February 28, 2024

2023 FIR Reporting Changes: <u>Asset Retirement Obligations & Financial Instruments</u>

Illustrative Examples

Disclaimer

- Interpreting and applying Public Sector Accounting Standards is a local responsibility.
- Municipalities are responsible for making local decisions that are in compliance with the law, such as applicable statutes and regulations, and are encouraged to consult with their local auditor.
- Examples provided in this document are for illustrative purposes only and may not reflect municipal circumstances or practices. They should not be relied upon as a comprehensive resource and are not a substitute for legal, accounting, or other professional advice.
- Rules and standards referenced within are subject to change.
- Local decisions which may impact the reporting of transactions could include, but are not limited to:
  - For the ARO standard – asset scoping, timing of recognition, discount rates selected, and transitional provision applied; and
  - For the FI standards – fair value measurement considerations, reporting of embedded derivatives, and application of transitional provisions.

Reminder: FIR reporting should align with municipalities' audited financial statements. Please use Schedule 83: Notes to report variances, if any.

1. Reporting an asset retirement obligation (ARO) for a newly purchased, developed, or constructed tangible capital asset.

Example Case Study

- A municipality purchases a building with asbestos for $4,000,000 on January 1, 2023.
- The useful life of the building is ten years, after which the building will be demolished.
- An estimate of the removal of asbestos is $800,000 in ten years.
- The present value of $800,000 using a discount rate of 3% is $595,275.
- The municipality uses straight-line amortization.
- The municipality sought auditor advice on how to record the transaction.

Table: The building's annual accretion and amortization expense (2023 – 2032)

		PV years	TCA Cost ($)	Accumulated Amortization ($)	Net Book Value ($)	ARO Liability ($)	Annual Amortization of ARO ($)	Annual Accretion of ARO ($)
January 1	2023	10	4,595,275	-	4,595,275	595,275	0	0
December 31	2023	9	4,595,275	459,528	4,135,748	613,133	459,528	17,858
December 31	2024	8	4,595,275	919,055	3,676,220	631,527	459,528	18,394
December 31	2025	7	4,595,275	1,378,583	3,216,693	650,473	459,528	18,946
December 31	2026	6	4,595,275	1,838,110	2,757,165	669,987	459,528	19,514
December 31	2027	5	4,595,275	2,297,638	2,297,638	690,087	459,528	20,100
December 31	2028	4	4,595,275	2,757,165	1,838,110	710,790	459,528	20,703
December 31	2029	3	4,595,275	3,216,693	1,378,583	732,113	459,528	21,324
December 31	2030	2	4,595,275	3,676,220	919,055	754,077	459,528	21,963
December 31	2031	1	4,595,275	4,135,748	459,528	776,699	459,528	22,622
December 31	2032	0	4,595,275	4,595,275	-	800,000	459,528	23,301
							4,595,275	204,725

Illustrative journal entries

To record **initial recognition at Jan 1, 2023**:		
Building (TCA)	$4,000,000	
Building (ARO)	$ 595,275	
Bank		$4,000,000
Asset Retirement Obligation (liability)		$ 595,275
To record **annual amortization expense allocation for 2023 year**:		
Amortization Expense (TCA) ($4 million/10 years)	$400,000	
Amortization Expense (ARO) ($595,275/10 years)	$ 59,528	
Accumulated Amortization (TCA)		$400,000
Accumulated Amortization (ARO)		$ 59,528
To record **annual accretion expense for the 2023 year**:		
Accretion Expense (per table on previous page)	$ 17,858	
Asset Retirement Obligation (liability)		$ 17,858
To record removal of asbestos in **2033**:		
Asset Retirement Obligation (liability)	$800,000	
Bank		$800,000

FIR Reporting

- The new tangible capital asset (TCA) is recorded as an addition or betterment.
- PS3280 AROs guides municipalities to determine if a retirement or remediation obligation relating to an existing tangible capital asset should be recognized. An asset retirement obligation is a legal obligation that arises from the retirement of tangible capital assets, including solid waste or landfill liabilities.
- PS3280.24 tells us that "upon initial recognition of a liability for an asset retirement obligation, a public sector entity should recognize an asset retirement cost by increasing the carrying amount of the related tangible capital asset (or a component thereof) by the same amount as the liability".
- For the purposes of preparing the FIR, in the case where a municipality acquires, constructs, or develops a TCA that requires restoration or rehabilitation at the end of its useful life, the entity would recognize a liability as a credit, then add a corresponding addition to the cost of the asset as a debit. The increase in the cost that relates to the ARO liability (the debit) is recorded in the new field "ARO Increase in TCA Cost" on Schedule 51A.

Schedule 51A Schedule of Tangible Capital Assets

ANALYSIS BY FUNCTIONAL CLASSIFICATION

			COST						AMORTIZATION				
		2023 Opening Net Book Value 1 $	2023 Opening Cost Balance 2 $	Additions and Betterments 3 $	ARO Increase in TCA Cost 14 $	Disposals 4 $	Write Downs 5 $	2023 Closing Cost Balance 6 $	2023 Opening Amortization Balance 7 $	Annual Amortization 8 $	Amortization Disposal 9 $	2023 Closing Amortization Balance 10 $	2023 Closing Net Book Value 11 $
0299	**General Government.**							0				0	0
	Protection Services												
0410	Fire							0				0	0
0420	Police			4,000,000	595,275			4,595,275		459,528		459,528	4,135,747
0421	Court Security							0				0	0
0422	Prisoner Transportation							0				0	0
0430	Conservation Authority							0				0	0
0440	Protective Inspection and Control							0				0	0
0445	Building Permit and Inspection Services							0				0	0
0450	Emergency Measures							0				0	0
0460	Provincial Offences Act (POA)							0				0	0
0498	Other							0				0	0
0499	**Subtotal**	0	0	4,000,000	595,275	0	0	4,595,275	0	459,528	0	459,528	4,135,747
	Transportation Services												

