

Comptroller's Directive No. 1-09
Attachment 19
Pollution Remediation

Purpose

To obtain information to comply with **GASBS No. 49**, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which requires pollution remediation activities to be estimated and accrued as a liability when any one of five obligating events occur. Under certain conditions, pollution remediation related expenditures should be capitalized when incurred and included on directive **Attachment 14, Capital Asset Accounting and Control System (FAACS) Analysis**.

Applicable agencies

All agencies which know or reasonably believe that a site is

- polluted / contaminated and
- incurred or expect to incur pollution remediation costs that are not included on a financial statement template.

Due date

August 13, 2009

Certification

The **Certification** tab requires all preparers and reviewers to type their name on this form. Please note that there should be a segregation of duties; therefore, the preparer and the reviewer should not be the same individual for any tab. **By typing a name, the individual is certifying that all tabs of this attachment have been reviewed; the information is both complete and accurate; the preparer and reviewer were not the same individual for any tab; and that you have read and understand the instructions for the attachment.**

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**Submission
requirements**

Contact DOA if the agency has any problems with the files.

If an agency is involved in more than one pollution Remediation Project, separate attachments must be completed for each pollution remediation project.

After downloading the files, rename the spreadsheet file using the agency number followed by Att19-Project Number. For example, if agency 501 has two pollution remediation projects to report, two attachments will be submitted. The attachments will be renamed as follows: 501Att19-1 and 501Att19-2.

Submit the Excel spreadsheet electronically to finrept-agyatt@doa.virginia.gov.

Copy APA via e-mail to APAFinRept@apa.virginia.gov.

Do not submit paper copies of the Excel attachment.

For your convenience, the contact information in all but the first tab in each attachment / template has been unlocked and shaded yellow. The contact information continues to be auto filled with the information from the first tab but the cells remain unlocked to allow for more than one preparer to complete the attachment.

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**Attachment
revisions**

If attachment revisions are made subsequent to DOA acknowledgement of receipt and acceptance of the original attachment submission, **resubmit the revised attachment AND complete the [Revision Control Log](#) tab in the attachment excel file.**

Enter the revision date, applicable excel file tab name, row number and column letter revised, and the previous and revised information. Document text changes and numerical changes. Only enter changes for amounts actually keyed. For example, if a non-keyed, calculated total changes as a result of the revision, this does not need to be documented on the Revision Control Log.

If the attachment is revised more than once, do not delete control log revision information from the previous revision. Enter the new revision date and the additional revisions in the rows following the initial revision rows. This log should document all revisions from the initial attachment submission.

Include “**REVISED – date**” in the **subject line** of the submission e-mail as well as in the **file name**. Resubmit the revised attachment; and ensure that the [Revision Control Log](#) tab has been completed.

Each time a revision is submitted the [Certification](#) tab should be updated with new signatures and dates.

**Overview of
requirements**

Pollution remediation activities should be recognized when any one of five obligating events occur. Pollution remediation generally will be recognized as a liability and an expense in the Government-wide and Proprietary Fund statements. Under certain conditions pollution remediation activities should be capitalized as incurred. Those circumstances will be discussed further later. Pollution remediation activities should be re-measured annually and updated at the current values.

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Definitions

Extraordinary Items are both unusual in nature and infrequent in occurrence. In other words, they would possess a high degree of abnormality and are clearly unrelated to typical entity activities and are not reasonably expected to recur in the environment in which the entity operates. Items that are extraordinary for one entity may not be for another due to location, business type, etc.

Special Items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. Special Items should also be reported separately in the statement of activities, before extraordinary items, if any.

Exceptions

Per **GASBS No. 49** paragraph 4, this new statement does not apply to the following:

- Landfill closure and post closure care obligations within the scope of **GASBS No. 18**.
- Future pollution remediation activities required upon the retirement of an asset (such as nuclear power plant decommissioning) during the periods preceding the retirement. However, this statement applies to those activities *at the time of the retirement if* obligating events are met and a liability has not been recorded previously.
- Recognition of asset impairments (see **GASBS No. 42**) or liability recognition for unpaid claims by insurance activities.
- Pollution prevention or control obligations with respect to current operations or fines, penalties, and other nonremediation outlays discussed in **GASBS No. 49** paragraph 7.
- Accounting for nonexchange transactions such as brownfield redevelopment grants (see **GASBS No. 33**).

For additional information regarding applicability, pollution remediation obligations & activities, see **GASBS No. 49** paragraphs 2 through 8.

