

Clear duty or responsibility to another party that justifies recognition of a liability. Legal obligation can result from:

- agreements or contracts
- legislation, including legislation of another government
- a promise conveyed to a third party that imposes a reasonable expectation of performance upon the promisor

PRODUCTIVE USE

Tangible capital asset held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance, or repair of other tangible capital assets.

RETIREMENT OF TANGIBLE CAPITAL ASSET

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

THRESHOLD AMOUNT

Represents the minimum estimated cost of an individual asset retirement obligation to be recognized as a liability. The threshold for recording an asset retirement obligation liability is $15,000. The threshold is applicable to each type of asset retirement obligation (i.e., asbestos, lead, etc.) and not to the aggregate of each type of asset retirement obligation associated with an individual asset.

UNRECORDED ASSET

Tangible capital assets with no recorded value or nominal value. Assets with no recorded value may arise from not meeting capitalization thresholds at the time of acquisition, construction, or development. Assets recorded at nominal value could be the result of no reasonable estimate of value at time of capitalization. In addition, assets used under an operating lease agreement, would be considered unrecorded assets. These assets should be assessed for asset retirement obligations.

Policy Objectives

The objective of this policy is to ensure the liabilities and costs associated with the asset retirement obligations are properly, consistently, and accurately identified, accounted for, and disclosed in the Province's consolidated financial statements. This policy specifically addresses:

1. how to identify asset retirement obligations
2. when and how to recognize a liability for asset retirement obligation
3. how to measure a liability for asset retirement obligation

Application

This policy applies to all of the Province's departments, public service units, agencies, boards, and commissions contained in the General Revenue Fund (hereinafter referred to as "departments") that possess asset retirement obligations related to the following assets:

- Assets with legal title held by a provincial department;
- Assets controlled by a provincial department;
- Assets that have not been capitalized or recorded as a tangible capital asset for financial statement purposes (unrecorded tangible capital assets).

Organizations outside of the General Revenue Fund (GRF) but within the Government Reporting Entity [1] (GRE) are encouraged to adopt a policy that allows for the accurate and consistent reporting of liabilities for asset retirement obligations. This policy should comply with the entity's generally accepted accounting framework. These organizations are responsible for reporting their liabilities for asset retirement obligations to the Government Accounting Division as part of the year-end consolidation reporting requirements.

Upon adoption of PS 3280, all departments contained in the GRF and all organizations within the GRE are directed to apply PS 3280 using modified retroactive application.

Policy Directives

Asset retirement obligations are identified, recorded, and disclosed in accordance with the accounting standards and guidelines contained within PSAS. In applying this policy, departments must identify all asset retirement obligations for their area of responsibility.

IDENTIFICATION OF ASSET RETIREMENT OBLIGATIONS

A complete listing of asset retirement obligations should be compiled by departments and updated at least annually. Asset retirement obligations can be associated with recorded tangible capital assets as well as unrecorded assets. All assets owned, controlled, and leased by the Province should be considered by reviewing tangible capital asset listings, operating leases, insurance records, contractual obligations, inventories of equipment, and any other applicable information and databases.

This policy does not deal with liabilities associated with environmental liabilities, which are covered separately under PS 3260 Liability for Contaminated Sites and Chapter 16.2 Liability for Contaminated Sites in Corporate Administrative Policy Manual #200.

1 For definition, see Management Manual #200, Chapter 4.1 Government Reporting Entity.

RECOGNITION OF LIABILITY

A liability for an asset retirement obligation should be recognized when all the following criteria are met:

- There is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- The legal obligation results from the acquisition, construction, development, or normal use of the tangible capital asset;
- It is expected that future economic benefits will be given up;
- A reasonable estimate of the amount can be made; and
- The estimated cost of the individual asset retirement obligation type exceeds the threshold of $15,000.

RECOGNITION AND ALLOCATION OF ASSET RETIREMENT COSTS

Upon initial recognition of a liability for an asset retirement obligation, asset retirement costs should be recognized by increasing the carrying amount of the related tangible capital asset (or a component thereof) by the same amount as the liability for assets that are still in productive use. Where the obligation relates to an asset that is no longer in service, and not providing economic benefit, or to an unrecorded asset, the obligation should be expensed upon recognition.

Status of Asset	Recognition Method
In Productive Use	Capitalize
Not In Productive Use	Expense
Unrecorded Asset	Expense
Fully Amortized Asset	Capitalize

MEASUREMENT

The estimate of a liability should include costs directly attributable to asset retirement activities. Costs could include post-retirement operation, maintenance, and monitoring that are an integral part of the retirement of the tangible capital asset. The estimate would include costs of tangible capital assets acquired as part of asset retirement activities to the extent those assets have no alternative use. The liability should be based on the available information as of the financial reporting date.