Record the new asset plus the increase in cost that relates to the ARO

Record amortization expense for the 2023 year

Schedule 40 Consolidated Statement of Operations: Expenses

		Salaries, Wages and Employee Benefits 1 $	Interest on Long Term Debt 2 $	Materials 3 $	Contracted Services 4 $	Rents and Financial Expenses 5 $	External Transfers 6 $	Amortization 16 $	Total Expenses Before Adjustments 7 $
	General government								
0240	Governance								0
0250	Corporate Management								0
0260	Program Support								0
0299	**Subtotal**	0	0	0	0	0	0	0	0
	Protection Services								
0410	Fire							0	0
0420	Police					17,858		0	17,858
0421	Court Security							0	0
0422	Prisoner Transportation							0	0
0430	Conservation Authority							0	0
0440	Protective Inspection and Control							0	0

Record accretion expense for the 2023 year

Ontario

According to PS 3280.08 (a), accretion expense is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time. In the FIR, accretion expense is recorded in the following schedules and fields:

- Schedule 40 Column 5 Rents and Financial Expenses for the corresponding functional category
- Schedule 74E Column 5 Increase in Liabilities Due to Accretion Expense.

In the FIR, the ARO liability (the credit) is recorded in the new schedule 74E Long Term Liabilities and Commitments in Column 3 "Liability Incurred during the Year" field. This schedule requires the recording of the liability by functional classification. This schedule also requires recording any accretion expense, if applicable.

The ending balance in row 9910, Column 7, Liabilities for ARO at End of Year, automatically populates line 2920 in Schedule 70, Consolidated Statement of Financial Position.

Schedule 74E Long Term Liabilities and Commitments

14. ASSET RETIREMENT OBLIGATION LIABILITY

ANALYSIS BY FUNCTIONAL CLASSIFICATION		Liabilities for ARO at Beginning of Year 1 $	Transfer of Solid Waste Landfill Liability 2 $	Liability Incurred During the Year 3 $	Liability Settled During the Year 4 $	Increase in Liabilities Due to Accretion Expense 5 $	Increase (Decrease) Reflecting Change in the Estimate of Liabilities 6 $	Liabilities for ARO at End of Year 7 $
0299	General Government							0
0499	Protection Services			595,275		17,858		613,133
0699	Transportation Services							0
0899	Environmental Services							0
1099	Health Services							0
1299	Social and Family Services							0
1499	Social Housing							0
1699	Recreation and Cultural Services							0
1899	Planning and Development							0
1910	Other							0
9910	**Total Asset Retirement Obligations**	0	0	595,275	0	17,858	0	613,133

Record the liability at year end as well as the accretion expense for the year.

If the ARO relates to a landfill, please use "Transfer of Solid Waste Landfill Liability" column.

Schedule 70 Consolidated Statement of Financial Position

	Liability For Contaminated Sites	
2910	Remediation Costs of Contaminated Sites	
	Liability For Asset Retirement Obligations	
2920	**Asset Retirement Obligation Liabilities**	613,133
9940	**TOTAL Liabilities**	613,133
9945	**Net Financial Assets (Net Debt): Total Financial Assets LESS Total Liabilities**	-613,133

This amount will pre-populate from the ending ARO liabilities balance of Schedule 74E.

2. Reporting an ARO for an existing tangible capital asset – Retrospective method

Example Case Study

- A municipality has identified an existing tangible capital asset requiring future remediation.
- The asset was purchased July 1, 2017, and is estimated to have a 15-year life, at which time it will be demolished.
- The estimate to satisfy the remediation at Dec 31, 2032 is $1,000,000.
- The municipality chooses to discount the ARO using a 5% discount rate. The present value of the future outflows at July 1, 2017 is $481,017.
- The municipality uses straight-line amortization.
- After discussions with their auditor, the municipality plans to use a retrospective transition method.

Table: The asset's annual accretion and amortization expense (2017 – 2032)

		PV years	TCA Cost ($)	Accum Amortization ($)	Net Book Value ($)	ARO Liability ($)	Annual Amortization of ARO ($)	Annual Accretion of ARO ($)
July 1	2017	15	481,017	-	481,017	481,017	0	0
December 31	2017	14.5	481,017	16,034	464,983	492,896	16,034	11,879
December 31	2018	13.5	481,017	48,102	432,915	517,541	32,068	24,645
December 31	2019	12.5	481,017	80,170	400,848	543,418	32,068	25,877
December 31	2020	11.5	481,017	112,237	368,780	570,589	32,068	27,171
December 31	2021	10.5	481,017	144,305	336,712	599,118	32,068	28,529
December 31	2022	9.5	481,017	176,373	304,644	629,074	32,068	29,956
December 31	2023	8.5	481,017	208,441	272,576	660,528	32,068	31,454
December 31	2024	7.5	481,017	240,509	240,509	693,554	32,068	33,026
December 31	2025	6.5	481,017	272,576	208,441	728,232	32,068	34,678
December 31	2026	5.5	481,017	304,644	176,373	764,643	32,068	36,412
December 31	2027	4.5	481,017	336,712	144,305	802,875	32,068	38,232
December 31	2028	3.5	481,017	368,780	112,237	843,019	32,068	40,144
December 31	2029	2.5	481,017	400,848	80,170	885,170	32,068	42,151
December 31	2030	1.5	481,017	432,915	48,102	929,429	32,068	44,259
December 31	2031	0.5	481,017	464,983	16,034	975,900	32,068	46,471
December 31	2032	0	481,017	481,017	-	1,000,000	16,034	24,100
							481,017	518,983