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Examples of outlays that should be considered

Pollution remediation outlays include all direct outlays attributable to pollution remediation activities (e.g. payroll and benefits, equipment and facilities, materials, and other professional services) and may include estimated indirect outlays. Outlays related to natural resource damage (e.g. revegetation outlays) are included only if incurred as part of a pollution remediation effort. Fines, penalties, safety outlays, and outlays not part of a pollution remediation effort should not be included. Agencies should report remediation information if they are the responsible party even if they expect to receive or have received reimbursement from another entity such as the federal government. Examples of pollution remediation include asbestos or lead based paint abatement from old buildings or clean-up related to leakage of underground fuel storage tanks or hazardous materials storage buildings.

Specific Instructions: Tab 1- Obligating Events

Part 1 in **Tab 1 - Obligating Events**, summarizes the obligating events that trigger the requirement to estimate the components of expected remediation outlays. A determination must be made as to whether those events apply to the agency.

Steps to complete part 1

A) Use the drop-down lists to indicate whether each of the 5 obligating events listed in this section applies to the agency.

An affirmative response to any one of the five obligating events listed requires the completion of step B.

B) Provide a description of the agency’s participation in the pollution remediation, the financing for the agency’s part, identification of the site, type of pollution / contamination, and obligating event as well as the month and year the obligating event took place in the space provided before moving to part 2.

Otherwise, if none of the obligating events apply to the agency, complete the **Certification** tab and submit the attachment.

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**Specific
Instructions:
Tab 2-
Includable
Outlays**

Part 2 in **Tab 2 - Includable Outlays**, is intended to (1) determine if includable pollution remediation activity components have taken place or have been planned as of June 30, 2009 and (2) to identify current period expenditures liquidated with expendable available financial resources. If a government knows a site is polluted and one or more of the obligating events in part 1 has occurred, then an attempt to estimate its future liability for remediation of the pollution is expected. The estimate should include several separable components. These components range from the pre-cleanup stage through the operation and remedy itself (e.g., legal fees, testing the polluted site, feasibility study, plan operation and monitoring after the cleanup). Components of a liability should be recognized as they become reasonably estimable. At a minimum, the estimate of a pollution remediation liability should be evaluated as each of the following benchmarks occurs but should not be applied in a manner that would delay recognition beyond the point at which a reasonable estimate of the range of a component of a liability can be made:

- receipt of an administrative order
 - participation, as a responsible party or a potentially responsible party, in the site assessment
 - completion of a corrective measures feasibility study
 - issuance of an authorization to proceed, and / or
 - remediation design and implementation, through and including operation and maintenance, and post-remediation monitoring
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Specific Instructions: Tab 2-Includable Outlays (continued)

The estimate should exclude outlays related to pollution prevention or control obligations with respect to current operations, such as obligations to install smokestack scrubbers, treat effluent, or use environmental-friendly products.

Under certain conditions, future pollution remediation outlays should be capitalized when goods or services are received and not accrued as a liability. The following conditions require pollution remediation activities to be capitalized:

- to prepare property in anticipation of a sale
- to prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated
- to perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment
- to acquire property, plant, and equipment that have a future alternative use other than remediation efforts

Note: The amount that is capitalizable is limited to the fair market value of the asset at the end of the remediation project.

Steps to complete part 2

- A) Use the drop-down lists to indicate whether the activities listed in part A have taken place or been planned.
 - B) For any of the activities for which you answered **yes** in part A, list the project name, activity, amounts expended and the fund / fund detail that the expenditures were recorded in CARS as of June 30, 2008.
 - C) For any of the activities for which you answered **yes** in part A, list the project name, activity, amounts expended and the fund / fund detail that the expenditures were recorded in CARS for the fiscal year ended June 30, 2009.
 - D) For any of the activities for which you answered **yes** in part A, list the project name, activity, amounts expended and the fund / fund detail that the expenditures were recorded in CARS in July and August of 2009 (P-vouchers).
 - E) Indicate whether any of the expenditures listed in sections B through D meet the capitalization criteria.
 - F) For any activities for which you answered **yes** in part A, that have not yet occurred move on to part 3.
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**Specific
Instructions:
Tab 3-
Measurement**

Part 3 in **Tab 3 – Measurement**, is intended to help estimate the current value of planned activities for qualifying pollution remediation outlays. When pollution remediation outlays do not qualify for capitalization, but an obligating event has taken place, a liability should be recorded at the current value of the costs the government expects to incur to perform the work. This amount should be estimated using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts—the estimated mean or average. In the years following the recordation of the initial estimate, the Commonwealth should reduce the liability by the actual amount spent and adjust the liability for any changes in estimate.

