



North Carolina Office of the State Controller

Financial Reporting Update

GASB 83 - Certain Asset Retirement Obligations - Effective for FY 2019

January 8, 2018

Update: May 3, 2019 – Added implementation guidance appendices

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). The objective of this Statement is to provide financial statement users with information about certain asset retirement obligations (AROs) that were not addressed in previous GASB standards. This Statement establishes standards of accounting and financial reporting for certain AROs. This Statement applies to financial statements of all state and local governments.

For purposes of applying this Statement, an ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Examples of tangible capital assets that could have an ARO are:

- Decommissioning of nuclear reactors
- Removal and disposal of wind turbines in wind farms
- Dismantling and removal of sewage treatment plants
- Removal and disposal of X-ray machines.

A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources. Governments should recognize an ARO when the liability is incurred and reasonably estimable. The incurrence of a liability includes the occurrence of both an external obligating event and an internal obligating event resulting from normal operations. The approval of external laws or regulations, the creation of a legally binding contract, or the issuance of court judgments, are external obligating events. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The scope of GASB 83 excludes obligations for contamination removal, such as asbestos, that result from other-than-normal operations (e.g., contamination covered in GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as amended).

The government should determine an initial measurement of the ARO based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at a reasonable cost. If probability weighting is not feasible at a reasonable cost, the most likely amount in the range of potential outcomes should be used. Once the ARO is recognized, the government should also recognize a corresponding deferred outflow of resources. Subsequently, the government should at least annually adjust the current value of the ARO for the effects of general inflation or deflation. A government should also evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to



significantly change the estimated asset retirement outlays. The deferred outflows of resources should be reduced and recognized as outflows of resources (for example, as an expense) in a systematic and rational manner over the estimated useful life of the tangible capital asset.

Financial statements prepared using the current financial resources measurement focus (governmental funds), should not recognize ARO liabilities because they do not constitute an outflow of current financial resources.

A government that has a minority share of ownership interest in a jointly owned tangible capital asset should report its ARO using the measurement produced by the nongovernmental majority owner.

The following information should be disclosed about an ARO in the notes to the financial statements:

- General description of the AROs and associated tangible capital assets, as well as the source of the obligations
- Methods and assumptions used to measure the liabilities
- Estimated remaining useful life of the associated tangible capital assets
- How legally required funding and assurance provisions associated with AROs are being met
- Amount of assets restricted for payment of the liabilities, if not separately displayed in the financial statements.

If an ARO, or portions thereof, has been incurred but is not yet recognized because it is not reasonably estimable, disclose this fact.

If a government has a minority share of an ARO, the government should disclose certain information about its minority share.

Examples of AROs in government would include retirement of X-ray machines, magnetic resonance imaging machines or similar equipment that needs to be disposed of in a specific way due to the radioactive material or waste generated by equipment regulated by federal, state, or local laws and regulations.

Another example of an ARO in government would be the legal obligations associated with retirement of research facilities owned by public universities, such as the decommissioning liabilities of nuclear research reactors.

To gain additional understanding of GASB 83, please refer to the following resources:

- GASB webpage from which you can access a PDF file of GASB 83 as well as other GASB pronouncements - [GASB Pronouncements](#)
- GASB News Release - [GASB Issues Guidance on Certain Asset Retirement Obligations](#)



For additional information regarding the GASB 83 implementation, please refer to the following resources:

- Appendix A: Chart of account changes for GASB 83 – See attachment below.
- Appendix B: Year-end accounting entry examples – See attachment below.

Thank you for your time and attention to this matter. Questions regarding this specific update should be directed to Virginia Sisson at 919-707-0530 or Virginia.sisson@osc.nc.gov.

NC Office of the State Controller - GASB 83 Appendix A
New Accounts Added to Implement GASB 83 *Certain Asset Retirement Obligations*
Effective for Fiscal Year 2019

New NCAS			
Account #	Full Acct Title; Account classification	NCAS Account Title (25 Char)	Definition/Explanation
129706	Deferred Outflows for Asset Retirement Obligation (ARO) - acct classified as Deferred outflow of resources	DEF OUTFLOWS FOR ARO	For deferred outflows for Asset Retirement Obligation as defined by GASB 83
211925	Asset Retirement Obligation - Current - acct classified as Current liability	ASSET RET OBLIG-CURR	To record the current portion of the liability related to ARO as defined by GASB 83. A legally enforceable liability associated with the retirement of a tangible capital asset. (Don't expect to have a current liability)
221925	Asset Retirement Obligation - Non-current - acct classified as Noncurrent liability	ASSET RET OBLIG-NONCURR	To record non-current liability related to ARO as defined by GASB 83. A legally enforceable liability associated with the retirement of a tangible capital asset.

Accounting Entries at Year-end
Asset Retirement Obligations (GASB 83)

Entry #		Account #	Debit	Credit	
<u>Initial Entry (Year of GASB 83 Implementation Only)</u>					
(1)	Deferred outflow of resources - ARO	129706	\$ 15,000,000		
	Asset retirement obligation	221925		\$ 15,000,000	
	(To record initial balance equal to the corresponding liability)				
<u>Current Year Changes</u>					
(2)	Deferred outflow of resources - ARO	129706	350,000		
	Asset retirement obligations		-		
	Asset retirement obligation	221925		350,000	
	Deferred outflow of resources - ARO			-	
	(To adjust current amount of ARO for the effects of general inflation or deflation)				
(3)	Deferred outflow of resources - ARO	129706	-		
	Asset retirement obligations	221925	-		
	Asset retirement obligation			-	
	Deferred outflow of resources - ARO			-	
	(To adjust current amount of ARO for significant changes in the estimated outlays)				
(4)	Other operating expenses	5359XX	334,000		
	Deferred outflow of resources - ARO	129706		334,000	
	(To record amortization amount for current fiscal year)				
<u>Combined Year-end Entry</u>					
		Account #	Debit	Credit	Year-end Entry, Net
	Deferred outflow of resources - ARO	129706	\$ 15,350,000	\$ 334,000	\$ 15,016,000
	Asset retirement obligation	221925	-	15,350,000	(15,350,000)
	Other operating expenses	5359XX	334,000	-	334,000
			<u>\$ 15,684,000</u>	<u>\$ 15,684,000</u>	<u>\$ -</u>

Entry #		Account #	Debit	Credit	
<u>Subsequent year entries</u>					
<u>Current Year Changes</u>					
(1)	Deferred outflow of resources - ARO	129706	\$ 200,000		
	Asset retirement obligations		-		
	Asset retirement obligation	221925		\$ 200,000	
	Deferred outflow of resources - ARO			-	
	(To adjust current amount of ARO for the effects of general inflation or deflation)				
(2)	Deferred outflow of resources - ARO	129706	-		
	Asset retirement obligations	221925	100,000		
	Asset retirement obligation			-	
	Deferred outflow of resources - ARO			100,000	
	(To adjust current amount of ARO for significant changes in the estimated outlays)				
(3)	Other operating expenses	5359XX	334,000		
	Deferred outflow of resources - ARO	129706		334,000	
	(To record amortization amount for current fiscal year)				
<u>Combined Year-end Entry</u>					
		Account #	Debit	Credit	Year-end Entry, Net
	Deferred outflow of resources - ARO	129706	\$ 200,000	\$ 434,000	\$ (234,000)
	Asset retirement obligation	221925	100,000	200,000	(100,000)
	Other operating expenses	5359XX	334,000	-	334,000
			<u>\$ 634,000</u>	<u>\$ 634,000</u>	<u>\$ -</u>