Illustrative Journal entries

To record asset retirement obligation at January 1, 2023 (from December 31, 2022 line in previous table):

Tangible Capital Asset	$481,017	
Accumulated Amortization		$176,373
Asset Retirement Obligation Liability		$629,074
Opening Accumulated Surplus*	$324,430	

To record amortization expense and accretion expense for the 2023 year (from December 31, 2023 line in previous table):

Amortization Expense	$32,068	
Accumulated Amortization		$32,068
Accretion Expense	$31,454	
Asset Retirement Obligation Liability		$31,454

* Adjustment to opening accumulated surplus reflects cumulative accretion and amortization expense from purchase of asset to recognition of ARO (e.g., includes 5.5 years x $32,068 annual amortization expense and accretion expense to Dec 31, 2022).

FIR Reporting

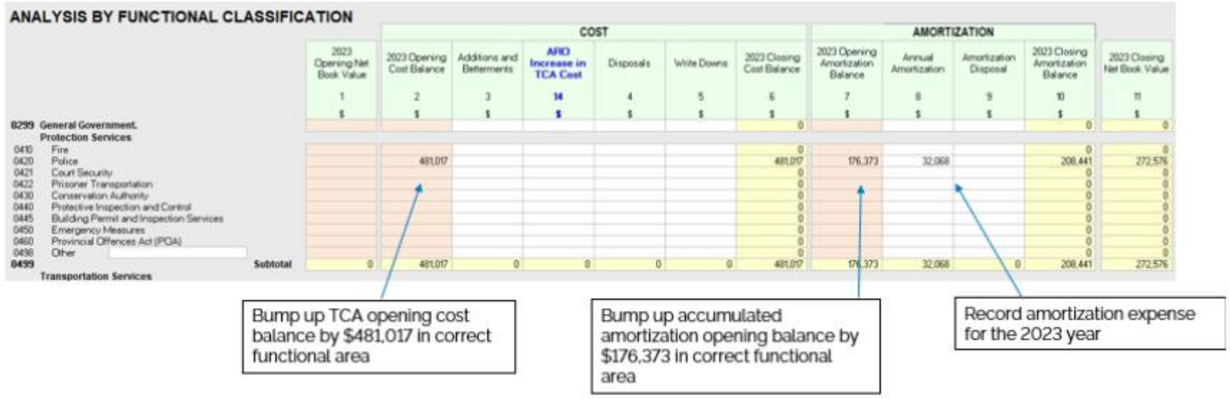
PS3280 AROs guides municipalities to determine if a retirement or remediation obligation relating to an existing tangible capital asset should be recognized. An asset retirement obligation is a legal obligation that arises from the retirement of tangible capital assets, including solid waste or landfill liabilities.

If your municipality has determined that the **retrospective** method will be used to transition to the new ARO standard in 2023 in your financial records, PS 3280.69 states: "As of the beginning of the fiscal year in which a public sector entity first applies this Section, the entity… recognizes:

a) a liability for any existing asset retirement obligations, adjusted for accumulated accretion to that date;
b) an asset retirement cost capitalized as an increase to the carrying amount of the related tangible capital asset;
c) accumulated amortization on that capitalized cost; and
d) an adjustment to the opening balance of the accumulated surplus/deficit."

In the FIR, to increase the carrying amount of the related tangible capital asset, you will need to adjust the 2023 Opening Cost Balance. You may also need to adjust the 2023 Opening Amortization fields to record any accumulated amortization on the capitalized cost before 2023.

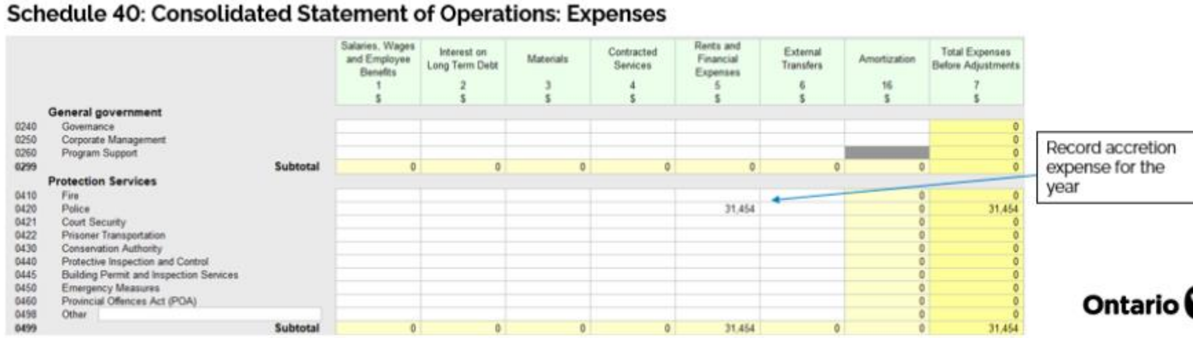
Schedule 51A: Schedule of Tangible Capital Assets



You may also need to record an adjustment in the FIR to the opening balance of accumulated surplus.

