REPORTING

Note X – Asset Retirement Obligations (ARO)

INSTRUCTIONS TO PREPARER

The GASB Statement 83, *Certain Asset Retirement Obligations* provides accounting and reporting guidance on asset retirement obligations (AROs). This standard requires governments to report these liabilities if they were not reported previously applicable or may have been reported by applying other guidance (such as the FASBS 143). The standard is expected to resolve these inconsistencies.

The new standard is effective for financial statements on years ending after June 15, 2018.

What is an asset retirement obligation?
An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Examples of potential AROs include:

- An asset that may require decommissioning at a substantial cost to a government such as power plants, nuclear reactors or sewage treatment plants.
- Assets of governments that operate in special industries such as an X-ray machine that may require special disposal due to radioactive material.

Landfills are a common ARO, but they are already covered in the GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* and the GASB Statement 83, *Certain Asset Retirement Obligations* does not change their current accounting and reporting.

When does the government have to report an asset retirement obligation?
A government should recognize an ARO when the liability is incurred and reasonably estimable. A liability has been incurred when there has been an external and internal obligating event:

- External obligating events are those that place an enforceable legal obligation upon a government to perform asset retirement activities. Examples of these events include an approved law or regulation, court ruling or legally binding contract.
- Internal obligating events include placing an asset into operation or starting to use it, abandoning an asset, or the incurrence of contamination (such as with a nuclear reactor).

This Statement also applies to legally enforceable liabilities of a lessor in connection with the retirement of its leased property if those liabilities meet the definition of an ARO.

How will this affect the financial statements?
An ARO will be an estimate of the decommissioning costs (equipment, facilities, or services) as if it were to be acquired at the end of the reporting period, otherwise termed “current value” of outlays. The probability weighting of potential outcomes should be used, but if this is not possible, then the most likely amount in the range of potential outcomes can be used as an alternative.

An asset retirement obligation (liability) is offset with a deferred outflow of resources except for in the case of an abandonment for which an expense should be reported at initial recognition. Over the asset’s useful life, the deferred outflow should be reduced and a corresponding expense recognized in a systematic and rational manner.

Disclosure requirements (except for minority share):

a. A general description of the AROs and the associated tangible assets, as well as the source of the obligations (whether they are a result of federal, state , or local laws and regulations, contracts or court judgements)
b. The method and assumptions used to measure the liabilities
c. The estimated remaining useful life of the associated tangible capital assets
d. How any legally required funding and assurance provisions associated with AROs are being met; for example, surety bonds, insurance policies, letters of credit, guarantees by other entities, or trust used for funding and assurance
e. The amount of assets restricted for payments of liabilities, if not separately displayed in the financial statements.

If an ARO or portions thereof has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government should disclose that fact and the reasons thereof.

If a government has a minority share in an ARO, it should disclose the following:

a. A general description of the ARO and associated tangible capital asset, including:
    1. The total amount of the ARO shared by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, other minority owners, if any, and the reporting government
    2. The reporting government's minority share of the total amount of the ARO, stated as a percentage
    3. The dollar amount of the reporting government's minority share of the ARO
b. The date of the measurement of the ARO produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, if that date differs from the government's reporting date
c. How any legally required funding and assurance provisions associated with the government's minority share of an ARO are being met; for example, surety bonds, insurance policies, letters of credit, guarantees by other entities, or trusts used for funding and assurance
d. The amount of assets restricted for payment of the government's minority share of the ARO, if not separately displayed in the financial statements.