FLEMING

| | |
|---|---|
| **Policy Title:** | Asset Retirement Obligations |
| **Policy ID:** | 4-431 |
| **Manual Classification:** | Section 4 – Finance and Administration |
| **Original Approval Date:** | N/A |
| **Approved by Board of Governors:** | November 2022 |
| **Effective Date:** | November 2022 |
| **Next Policy Review Date:** | November 2025 |
| **Contacts for Policy Interpretation:** | Vice President, Corporate Finance |

## 1.0 - Policy Overview

This policy is intended to ensure the College identifies, recognizes, measures, and reports all Asset Retirement Obligations (ARO's) from a financial reporting perspective.

## 2.0 - Purpose

This policy ensures that the College meets all obligations for identifying and reporting ARO's as required under the Public Sector Accounting Board (PSAB) Handbook, Section 3280, Asset Retirement Obligations.

## 3.0 – Definitions and Acronyms

**Disposal:** The removal of a long-term asset from the College's accounting records. Disposal can occur through the sale, exchange or retirement of an asset.

**Future Economic Benefits:** The potential to contribute to the flow of cash or cash equivalents into the College.

**Legal Obligation:** An obligation to perform an action that is bound by statute of law, agreements, contracts, government legislation or promissory estoppel.

**Tangible Capital Assets (TCA):** Non-financial assets that are managed by the College and which have physical substance, that are held for the production or supply of goods or services, for rental to others, for administrative purposes or for development, construction, maintenance or repair of other tangible capital assets, have useful economic lives extending beyond an accounting period, are used on a continuing basis, and are not for sale in the ordinary course of operations.

## 4.0 – Scope

This policy applies to all College employees who are responsible for:

- The acquisition of tangible capital assets (TCA)
- Recording the acquisition of College assets
- Maintenance and safeguarding of College assets
- Disposal of College assets

## 5.0 – Roles and Responsibilities

### 5.1 - College departments

**(a)** Communicate with Finance on any known retirement obligations, and any changes in asset condition or retirement timelines (i.e., Subsequent Measurement);

**(b)** Assist in the preparation of cost estimates for retirement obligations;

**(c)** Inform Finance of any legal or contractual obligations at inception of any such obligation

**5.2 - Finance** is responsible for developing and adhering to policies for the accounting and reporting of ARO's in accordance with PSAB Section 3280. This includes responsibility for:

**a)** Reporting ARO's in the financial statements of the College and any other statutory financial documents,

**b)** Monitoring the application of this policy, and

**c)** Investigating issues and working with asset owners to resolve them

## 6.0 – General Principles

**6.1** - The College is required, under law and regulation, to take specific actions to retire certain TCAs at the end of their useful life. These actions may include activities such as asbestos removal, restoration of leased properties or land restoration. Other obligations to retire tangible capital assets may arise from contracts, court judgments or lease agreements.

**6.2** - The legal obligations associated with the retirement of TCA's controlled by the college will be recognized as a liability in the books of the College, in accordance with PS3280. The College has adopted PS 3280 for fiscal years beginning April 1, 2022.

**6.3** - ARO's result from acquisition, construction, development and normal use of the asset. These obligations are predictable, likely to occur and unavoidable. ARO's are separate and distinct from contaminated site liabilities, and ARO's are not necessarily associated with contamination.

### 6.4 - Recognition and Initial Measurement

**a)** A liability should be recognized when, as at the financial reporting date:
- There is a legal obligation to incur retirement costs in relation to a TCA;
- The past transaction or event giving rise to the liability has occurred;
- It is expected that future economic benefits will be given up;
- A reasonable estimate of the amount can be made.

**b)** A liability for an ARO cannot be recognized unless all of the criteria above are satisfied

**c)** The estimate of the liability would be based on requirements in existing agreements, contracts, legislation or legally enforceable obligations, and technology expected to be used in asset retirement activities.

**d)** The estimate of a liability should include costs directly attributable to asset retirement activities. Costs would include post-retirement operation, maintenance, and monitoring that are an integral part of the retirement of the TCA.

**e)** Directly attributable costs would include, but are not limited to, payroll and benefits, equipment and facilities, materials, legal and other professional fees, and overhead costs directly related to the asset retirement activity.

**f)** Initial recognition of the ARO will include increasing the carrying amount of the related TCA by the same amount as the ARO liability. Where the obligation relates to an asset that is no longer in service, and not providing economic benefit, the obligation will be expensed upon recognition.

### 6.5 - Subsequent Measurement

Asset retirement costs will be amortized in a rational and systemic manner over the useful life of the TCA or a component of the TCA.

On an annual basis, the existing ARO's will be assessed for any changes in expected cost, term of retirement, or any other changes that may impact the estimated obligation.

### 6.6 - Decision Tree

Attached as Appendix A to this policy is a decision tree for use in determining the treatment of potential ARO's.

## 7.0 – Related Documents

- Public Sector Accounting Board (PSAB) Section 3280 – Asset Retirement Obligations
- Finance and Facilities Policy #4-430 – Asset Management

## Appendix A

Decision Tree - Application of PSAB Standards