Schedule 10: Statement of Operations: Revenue

Schedule 40: Consolidated Statement of Operations: Expenses



Ontario

According to PS 3280.08 (a), accretion expense is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time. In the FIR, accretion expense is recorded in the following schedules and fields:

- Schedule 40 Column 5 Rents and Financial Expenses for the corresponding functional category
- Schedule 74E Column 5 Increase in Liabilities Due to Accretion Expense.

The ARO liability (the credit) is recorded in the new schedule 74E Long Term Liabilities and Commitments in Column 1 “Liabilities for ARO at Beginning of Year” field. This schedule requires the recording of the liability by functional classification. This schedule also requires recording any accretion expense for the year, if applicable.

The ending balance in row 9910, Column 7, Liabilities for ARO at End of Year, automatically populates line 2920 in Schedule 70, Consolidated Statement of Financial Position.

Schedule 74E Long Term Liabilities and Commitments

14. ASSET RETIREMENT OBLIGATION LIABILITY

ANALYSIS BY FUNCTIONAL CLASSIFICATION		Liabilities for ARO at Beginning of Year 1 $	Transfer of Solid Waste Landfill Liability 2 $	Liability Incurred During the Year 3 $	Liability Settled During the Year 4 $	Increase in Liabilities Due to Accretion Expense 5 $	Increase (Decrease) Reflecting Change in the 6 $	Liabilities for ARO at End of Year 7 $
0299	General Government							0
0499	Protection Services	629,074				31,454		660,528
0699	Transportation Services							0
0899	Environmental Services							0
1099	Health Services							0
1299	Social and Family Services							0
1499	Social Housing							0
1699	Recreation and Cultural Services							0
1899	Planning and Development							0
1910	Other							0
9910	Total Asset Retirement Obligations	629,074	0	0	0	31,454	0	660,528

Record the opening ARO balance

Record the accretion expense for the year

Schedule 70: Consolidated Statement of Financial Position

	Liability For Asset Retirement Obligations	
2920	Asset Retirement Obligation Liabilities	660,528
9940	TOTAL Liabilities	660,603
9945	Net Financial Assets (Net Debt): Total Financial Assets LESS Total Liabilities	-660,328

This amount will pre-populate from the end of year ARO Liabilities balance of Schedule 74E.

3. Reporting an ARO for an existing tangible capital asset – Prospective method

Example Case Study

- A municipality has identified an existing tangible capital asset requiring future remediation.
- The asset was purchased July 1, 2017, and is estimated to have a 15-year life, at which time it will be demolished.
- The estimate to satisfy the remediation at Dec 31, 2032 is $1,000,000.
- The municipality chooses to discount the ARO using a 5% discount rate. The present value of the future outflows at July 1, 2017 is $481,017.
- The municipality uses straight-line amortization.
- After discussions with their auditor, the municipality plans to use a prospective transition method.

Table: The asset's annual accretion and amortization expense (2022 – 2032)

		PV years	TCA Cost ($)	Accum Amortization ($)	Net Book Value ($)	ARO Liability ($)	Annual Amortization of ARO ($)	Annual Accretion of ARO ($)
December 31	2022	9.5	629,074	-	629,074	629,074		
December 31	2023	8.5	629,074	62,907	566,166	660,528	62,907	31,454
December 31	2024	7.5	629,074	125,815	503,259	693,554	62,907	33,026
December 31	2025	6.5	629,074	188,722	440,352	728,232	62,907	34,678
December 31	2026	5.5	629,074	251,630	377,444	764,643	62,907	36,412
December 31	2027	4.5	629,074	314,537	314,537	802,875	62,907	38,232
December 31	2028	3.5	629,074	377,444	251,630	843,019	62,907	40,144
December 31	2029	2.5	629,074	440,352	188,722	885,170	62,907	42,151
December 31	2030	1.5	629,074	503,259	125,815	929,429	62,907	44,259
December 31	2031	0.5	629,074	566,166	62,907	975,900	62,907	46,471
December 31	2032	-	629,074	629,074	-	1,000,000	62,907	24,100
							629,074	370,926

Illustrative Journal entries

To record asset retirement obligation at January 1, 2023 (from December 31, 2022 line in previous table):

Tangible Capital Asset	$629,074	
Asset Retirement Obligation Liability		$629,074

To record amortization expense and accretion expense for the 2023 year (from December 31, 2023 line in previous table):

Amortization Expense	$62,907	
Accumulated Amortization		$62,907
Accretion Expense	$31,454	
Asset Retirement Obligation		$31,454

FIR Reporting

PS3280 AROs guides municipalities to determine if a retirement or remediation obligation relating to an existing tangible capital asset should be recognized. An asset retirement obligation is a legal obligation that arises from the retirement of tangible capital assets, including solid waste or landfill liabilities.

If your municipality has determined that the **prospective** method will be used to transition to the new ARO standard in 2023, PS 3280.72 states "the entity would recognize:

(a) Asset retirement obligations where the event giving rise to the obligation (i.e. acquisition, construction, development or normal use) occurred on or after April 1, 2022;
(b) Asset retirement obligations where the event giving rise to the obligation arose prior to April 1, 2022 and the obligation has not previously been recognized; and
(c) Asset retirement obligations where the event giving rise to the obligation arose prior to April 1, 2022 and the previously recognized obligation requires adjustment in applying this standard."

To increase the carrying amount of the related tangible capital asset in the FIR, you will need to adjust the 2023 Opening Cost Balance to record any adjustments that relate to assets that belonged to the municipality before 2023 that had unreported asset retirement obligations from before the standard came into effect. In this case, there will be no impact to the opening accumulated amortization or the opening balance of accumulated surplus.

