

REPORTING

Note X – Pollution Remediation Obligations

INSTRUCTIONS TO PREPARER

These note disclosures are required by GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement becomes effective for fiscal periods beginning after December 15, 2007.

Required note disclosures

1. For recognized pollution remediation liabilities and recoveries of pollution remediation outlays, governments should disclose the following:
 - a. The nature and source of pollution remediation obligations (e.g., federal, state, or local laws or regulations).
 - b. The amount of the estimated liability (if not apparent from the financial statements), the methods and assumptions used for the estimate, and the potential for changes due to, for example, price increases or reductions, technology, or applicable laws or regulations.
 - c. Estimated recoveries reducing the liability.
2. For pollution remediation liabilities that are not yet recognized because they are not reasonably estimable, governments should disclose a general description of the nature of the pollution remediation activities.

GASB Statement 49

This statement is retroactive and may require an entity to restate prior financial activity. If an entity currently reports assets, liabilities, expenses, or revenues in their financial statements for either a continuing pollution cleanup project or completed cleanup activity they will need to determine if they need to apply the requirements of the standard to them.

Reporting Pollution Remediation Obligations

Pollution remediation obligations exist as a result of an obligation to participate in the clean-up of existing pollution caused by hazardous wastes and substances. They include obligations to pay for activities for pre-cleanup (such as site assessment), clean-up (neutralization, containment, or removal), oversight or enforcement of laws, and post remediation monitoring.

Obligating Events

Pollution obligations are triggered by an obligating event. An obligating event is when a government is compelled to take action to protect the public from pollution, has violated a pollution permit, license or law, has or will be named in a law suit, or the government voluntarily engages in a clean-up.

Recognition Benchmarks

When a government has incurred an obligating event they need to recognize the related pollution remediation liabilities. Recognition will be made as components of the clean-up activity become estimable. If the entire clean-up amount is known it should be immediately recognized. If the clean-up activity is complex it should be recognized using benchmarks. Recognition benchmarks are related to the different stages of the remediation process. In most projects they include:

1. Receipt of an administrative order to take action.
2. Participation as a responsible party or potentially responsible party.
3. Completion of a corrective measures feasibility study.
4. Issuance of an authorization to proceed by EPA or DOE.
5. Remediation design, implementation, and post remediation monitoring.

Measurement

The pollution liabilities should be measured based on the outlays required to settle those obligations and should be calculated using current costs. The liability will be calculated using the expected cash flow technique. This method calculates the mean or an average using the sum of probability - weighted amounts in a range of possible estimated amounts.

Example: Pollution cleanup cost with three potential cost scenarios.

25% probability cost will be \$150,000
60% probability cost will be \$320,000
15% probability cost will be \$450,000

Expected cash flow calculation:

$$(.25 \times \$150,000) + (.6 \times \$320,000) + (.15 \times \$450,000) = \$297,000$$

The estimates of the pollution remediation liability need to be reviewed each year and when new benchmarks are met or additional information indicates there will be changes in the estimated outlays (i.e. change in remediation plan or change in technology, etc.).

Reporting

The estimated pollution related expense and liability must be reported in the appropriate fund and government wide statements in addition to the note disclosures. These estimates should include all the work that the government expects to perform. If an entity is expecting to recover some of the costs from other parties they should report it as follows:

- If the expected recovery is not realizable they should reduce the amount of the liability by that amount.
- If the expected recovery is realizable they should include the amount in the liability/ expense estimate and separately recognize a receivable (or cash asset if collected).

Capitalization of pollution remediation outlays is limited. Except as provided below pollution remediation outlays should be reported as an expense.

- To prepare property in anticipation of immediate sale.
 - To prepare property for use when it was acquired with known remediation problems.
 - To perform pollution remediation that restores a pollution-caused decline in service utility that was previously recognized as asset impairment (GASB Statement 42).
 - To acquire property, plant and equipment that has a future alternative use.

If governments are reporting capitalized costs for previous pollution remediation projects that do not meet the exceptions stated above they will need to reclassify them as an expense and report it as change in accounting principle when GASB Statement 49 is implemented.