DAS DEPARTMENT OF ADMINISTRATIVE SERVICES

Statewide Policy

OREGON ACCOUNTING MANUAL

SUBJECT:	Accounting and Financial Reporting	**Number:**	15.77.00
DIVISION:	Chief Financial Office	**Revision date:**	July 1, 2010
Chapter:	Accounting and Financial Reporting		
Part:	Pollution Remediation Obligations		
APPROVED:	George Naughton, Chief Financial Officer	Signature on file	

PURPOSE: This policy provides guidance on accounting and financial reporting for pollution remediation obligations, including accounting for recoveries from insurance and/or other responsible or potentially responsible parties related to remediation.

AUTHORITY: **ORS 293.590**
Governmental Accounting Standards Board (GASB), Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*

APPLICABILITY: This policy applies to all state agencies included in the state's annual financial statements, except for those agencies specifically exempted by **OAM Policy 01.05.00**.

This policy does not apply to the following:

a. Pollution prevention or pollution control obligations

b. Landfill closures and postclosure care obligations

c. Future pollution remediation upon retirement of an asset

d. Capital asset impairments under GASB Statement No. 42

e. Non-exchange transactions, such as brownfield redevelopment grants, under GASB Statement No. 33

DEFINITIONS: **Pollution:** The presence of a substance in the environment that because of its chemical composition or quantity prevents the functioning of natural processes and produces undesirable environmental and health effects. (U.S. Environmental Protection Agency)

Pollution remediation obligation: An obligation to address the current or potential detrimental effects of **existing** pollution by participating in remediation activities. Examples: obligations to clean up spills of hazardous wastes or hazardous substances; obligations to remove contamination such as asbestos.

POLICY:

101. Agency management must ensure proper accounting and reporting of pollution remediation liabilities. When an agency knows or suspects pollution may exist at a site, it must take steps to determine whether an obligating event has occurred that requires accounting for a pollution remediation obligation. Agencies must make the identification of obligating events a normal part of their procedures when acquiring, remodeling, or cleaning up property.

102. Pollution remediation activities include the following:

   a. Pre-cleanup activities, such as site assessments, design of remediation plans, and feasibility studies

   b. Actual cleanup activities, such as neutralization, containment, removal and disposal of pollutants, and site restoration

   c. External government oversight and enforcement-related activities (such as work performed by a state or federal environmental regulatory authority) dealing with the site and chargeable to the agency

   d. Ongoing post-remediation monitoring that the agency is required to perform

103. Outlays for pollution remediation include all direct costs related to the cleanup activities, such as payroll and benefit costs, equipment and facilities, materials, and legal and other professional services. In addition, agencies may include estimated indirect outlays, such as general overhead.

104. The following outlays are not part of performing pollution remediation and are not included in the remediation liability: fines, penalties, toxic torts, workplace safety costs, and litigation support involved with potential recoveries from insurance and/or other responsible or potentially responsible parties.

105. Remediation obligations generally result in expense recognition and reporting of pollution remediation liabilities. In certain instances, an obligation to participate in remediation activities may result in recognition of capital assets.

PROCEDURES:

Obligating Events

106. When an agency knows or believes that pollution exists at a site, it must determine if any of these five events has occurred:

   a. Pollution poses an imminent danger to the public or environment and the agency has little or no choice but to take immediate action. *Examples: cleanup of hazardous wastes or hazardous substances.*

   b. The agency violates a pollution prevention permit or license, such as Resource Conservation and Recovery Act (RCRA) or similar permits under Federal or state law.

   c. The agency is named (or evidence indicates it will be named) by a regulator as responsible or potentially responsible for cleaning up pollution or for sharing costs. *Example: the Superfund law requires that the state pay or ensure payment of 10% of the cost of remedial* *action and 100% of the cost of operations and maintenance at sites that are privately owned or operated and for which no financially viable party can be found.*

d. The agency is named (or evidence indicates that it will be named) in a lawsuit to compel the agency to participate in remediation.

e. The agency legally obligates itself or begins to clean up pollution or perform post cleanup activities.