Schedule 51A: Schedule of Tangible Capital Assets

		COST						AMORTIZATION				
	2023 Opening Net Book Value	2023 Opening Cost Balance	Additions and Betterments	ARO Increase in TCA Cost	Disposals	Write Downs	2023 Closing Cost Balance	2023 Opening Amortization Balance	Annual Amortization	Amortization Disposal	2023 Closing Amortization Balance	2023 Closing Net Book Value
	1	2	3	14	4	5	6	7	8	9	10	11
	$	$	$	$	$	$	$	$	$	$	$	$
General Government.							0				0	0
Protection Services												
Fire							0				0	0
Police		629,074					629,074		62,907		62,907	566,167
Court Security							0				0	0
Prisoner Transportation							0				0	0
Conservation Authority							0				0	0
Protective Inspection and Control							0				0	0

Bump up TCA opening cost balance by $629,074 in correct functional area

Record amortization expense for the 2023 year

Schedule 40: Consolidated Statement of Operations: Expenses

			Salaries, Wages and Employee Benefits	Interest on Long Term Debt	Materials	Contracted Services	Rents and Financial Expenses	External Transfers	Amortization
			1	2	3	4	5	6	16
			$	$	$	$	$	$	$
	General government								
0240	Governance								
0250	Corporate Management								
0260	Program Support								
0299		**Subtotal**	0	0	0	0	0	0	0
	Protection Services								
0410	Fire								0
0420	Police						31,454		0
0421	Court Security								0

Record accretion expense for the year

Ontario

According to PS 3280.08 (a), accretion expense is the increase in the carrying amount of a liability for asset retirement obligations due to the passage of time. In the FIR, accretion expense is recorded in the following schedules and fields:

- Schedule 40 Column 5 Rents and Financial Expenses for the corresponding functional category
- Schedule 74E Column 5 Increase in Liabilities Due to Accretion Expense.

In the FIR, the ARO liability (the credit) is recorded in the new schedule 74E Long Term Liabilities and Commitments in Column 1 "Liabilities for ARO at Beginning of Year" field. This schedule requires the recording of the liability by functional classification. This schedule also requires recording any accretion expense, if applicable.

The ending balance in row 9910, Column 7, Liabilities for ARO at End of Year, automatically populates line 2920 in Schedule 70, Consolidated Statement of Financial Position.

Schedule 74E Long Term Liabilities and Commitments

14. ASSET RETIREMENT OBLIGATION LIABILITY

ANALYSIS BY FUNCTIONAL CLASSIFICATION	Liabilities for ARO at Beginning of Year 1 $	Transfer of Solid Waste Landfill Liability 2 $	Liability Incurred During the Year 3 $	Liability Settled During the Year 4 $	Increase in Liabilities Due to Accretion Expense 5 $	Increase (Decrease) Reflecting Change in the 6 $	Liabilities for ARO at End of Year 7 $
0299 General Government							0
0499 Protection Services	629,074				31,454		660,528
0699 Transportation Services							0
0899 Environmental Services							0
1099 Health Services							0
1299 Social and Family Services							0
1499 Social Housing							0
1699 Recreation and Cultural Services							0
1899 Planning and Development							0
1910 Other							0
9910 Total Asset Retirement Obligations	629,074	0	0	0	31,454	0	660,528

Record the opening ARO balance

Record the accretion expense for the year

Schedule 70: Consolidated Statement of Financial Position

	Liability For Contaminated Sites	
2910	Remediation Costs of Contaminated Sites	
	Liability For Asset Retirement Obligations	
2920	**Asset Retirement Obligation Liabilities**	660,528
9940	**TOTAL Liabilities**	660,528
9945	**Net Financial Assets (Net Debt): Total Financial Assets LESS Total Liabilities**	-660,528

This amount will pre-populate from the end of year ARO Liabilities balance of Schedule 74E.

4. Reporting an ARO for a tangible capital asset that is no longer in productive use.

Example Case Study

- A municipality has identified an existing tangible capital asset that requires future remediation.
- Asset was purchased in 2000 and is no longer in productive use but remains within the control of the municipality.
- The municipality determines that they have a legal obligation to remediate the asset. The estimate to satisfy the remediation is $300,000.
- After consultation with their auditor, the municipality determines they should expense the asset retirement cost.

Illustrative Journal entry

To record asset retirement obligation at December 31, 2023:		
Asset Retirement Obligation Expense	$300,000	
Asset Retirement Obligation Liability		$300,000

FIR Reporting

PS3280 AROs guides municipalities to determine if a retirement or remediation obligation relating to an existing tangible capital asset should be recognized. An asset retirement obligation is a legal obligation that arises from the retirement of tangible capital assets, including solid waste or landfill liabilities.

PS 3280.73 tell us that "for asset retirement obligations associated with tangible capital assets no longer in productive use, the entity would recognize an expense of the same amount as the liability."

In the FIR, the ARO liability (the credit) is recorded in the new schedule 74E Long Term Liabilities and Commitments in Column 1 "Liabilities for ARO at Beginning of Year" field. This schedule requires the recording of the liability by functional classification. This schedule also requires recording any accretion expense, if applicable.

The ending balance in row 9910, Column 7, Liabilities for ARO at End of Year, automatically populates line 2920 in Schedule 70, Consolidated Statement of Financial Position.