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. Costs would include only those related to the nature and extent of the asset retirement obligation in accordance with the agreement, contract, legislation, or a legally enforceable obligation establishing the liability.

Where the asset retirement activities involve the acquisition of an asset that would otherwise meet the definition of a tangible capital asset and that asset has no alternative future use, the cost of the asset required for asset retirement activities should be reported as part of the asset retirement obligation liability as an expense, not an asset, in the period when the asset retirement obligation liability is recorded. If the asset has an alternative future use, only the portion of its estimated cost related to its use in asset retirement activities would be included in the estimate of an asset retirement obligation liability. When the asset is acquired, only the portion of the costs related to the alternative use would be capitalized and would be amortized to expense over the remainder of its useful life in the periods of alternative use.

Post-retirement operational, maintenance, and monitoring costs can be included in the asset retirement obligation liability only if they are an integral part of the asset retirement activities. Otherwise, operational, maintenance, and monitoring costs incurred before the asset retirement activities are considered operating costs and should be expensed when incurred.

The measurement technique adopted by the Province (in consultation with internal experts and/or external consultants) should result in the best estimate of the amount required to retire the asset measured in current dollars at the financial reporting date. The best estimate can be described as the amount that the Province would rationally pay to settle or otherwise extinguish the liability. The amount should be based on the current facts and information available at the financial reporting date using existing legislated standards and technology expected to be used in the asset retirement activities. The estimate of expenditures would require professional judgment supplemented by a combination of the following; experience, third party quotes, and, at times, reports of independent experts. All information considered in determining management's best estimate should be formally documented for each liability recorded. In the case where management has determined the amount of liability to fall within a range and no amount within the range can be determined to be the better estimate, the minimum amount of the range should be recorded.

The liability estimate should be reviewed each year-end to reflect any period-to-period changes in estimates. Estimates could be affected by partial settlements, fluctuations in the price of labour and materials, adoption of new asset retirement technologies, and/or modifications to legislation. The impact of inflation should also be factored into the liability estimate. Any revisions to the amount previously recorded should be accounted for in the period in which the revisions are made.

The revised carrying amount of the related tangible capital asset (or component thereof) should be amortized in a rational and systematic manner on a go-forward basis. Once the related tangible capital asset (or component thereof) is no longer in productive use, all subsequent changes in the estimate of the liability for asset retirement obligations should be recognized as an expense in the period they are incurred. A change in measurement resulting from the passage of time (i.e., accretion expense or inflation) results from events of the accounting period and would be expensed in the period and reported in the statement of operations. The measurement of such changes should occur before measuring changes resulting from a revision to either the timing, the amount of the original estimate of undiscounted cash flows, or the discount rate.

A liability for an asset retirement obligation continues to be recognized until it is settled or otherwise extinguished (settled, sold, or disposed).

RECOVERIES

A recovery related to an asset retirement obligation should be recognized when all three of the following criteria are met:

a) the recovery can be appropriately measured;

b) a reasonable estimate of the amount can be made; and

c) it is expected that future economic benefits will be obtained.

A recovery should not be netted against the liability. A contingent recovery should be disclosed in accordance with PS 3320 Contingent Assets.

RECORDING AND REPORTING

Generally, an asset retirement obligation should be recorded by the department that owns or leases the asset. Where the asset is owned by one department but used by another the department responsible for the retirement obligation should record the liability. In such situations, both departments should communicate with each other to ensure the recording department has all the relevant information required to make an appropriate estimate of the liability.

Departments are to prepare and submit to Government Accounting a detailed listing of asset retirement obligation liabilities under their responsibility in accordance with the year-end financial reporting requirements. This schedule is to contain a description of the assets, event creating the asset retirement obligation, nature of the asset retirement obligation, applicable legislation or contract, nature of settlement work, planned settlement date (if known), and estimated cost of the asset retirement obligation.

To ensure the completeness and accuracy of the schedules, preparers and reviewers must sign the asset retirement obligation schedules as developed by Government Accounting.

DISCOUNTING

Discounting should be considered when all three of the following circumstances are met:

- The total asset retirement obligation liability (sum of all types of asset retirement obligations for an individual asset, i.e., asbestos, lead, mercury) exceeds $1,000,000;
- There is information to support a reasonably certain[2] cash outflow date in relation to the individual asset with asset retirement obligation (i.e., planned demolition, or prescribed in legislation or contracts); and
- The impact of discounting results in a significant change to the asset retirement obligation estimate when not using a present value technique; defined as $500,000 on an individual asset basis.

