



State of Louisiana
Division of Administration
Office of Statewide Reporting and Accounting Policy

March 24, 2009

OSRAP MEMORANDUM 09-24

TO: Fiscal Officers
All State Agencies

FROM: Afranie Adomako, CPA
Director

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations

In November 2006, GASB issued Statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which requires reporting a liability in financial statements for pollution remediation obligations. Implementation is required for periods beginning after December 15, 2007, which for the State of Louisiana is fiscal year ending June 30, 2009, and includes entities with a fiscal year end date of/or after December 31, 2008. Following is a summary of the provisions of Statement 49 and a questionnaire to be completed and returned to OSRAP by close of business on April 3, 2009.

Pollution remediation obligations (PRO) are defined as "obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups." Examples of obligations provided in GASB 49 include the obligation to perform pollution remediation as part of a Brownfield redevelopment effort, remediating a leaking underground storage tank, water pollution from an abandoned waste dump, an Environmental Protection Agency (EPA) identified Superfund site, asbestos removal whether voluntary remediation or imminent threat, and legal action. PRO also include external government oversight and enforcement related activities such as that performed by an environmental regulatory authority dealing with the site and chargeable to the government; operation and maintenance including required monitoring of the remediation effort (post-remediation monitoring); pre-cleanup activities such as site assessments and investigations, feasibility studies or designing remediation plans; and cleanup activities such as neutralizing, containing, pollutant disposal, and site restoration.

The scope of GASB 49 excludes the following types of obligations.

1. Landfill closure and postclosure obligations within the scope of GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*.
2. Other future pollution remediation activities required upon the retirement of an asset during the periods preceding the retirement such as nuclear power plant decommissioning. Statement 49 does apply to these activities at the time of retirement if obligating events are met and a liability has not been previously recorded.
3. Recognition of asset impairments or liability recognition for unpaid claims by insurance activities.
4. Pollution prevention or control obligations with respect to current operations such as obligations to install smokestack scrubbers, effluent treatment, or use of environment-friendly products, such as low sodium road salts; or to fines, penalties, toxic torts, product and process (workplace) safety programs; litigation support involved with potential recoveries.
5. Accounting for nonexchange transactions, such as grants applied for and received through the EPA for Brownfield redevelopments.

The GASB has identified the following benchmarks for evaluating when a component of the liability becomes reasonably estimable: receipt of an administrative order; participation as a responsible party or PRP in a site assessment or investigation; at the completion of a corrective measures feasibility study; issuance of an authorization to proceed; and at remediation design and implementation stages.

If any one of five specified events occurs, it would indicate that the government should determine if it is required to report a pollution remediation obligation (liability) in its financial statements. The five **obligating events** are:

- A a pollution-caused imminent danger to the public health or welfare;
- B a violation of a pollution prevention-related permit or license;
- C the government has been or will be named by a regulator as a responsible party or potentially responsible party (PRP) for remediation or cost sharing;
- D the government has been compelled to participate in remediation because of legal action or possible legal action; or
- E the government has commenced or legally obligated itself to commence pollution remediation.

Components of pollution remediation outlays can include, among other things, legal fees, testing polluted site(s), feasibility studies, operational plans, and post-cleanup monitoring. Once a government has prior experience in pollution clean-up, data should be readily available to develop meaningful estimates of the liability at the time an

obligating event occurs. When a site is initially identified, a disclosure should be made with all of the relevant facts. As the various benchmarks (identified above) occur, meaningful estimates will have to be developed and revised annually for changes in costs, inflation, and experience.

The US Environmental Protection Agency (EPA) defines a Brownfield as "...a property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant." Superfund sites are those to which the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) as amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA) apply. These acts provide the EPA with broad authority to order liable parties to remediate polluted sites or use Superfund money to remediate them and then seek to recover its costs and additional damages.

Outlays for pollution remediation obligations should be recognized as liabilities if goods and services used for pollution remediation activities are liquidated with expendable available financial resources (modified accrual accounting). However, pollution remediation outlays should be capitalized in the government-wide or proprietary fund statements when goods and services are acquired for any of the following circumstances: (1) to prepare property in anticipation of a sale, (2) to prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated, (3) to perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment, or (4) to acquire property, plant, and equipment that have a future alternative use other than remediation efforts.

Pollution remediation liabilities must be measured based on the pollution remediation outlays expected to be incurred to settle these liabilities. The liability must be based on "reasonable and supportable" assumptions of future events that may affect the eventual settlement of the liability, and should be measured and reported at **current value**. The current value of the liability should be based on applicable federal, state, or local laws or regulations that have been approved, regardless of their effective date and the technology expected to be used for the cleanup.

Pollution remediation liabilities should be measured using the "expected cash flow" technique that measures PRO based on 'current value' of outlays expected to be incurred. This is a measurement technique that involves assigning probabilities to each of the potential outlays and calculating their weighted average. For example, assume the government estimates the following probabilities and potential payments to complete pollution remediation at a particular site.