Schedule 40: Consolidated Statement of Operations: Expenses

		Salaries, Wages and Employee Benefits 1 $	Interest on Long Term Debt 2 $	Materials 3 $	Contracted Services 4 $	Rents and Financial Expenses 5 $	External Transfers 6 $	Amortization 16 $	Total Expenses Before Adjustments 7 $
	General government								
240	Governance								0
250	Corporate Management					300,000			300,000
260	Program Support								0
299	**Subtotal**	0	0	0	0	300,000	0	0	300,000
	Protection Services								

Record asset retirement obligation expense

Schedule 74E Long Term Liabilities and Commitments

14. ASSET RETIREMENT OBLIGATION LIABILITY

	ANALYSIS BY FUNCTIONAL CLASSIFICATION	Liabilities for ARO at Beginning of Year 1 $	Transfer of Solid Waste Landfill Liability 2 $	Liability Incurred During the Year 3 $	Liability Settled During the Year 4 $	Increase in Liabilities Due to Accretion Expense 5 $	Increase (Decrease) Reflecting Change in the Estimate of Liability 6 $	Liabilities for ARO at End of Year 7 $
0299	General Government	300,000						300,000
0499	Protection Services							0
0699	Transportation Services							0
0899	Environmental Services							0
1099	Health Services							0
1299	Social and Family Services							0
1499	Social Housing							0
1699	Recreation and Cultural Services							0
1899	Planning and Development							0
1910	Other							0
9910	**Total Asset Retirement Obligations**	300,000	0	0	0	0	0	300,000

Record the opening ARO balance

Schedule 70: Consolidated Statement of Financial Position

	Liability For Contaminated Sites	
2910	Remediation Costs of Contaminated Sites	
	Liability For Asset Retirement Obligations	
2920	**Asset Retirement Obligation Liabilities**	300,000
9940	**TOTAL Liabilities**	300,000
9945	**Net Financial Assets (Net Debt): Total Financial Assets LESS Total Liabilities**	-300,000

This amount will pre-populate from the end of year ARO Liabilities balance of Schedule 74E.

5. Reporting unrealized gains (losses) for portfolio investments and foreign exchanges.

A. Example Case Study (Scenario A – December 31, 2023):

- A municipality has identified a portfolio investment that is publicly traded on an active market. It was purchased in 2022 for $50.
- After consulting with their auditor, the municipality has determined it must report this investment at fair market value. The fair value at December 31, 2023 is $200.
- The municipality also has a US $ payable at year end. In 2022, the accounts payable was recorded at $50 Cdn.
- In 2023, the payable will require $75 to settle due to unfavourable foreign exchange rates.

Statement of Financial Position	2023	2022
(A) Financial Assets		
Cash	$ 75	$ 75
Portfolio Investment, Fair Value (FV) (Historical cost $50)	200	50
(B) Financial Liabilities		
Accounts Payable in US$, FV (Historical value in CDN$ $50)	75	50
(A – B) Net Financial Assets	$200	$ 75
(C) Non-Financial Assets		
Tangible Capital Assets	100	100
(D) Accumulated Surplus		
Accumulated surplus, before RMG	175	175
Accumulated Remeasurement Gains	125	-
Total Accumulated Surplus	$300	$175

Statement of Operations	2023
Annual Surplus	$ -
Accumulated surplus, before RMG Beginning of year	175
Accumulated surplus, before RMG End of year	$175

Statement of Remeasurement Gains (Losses)	2023
Accumulated remeasurement gains and (losses), Beginning of year	$ -
Unrealized gains (losses) attributable to:	
Portfolio Investment (FV Gain = 200 – 50)	150
Foreign exchange (FX Loss = 50 – 75)	(25)
Net remeasurement gains and (losses) for the year	$ 125
Accumulated remeasurement gains and (losses), End of year	$ 125

Ontario

FIR Reporting

PS 3450 Financial Instruments 3150.053 states that "a change in fair value of a financial instrument in the fair value category should be recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss until the financial instrument is recognized".

PS3450.020 states that "a government should include the following items in the fair value category:

(a) derivatives; and

(b) portfolio investments in equity instruments that are quoted in an active market."

PS 3450.057 tells us that "when a financial instrument is derecognized, a gain or loss is recognized in the statement of operations".

PS 2601 Foreign Currency Translation PS.11 states that "at the transaction date, each asset, liability and amount reported in the statement of operations arising from a foreign currency transaction of the government should be translated into Canadian dollars by applying the exchange rate in effect at that date."

Also PS 2601.14 states that "At each financial statement date:

(a) Monetary assets and monetary liabilities denominated in a foreign currency; and
(b) Non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with FINANCIAL INSTRUMENTS, section 3450

Should be adjusted to reflect the exchange rate in effect at that date."

PS 2601.18 states that "an exchange gain or loss that arises prior to settlement is recognized in the statement of remeasurement gains and losses". PS 2601.19 (b) states that "in the period of settlement… an exchange gain or loss measured in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations."