Policy Guidelines

Common examples of asset retirement obligations include the following:

1. Asbestos and Lead

Older buildings purchased or constructed by the Province may contain asbestos and/or lead materials (like paint, tiles, pipes, etc.) requiring a future cost to remediate upon retiring the building

2. Leasehold Improvements in Buildings

Lease agreements may require leasehold improvements to be removed upon termination of a lease.

---

2 Reasonably certain is defined to be likely, where the probability of the occurrence can be assessed at greater than 70% chance of occurring.

3. Petroleum Storage Tanks

Petroleum Management regulations prescribe requirements for out of service storage tank systems and decommissioning of storage tanks.

4. Wells

Well Construction regulations prescribe decommissioning requirements for drinking water wells and monitoring wells.

5. Other

Mercury, medical equipment, landfills, gravel pit and quarry remediation, and other regulated materials.

MEASUREMENT UNCERTAINTY

In certain cases, there may be an indeterminate settlement date for the asset retirement obligation. Uncertainty about the timing and amount of settlement of the asset retirement obligation does not remove that obligation but will affect the measurement of the liability.

Given the volume of assets owned or controlled by the Province, a risk-based approach may be applied in estimating asset retirement obligations. In this case, the approach should be documented in detail by departments, including roles and responsibilities, and an established ranking system should be used. In addition, a site visit, although recommended, is not specifically required for each asset to assess its level of liability.

PROFESSIONAL JUDGEMENT

A reasonable estimate of the liability would require professional judgment based on the available information at year-end and could be supplemented by experience, third-party quotes and, in some cases, reports of independent experts.

Professional judgment will be required in assessing the appropriate measurement technique that results in the best estimate of the amount required to retire a tangible capital asset.

Accountability

DEPARTMENTS AND FINANCIAL ADVISORY SERVICES UNITS

Departmental staff and Financial Advisory Services Units (FAS) serving the departments are responsible for:

- implementing and complying with this policy

- documenting and updating their process, including roles and responsibilities of departmental staff, to comply with this policy
- maintaining an inventory of all asset retirement obligations and determining their proper accounting treatment under the terms of this policy
- consulting with experts to determine the existence and estimated cost of an asset retirement obligation
- maintaining complete current and accurate information and records
- periodically (at least annually) reviewing legislation and agreements to assess for new retirement obligations
- determining if there have been any promises or assurances, outside of an agreement, to external parties related to the retirement, removal, or disposal of an asset owned or controlled by the department
- periodically (at least annually at year-end) reviewing assets to assess for new retirement obligations or changes to previous cost estimates
- reconciling asset retirement obligations against associated tangible capital assets for completeness
- responding to Government Accounting inquiries regarding liabilities for asset retirement obligations
- providing the Office of the Auditor General with the evidence requested for the audit of asset retirement obligations

GOVERNMENT ACCOUNTING DIVISION

Government Accounting is responsible for:

- providing guidance and advice relating to the appropriate accounting treatment for asset retirement obligations
- assisting departments and FAS Units with the review of legislation and agreements to assess for new retirement obligations
- distributing the asset retirement obligations template to departments for year-end reporting purposes
- reviewing schedules submitted by departments for significant and unexpected differences
- compiling a list of all asset retirement obligations for the GRF
- compiling a list of all asset retirement obligations for the consolidated GRE by reference to the financial statements and worksheet packages of the governmental units, government business enterprises, and government partnership arrangements
- liaising with departments and the Office of the Auditor General, as needed

- assisting departments in documenting and updating their processes to comply with this policy
- monitoring the application of this policy
- periodically updating this policy in consultation with departments and FAS Units

Monitoring

FAS Units serving departments are responsible for monitoring the implementation and compliance of this policy. Government Accounting Division is responsible for monitoring the application, performance, and effectiveness of this policy. Government Accounting is also responsible for providing the necessary guidance and training to each department regarding this policy.

References

Public Sector Accounting Handbook
- PS 3280 Asset Retirement Obligations
- PS 3150 Tangible Capital Assets
- PS 3260 Liability for Contaminated Sites

Enquiries

Executive Director, Government Accounting
Department of Finance and Treasury Board
(902) 424-2079

Appendices

16-C Decision Tree – Contaminated Site or Asset Retirement Obligation

Approval date:	***March 8, 2023***	Effective date:	***March 8, 2023***
Approved by:	***Treasury and Policy Board***	Administrative update:	

Appendix 16-C

Decision Tree – Contaminated Site or Asset Retirement Obligation