Probability of \$1,000,000 outlay is 10%
Probability of \$2,000,000 outlay is 60%
Probability of \$3,000,000 outlay is 30%

Scenario	Potential Payment (a)	Probability (b)	Accrual Amount (a) X (b)
1	1,000,000	10%	100,000
2	2,000,000	60%	1,200,000
3	3,000,000	30%	<u>900,000</u>
		Total	<u>2,200,000</u>

In its entity-wide (full accrual) financial statements, the government would accrue a liability of \$2.2 million and disclose in its Notes the nature and source of the pollution remediation obligations, the amount of the estimated liability (if not apparent in the financial statements), the methods and assumptions used, potential changes in the liability, and estimated recoveries.

A government's pollution remediation liability should include all remediation work the government expects to perform, including work performed for other responsible parties or PRPs, even if the government is not required to perform the work. Recoveries the government expects to receive from those other parties, as well as insurance recoveries expected from policies indemnifying it for its PRO, should reduce the expense. Unrealized/unrealizable recoveries should reduce the liability; realized/realizable recoveries should be recognized separately as recovery assets.

In periods following the completion of all pollution remediation work, if recoveries become expected when no pollution remediation liability remains, those recoveries should be recorded as revenues and cash or accounts receivable when they become realized or realizable.

As with pollution remediation liabilities, recoveries expected from other responsible parties, PRPs and insurers should be measured based on their current value and use of the expected cash flow technique. Guidance is provided in paragraphs 21 and 22 of GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, to determine when insurance recoveries are realized/realizable. Insurance recoveries are usually realizable when the insurer admits or acknowledges coverage, and can take place before covered outlays are made.

Since this Statement is effective for financial statements for fiscal periods beginning after December 15, 2007, the measurement of pollution remediation liabilities must begin as of the beginning of that period so **beginning net assets can be restated**. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are **required to apply the provisions retroactively** for all such **prior periods presented**. This will apply primarily to discretely presented component units that prepare comparative financial statements.

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Please complete the following questionnaire and return to OSRAP as soon as possible but no later than April 3, 2009. You may contact me at (225) 342-0708 or Ms. Sue Seab at (225) 342-1096 with any questions about GASB 49.

Remember, all OSRAP memorandums and forms may be accessed through our home page at <http://www.doa.la.gov/OSRAP/index.htm>.

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Implementation of GASB Statement 49,
Accounting and Financial Reporting for Pollution Remediation Obligations
Questionnaire

AGENCY _____
 Name _____ Phone _____
 Title _____ Email _____

	Yes	No	N/A
1. Are you aware of this statement, and if yes, what plans have you made to comply with the requirements of the statement.			
2. Do you currently track the cost for pollution remediation obligations, and if so, how is it tracked, in what accounting system is it tracked, and are these amounts currently shown separately or reported separately anywhere?			
3. Is this information reported anywhere? How is it reported? Where is it reported?			
4. Estimated cost of current pollution remediation obligations that meet any one or more of the obligating events criteria.			
5. Has your agency/entity been named (or expect to be named) as either a primary or third party in a lawsuit that required or will require your agency to spend funds to clean up hazardous wastes, hazardous substances or to remove contamination?			
6. Has your agency/entity been informed by a third party (for example, the Federal government) that property you currently own may be subject to oversight and enforcement activities related to hazardous wastes, hazardous substances or contamination removal or clean up or that your agency/entity may be in violation of a pollution prevention related permit or license?			
7. Does your agency/entity share responsibility for the costs of any necessary remedies for hazardous wastes, hazardous substances or contamination removal or clean up?			
8. Is your agency/entity currently engaged in operations, monitoring and maintenance of sites that currently or have previously contained hazardous wastes, hazardous substances or caused contamination removal?			
9. Has your agency/entity recovered resources (cash or otherwise) from a non-Louisiana State party in the past five years in payment for hazardous wastes, hazardous substances or contamination removal from a Louisiana property?			
10. Does your agency/entity currently have any capital outlay projects that may be related to pollution remediation, such as asbestos abatement?			

Implementation of GASB Statement 49,
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Questionnaire

	Yes	No	N/A
11. Has your agency/entity reported polluted or contaminated sites or buildings to DEQ or Facility Planning and Control? If so, please list the item reported on the following supplemental page.			
12. Does your agency/entity have any on-going or planned feasibility studies that could reveal a polluted site requiring a remediation investigation and/or remediation?			
13. Has your agency/entity completed pollution remediation on property in anticipation of a sale?			
14. Has your agency/entity purchased property with known or suspected pollution with the intention of preparing that property for its intended use through pollution remediation?			
15. Does your agency/entity have any ongoing remediation work?			
16. Does your agency/entity have plans to start any remediation work before the end of your fiscal year end?			
17. Has your agency/entity received an administrative order compelling a response action at a site or risk incurring penalties? If yes, indicate your response actions on the attached sheet.			
18. Is your agency/entity a responsible party or PRP in a site assessment or investigation? What percentage of the cost is your agency/entity responsible for paying?			