Schedule 70: Consolidated Statement of Financial Position

	Financial Assets		1 $	
0299	**Cash and Cash Equivalents.**		75	
	investments *			
0817	**Portfolio investments**		200	Record the portfolio investment at its fair value at Dec 31
0818	**Derivatives**			
0819	**Financial Assets, Designated to the Fair Value Category**			
0820	Government Business Enterprises			
0828	Other			
0829		**Subtotal**	200	
	Liabilities			
	Accounts Payable and Accrued Liabilities			
2210	Canada			
2220	Ontario			
2230	Upper-tier			
2240	Other Municipalities			
2250	School Boards			
2260	interest On Debt			
2270	Trade Accounts Payable		75	Record the foreign exchange payable at its fair value at Dec 31
2271	**Derivatives**			
2272	**Financial Liabilities, Designated to the Fair Value Category**			
2290	Other			
2299		**Subtotal**	75	

Schedule 71: Statement of Remeasurement Gains (Losses)

		1 $
0299	Accumulated Remeasurement Gains (Losses), Beginning of The Year	
	Unrealized Gains (Losses) Attributable to:	
0410	Foreign Exchange	-25
0420	Derivatives	
0430	Portfolio Investments	150
0440	Other Financial Instruments, Designated to Fair Value Category	
0499	Subtotal	125
	Realized (Gains) Losses, Reclassified to the Statement of Operations	
0610	Foreign Exchange	
0620	Derivatives	
0630	Portfolio Investments	
0640	Other Financial Instruments, Designated to Fair Value Category	
0699		0
1099	Proportionate Amount of Other Comprehensive Income From Investment in Government Business Enterprise	
1299	Net Change in Remeasurement Gains (Losses) for the Year (SLC 71 0499 01 + SLC 0699 01 + SLC 1099 01)	125
9910	Accumulated Remeasurement Gains (Losses), End of Year. (SLC 71 0299 01 + SLC 1299 01)	125

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Record the unrealized foreign exchange loss and the unrealized portfolio investment gain

B. Example Case Study (Scenario B – December 31, 2024)

- In 2024, the municipality paid the US$ payable. Fair value at the time the US$ payable was paid was $75 CDN.
- The fair value of the portfolio investment at Dec 31, 2024 remains $200.

Statement of Financial Position

	2024	2023
(A) Financial Assets		
Cash	$ -	$ 75
Portfolio Investment, Fair Value (FV) (Historical cost $50)	200	200
(B) Financial Liabilities		
Accounts Payable in US$, FV (Historical value in CDN$ $50)	-	75
(A – B) Net Financial Assets	$200	$200
(C) Non-Financial Assets		
Tangible Capital Assets	100	100
(D) Accumulated Surplus		
Accumulated surplus, before RMG	150	175
Accumulated Remeasurement Gains	150	125
Total Accumulated Surplus	$300	$300

Statement of Operations

	2024
Loss on FX (Historical 50 – FV 75)	$(25)
Annual Deficit	$(25)
Accumulated surplus, before RMG Beginning of year	175
Accumulated surplus, before RMG End of year	$150

Statement of Remeasurement Gains (Losses)

	2024
Accumulated remeasurement gains and (losses), Beginning of year	$125
Net remeasurement gains and (losses) for the year	-
Amounts reclassified to the statement of operations	
Foreign exchange	25
Accumulated remeasurement gains and (losses), End of year	$150

Ontario

FIR Reporting:

PS 3450 Financial Instruments 3150.053 states that "a change in fair value of a financial instrument in the fair value category should be recognized in the statement of remeasurement gains and losses as a remeasurement gain or loss until the financial instrument is recognized".

PS3450.020 states that "a government should include the following items in the fair value category:

(a) derivatives; and

(b) portfolio investments in equity instruments that are quoted in an active market."

PS 3450.057 tells us that "when a financial instrument is derecognized, a gain or loss is recognized in the statement of operations".

PS 2601 Foreign Currency Translation PS.11 states that "at the transaction date, each asset, liability and amount reported in the statement of operations arising from a foreign currency transaction of the government should be translated into Canadian dollars by applying the exchange rate in effect at that date."

Also PS 2601.14 states that "At each financial statement date:

(a) Monetary assets and monetary liabilities denominated in a foreign currency; and
(b) Non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with FINANCIAL INSTRUMENTS, section 3450

Should be adjusted to reflect the exchange rate in effect at that date."

PS 2601.18 states that "an exchange gain or loss that arises prior to settlement is recognized in the statement of remeasurement gains and losses". PS 2601.19 (b) states that "in the period of settlement… an exchange gain or loss measured in relation to the exchange rate at the date of the item's initial recognition is recognized in the statement of operations."

Schedule 71: Statement of Remeasurement Gains (Losses)

			1 $
0299	**Accumulated Remeasurement Gains (Losses), Beginning of The Year**		125
	Unrealized Gains (Losses) Attributable to:		
0410	Foreign Exchange		
0420	Derivatives		
0430	Portfolio Investments		
0440	Other Financial Instruments, Designated to Fair Value Category		
0499		**Subtotal**	0
	Realized (Gains) Losses, Reclassified to the Statement of Operations		
0610	Foreign Exchange		25
0620	Derivatives		
0630	Portfolio Investments		
0640	Other Financial Instruments, Designated to Fair Value Category		
0699		**Subtotal**	25
1099	**Proportionate Amount of Other Comprehensive Income From Investment in Government Business Enterprise**		
1299	**Net Change in Remeasurement Gains (Losses) for the Year (SLC 71 0499 01 + SLC 0699 01 + SLC 1099 01)**		25
9910	**Accumulated Remeasurement Gains (Losses), End of Year. (SLC 71 0299 01 + SLC 1299 01)**		150

On 2024 FIR, record the reclassification of the foreign exchange loss from the Statement of RMG to the Statement of Operations

6. Reporting unrealized gains (losses) for restricted assets.

Example Case Study

- A municipality which holds portfolio investments has been advised by their auditor to report select investments at fair value.
  - Some of these investments are related to restricted assets (e.g., obligatory reserve funds).
- Prior to FI reporting changes, the municipality reported externally restricted investment income as deferred revenue.
- Based on discussions with their auditor, the municipality will also report unrealized gains (loss) for restricted assets as deferred revenue.
- The municipality has identified three potential options for reporting unrealized gains (losses) related to restricted assets in the FIR.