107. If none of the above events has occurred, the agency is not required to calculate or report a pollution remediation liability. However, if one or more of the events has occurred and the agency can estimate a range of potential outlays, it must calculate and report a liability in the financial statements.

108. The agency is only required to estimate and report liabilities for remediation activities that can be *reasonably* estimated. Example: if in the early stages of pollution remediation the agency can reasonably estimate only legal fees and site testing costs, it accrues only those costs. Once the agency can reasonably estimate additional remediation costs, it accrues those costs at that time. (See the attached flowchart.)

Measurement of the Obligation

109. Pollution remediation liabilities are measured at their current value. Because settlement of pollution remediation activities is not always possible in the current period, settlement may involve future events. A remediation liability, therefore, is based on reasonable and supportable assumptions about future events that may affect the eventual settlement of the liability. GASB Statement No. 49 uses an "expected cash flow" measurement technique. This technique directs agencies to estimate the ranges of potential outlays to remediate the pollution.

Example: Potential pollution remediation outlays range from $150,000 with a 20% probability to $500,000 with a 10% probability. The most probable outlay expected is $320,000 with a probability of 70%. Calculation:

(($150,000 x 0.2) + ($500,000 x 0.1) + ($320,000 x 0.7)) = $304,000

110. When calculating the liability using the expected cash flow technique, agencies need to consider expected recoveries from insurance policies and/or other responsible or potentially responsible parties. An anticipated recovery is included in the measurement by reducing the remediation expense and affecting the liability as follows:

a. If the expected recoveries are not yet realized (received) or realizable (cost recovery agreed to by the other parties), the recoveries reduce the liability.

b. If the expected recoveries are realized or realizable, recognize them separately from the liability as assets (for example, as cash or a receivable).

Example: Using the above liability of $304,000, the agency expects to recover, but has not yet realized, $40,000 from an insurance policy. In this case, reduce the liability and remediation expense to $264,000.

If the agency has realized the insurance recovery, the liability would remain at $304,000, but the expense would decrease and cash would increase by $40,000.

111. An insurance recovery generally is realizable when the insurer admits or acknowledges coverage. If the agency receives or expects to receive recoveries in periods following the completion of all remediation work and a liability no longer exists, it records the transaction as a reduction in expense and an increase to cash or accounts receivable.

112. Agencies must adjust their pollution remediation liabilities at each fiscal year end, using the latest available information to estimate the remaining outlays required to complete their projects.

Accounting for the Obligation

113. When an agency determines a pollution remediation obligation exists and can make a reasonable and supportable estimate of expected outlays, it must establish a noncurrent liability. The agency adjusts the remediation obligation and expense at each subsequent year-end in the government-wide reporting fund and proprietary funds.

T-code 457: To accrue or adjust the long-term liability:

DR 3600 GAAP Exp Offset (C/O 4690 Pollution Remed Outlay)	1,000	
CR 1780 Pollution Remediation Obligation - Noncurrent		1,000

114. In the government-wide reporting fund and proprietary funds, reclassify as a current liability the portion of the liability expected to be paid within one year of the balance sheet date.

T-code 475R:

DR 1780 Pollution Remediation Obligation - Noncurrent	500	
CR 2951 System Clearing General Ledger		500

T-code 475:

DR 2951 System Clearing General Ledger	500	
CR 1680 Pollution Remediation Obligation – Current		500

115. If an agency expects to receive recoveries from insurance policies and/or other responsible or potentially responsible parties, it should consider the recoveries when establishing the pollution remediation obligation.