FIR Reporting

PS 3450 Financial Instruments PS.053A states that "a change in fair value of a financial asset in the fair value category that is externally restricted should be accounted for in accordance with RESTRICTED ASSETS AND REVENUES, paragraphs 3100.11-.12." Also, PS 3450.056 tells us that "income attributable to a financial instrument that is externally restricted is accounted for in accordance with RESTRICTED ASSETS AND REVENUES, paragraph 3100.11-.12."

PS 3100 Restricted Assets and Revenues PS3100.11 and .12 state:

- PS3100.11 "Externally restricted inflows should be recognized as revenue in a government's financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified."

- PS3100.12 "Income on externally restricted assets may or may not be restricted, depending on the terms of the agreement or legislation. If the provisions of the relevant agreement or legislation require that the income be restricted, then the revenue recognition principle in paragraph PS 3100.11 would apply. For example, governing legislation may stipulate that income on unspent development contributions also has to

> be used for development. Such income would be recorded as a liability until used for the purpose or purposes specified."

There are three possible options for reporting unrealized gains/losses relating to development charges (DCs) in the FIR:

Option A is to record unrealized gains or losses in Schedule 61B Column 3 Interest and Investment Income Earned for each DC service. This option is appropriate when the unrealized gains or losses all relate to investments held for DCs. If using this option, it won't be possible to break out unrealized gains or losses from realized investment income or interest earned.

Option B is to record unrealized gains or losses in Schedule 60 lines 0895 to 0898 Column 1 Other. This allows the municipality to record unrealized gains or losses separate from investment income or interest earned. It also allows users to segregate unrealized gains or losses that arise from various obligatory reserves such as Canada Community-Building Fund (Federal Gas Tax), DCs, or Ontario Community Infrastructure Fund (OCIF).

Option A: Use Schedule 61B: Development Charges Cash Collected & Amounts Earned

		Inflows / Revenue					Outflows / Expenditures					
		Development Charges Cash Collected					Development Charges Earned / Utilized					
	Total Opening Development Charges: Cash Collected, Balance, January 1	Development Charges Cash Collected	Interest and Investment Income Earned	Repayment of Monies Borrowed from DC Reserve Fund and Associated Interest	Net Development Charges Cash Collected	Total Development Charges Before Outflows: Cash Collected, Balance, December 31	To: Consolidated Statement of Operations	To: Tangible Capital Asset Acquisition	Other Disbursements	Monies Borrowed from Development Charges Reserve Fund	Total Development Charges Outflows	Total Ending Development Charges Balance (DC Cash Collected) at December 31
	26	2	3	21	6	27	7	8	9	23	11	28
Services	$	$	$	$	$	$	$	$	$	$	$	$
General Government					0	0					0	0
Emergency Preparedness Services					0	0					0	0
Electrical Power Services					0	0					0	0

The municipality may choose to record the unrealized gains (losses) through the interest and investment income field on Schedule 61B.

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Option B: Use Schedule 60: Continuity of Reserves and Reserve Funds

		Obligatory Reserve Funds, Deferred Revenue 1 $	Discretionary Reserve Funds 2 $	Reserves 3 $
0299	**Balance, Beginning of Year**			
0312	Contribution From Operations:			
	Development Charges Act			
0615	Net Development Charges Collected (SLC 61B 0299 06 - SLC 61B 0299 03).	0		
0616	Net Development Charges Receivable (SLC 61A 0299 20 - SLC 61A 0299 18).	0		
0699	**Subtotal Development Charges Act**	0		
0810	Lot Levies			
0820	Subdivider Contributions			
0830	Recreational Land (The Planning Act)			
0834	Community Benefits Charges			
0841	Investment Income			
0842	Interest Earned On Development Charges Receivable (SLC 61A 0299 18)	0		
0860	Gasoline Tax - Province			
0861	Building Code Act, 1992			
0862	Canada Community - Building Fund (Federal Gas Tax)			
0864	Building Canada Fund (BCF)			
0870	Inter - Reserve Fund / Reserves Transfer			
0895	Other — Unrealized gains (losses) related to obligatory reserves			

If the municipality wishes to segregate the unrealized gains (losses) from investment income, they may choose to use the "Other" fields in Schedule 60.

Option C is to record unrealized gains or losses in Schedule 70 line 2490 Column 1 Other. This allows the municipality to record unrealized gains or losses separate from investment income or interest earned but doesn't provide details on which obligatory reserve fund the unrealized gains and losses relate to.

Option C: Use Schedule 70: Consolidated Statement of Financial Position

	Accounts Payable and Accrued Liabilities	
2210	Canada	
2220	Ontario	
2230	Upper-tier	
2240	Other Municipalities	
2250	School Boards	
2260	interest On Debt	
2270	Trade Accounts Payable	75
2271	**Derivatives**	
2272	**Financial Liabilities, Designated to the Fair Value Category**	
2290	Other	
2299	**Subtotal**	75
2301	Estimated Tax Liabilities (PS3510)	
	Deferred Revenue	
2410	Obligatory Reserve Funds (SLC 60 2099 01)	0
2490	Other	
2499	**Subtotal**	0

The municipality may also choose to record unrealized gains (losses) related to obligatory reserve funds in the "Other" box of Schedule 70.