T-code 457R: To record an expected, but not yet realized or realizable, recovery in government-wide and proprietary funds:

DR 1780 Pollution Remediation Obligation	1,000	
CR 3600 GAAP Expenditure Offset (C/O 4690)		1,000

T-code 172: To record a realized (received) recovery in governmental and proprietary funds:

DR 0065 Unreconciled Deposit	1,000	
CR 3500 Expenditure Control – Cash (C/O 4690)		1,000

T-code 904: To accrue a realizable recovery (a receivable) in governmental and proprietary funds:

DR 0503 Accounts Receivable – Other Unbilled	1,000	
CR 3505 Expenditure Control-Financial Stmt Accrual (C/O 4690)		1,000

T-code 172: To record recoveries received after the pollution remediation work has been completed and for which a remediation liability no longer exists:

DR 0065 Unreconciled Deposit	1,000	
CR 3500 Expend Control-Cash (C/O 7511 Ins Recovery)		1,000

Capitalization of Pollution Remediation Outlays

116. Normally, an agency accounts for the estimated costs to acquire facilities and equipment that will be used exclusively in pollution remediation activities as a component of the pollution remediation obligation. The eventual purchase of the facilities and equipment is recorded as a reduction of the previously recognized liability for pollution remediation outlays.

117. However, an agency capitalizes pollution remediation outlays in the government-wide reporting fund and proprietary funds when goods and services are acquired under the following circumstances:

a. *To prepare property in anticipation of a sale*. The agency may not capitalize amounts that would result in a carrying value that exceeds the fair market value upon completion of the remediation.

Example: The agency purchased a building and land for $100,000 with the expectation of cleaning up the site for resale, at expected outlays of $130,000 to $170,000. No amounts within the range were considered better estimates. The agency has a potential buyer for $245,000. Pollution remediation measurement:

(($130,000 x 0.5) + ($170,000 x 0.5)) = $150,000

The purchase price and expected pollution remediation outlays ($100,000 + $150,000) exceed the fair market value ($245,000) by $5,000. Because the agency cannot capitalize amounts exceeding the fair market value, it records a pollution remediation liability and expense for $5,000. No amount is recorded for the expected pollution remediation to be capitalized; those outlays are not recognized until incurred.

b. *To prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated.* The agency may capitalize only pollution remediation outlays required to place the property into its intended location and condition for use.

NOTE: For outlays under (a) and (b), capitalization is appropriate only if the outlays take place within a reasonable period prior to the expected sale or following acquisition of the property.

c. *To restore a pollution-caused decline in service utility that was recognized as an asset impairment*. In this case, the agency capitalizes only the outlays necessary to place the asset into its intended location and condition for use. See **OAM 15.60.25**, *Capital Asset Impairments.*

d. *To acquire property, plant and equipment with an alternative use*. In this situation, the agency capitalizes outlays only to the extent of the estimated service utility that exists after remediation activities end. Example: the acquisition of land is generally considered a capital asset because, even after pollution has been remediated, land still has an alternative future use.

Financial Statement Reporting

118. The Statewide Accounting and Reporting Services (SARS) reports the costs associated with recognition of a pollution remediation obligation in the statement of activities (government-wide reporting fund) and statement of revenues, expenses, and changes in fund net assets (proprietary funds) as a program or operating expense, special item or extraordinary item.

119. The SARS reports the pollution remediation obligation in the statement of net assets (government-wide reporting fund) and the balance sheet (proprietary funds) as a current and/or noncurrent liability.

Disclosure Requirements

120. The SARS discloses pollution remediation activity in the state's financial statements. Agencies must provide the following information when completing the year-end General Disclosure forms.

- The nature and source of the reported pollution remediation obligations
- The amount of the estimated liability
- The methods and assumptions used to estimate the liability
- The potential for changes in the estimate due to external factors
- Estimated recoveries from insurance policies and/or other responsible or potentially responsible parties that reduce the liability

121. Agencies must also disclose a general description of the nature of the remediation activities for liabilities not yet recognized because they cannot be reasonably estimated.

FLOWCHART FOR EVALUATING POLLUTION REMEDIATION OBLIGATIONS