- A) All pollution remediation projects require cost estimates for all of the activities needed for removing or neutralizing the pollution. Agencies should use the activities listed in Part 2 as a basis for measuring the project. Then estimate the amount of effort for each activity. Include in the estimate a measurement of all of the activities that are certain to occur along with those that are reasonable and supportable for the remediation project. Base the measurement of all planned activities on the weighted probability of the expected cash flows. To do this perform the following steps:
1. Obtain a range of potential outlays for an activity. You may shorten the range to a few to make the calculation simpler.
 2. Assign a probability factor to each of the points in the range of the activity. The probability factors should add up to 100%. If the probability for any point in the range equals any other point in the range, sum the highest and lowest point and divide by two.
 3. Multiply the potential outlays by the probability factor.
 4. Sum the product of step 3 for the probability weighted amount for that activity. Please see the example on tab 3, Measurement under step A.
 5. If an agency lacks the expertise for estimating the outlays necessary for the remediation activities they may rely on an estimate from a reputable company in the field of pollution remediation or another governmental agency with the expertise. The estimated costs of the remediation activities may include a profit **only** if an agency intends on using an outside vendor for the project.
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Specific Instructions: Tab 3-Measurement (Continued)

- B)** Please provide the components of the expected pollution remediation outlays estimated in question A that meet the capitalization criteria that should be excluded from the liability (eg. which the agency intends to recover or restore through pollution remediation). Keep in mind the amount that is capitalizable is limited by the fair market value of the asset at the end of the remediation project. Also, any equipment purchased specific for remediation purposes should only be capitalized for the fair market value at the end of the project assuming the asset has any usefulness to the agency. Projects identified as capitalizable get added to Construction-in-Progress (CIP) as the capitalizable expenditures are incurred.
- C)** List the measurable parts of the project(s) that will not be capitalized. This should be all the items listed in step a, less those items identified as capitalizable in step b. The outlays listed here become part of the total pollution remediation liability calculated on tab 6. Move to part 5 (Part 4 is N/A for FY 09).
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**Remeasure-
ment -
Informational
Only for FY
2009!**

Tab 4, Part 4) Remeasurement of planned activities for pollution remediation does not apply for fiscal year 2009 and has been hidden on the Attachment 19. The below is for informational purposes only for FY 2009! In future years, Tab 4, Part 4 will be unhidden and the below instructions will apply.

- A) *All pollution remediation projects require an annual remeasurement of the cost estimates for all of the remaining activities needed for removing or neutralizing the pollution as new information becomes available. If the original estimate has not changed, agencies should note it and determine the amount expended on the remediation efforts for reducing the liability. Agency must reduce the liability for actual expenditures incurred during the year and adjust for any differences between original liability and total expenditures incurred for the project. Any changes or additions to the outlays should be shown in Step A. Agencies should still use the weighted probability of the expected cash flows technique as instructed in the original measurement of the activities. All measurements should include tasks as they become reasonably estimable and supportable. To do this perform the following steps:*
1. *Obtain a range of potential outlays for an activity. You may shorten the range to a few to make the calculation simpler.*
 2. *Assign a probability factor to each of the points in the range of the activity. The probability factors should add up to one. If the probability for any point in the range equals any other point in the range, sum the highest and lowest point and divide by two.*
 3. *Multiply the potential outlays by the probability factor.*
 4. *Sum the product of step 3 for the probability weighted amount for that activity. Please see the example on tab 3, Measurement under step A.*
 5. *If an agency lacks the expertise for estimating the outlays necessary for the remediation activities they may rely on an estimate from a reputable company in the field of pollution remediation or another governmental agency with the expertise. The estimated costs of the remediation activities may include a profit **only** if an agency intends on using an outside vendor for the project.*
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Remeasurement - Informational Only for FY 2009! (Continued)

- B) Add any new assets the agency will capitalize to the list of capital assets the agency intends to recover or restore through remediation. Use the same methodology as step A. Keep in mind the amount that is capitalizable is limited by the fair market value of the asset at the end of the remediation project. Also, any equipment purchased specifically for remediation purposes should only be capitalized for the fair market value at the end of the project assuming the asset has any usefulness to the agency. Projects identified as capitalizable get added to Construction-in-Progress (CIP) as the capitalizable expenditures are incurred.*
- C) Please list the weighted costs of all of the **changes** to the remaining measurable parts of the project. Also, list any new activities that became measurable since the beginning of the remediation project. These amounts transfer to step B of tab 6, Liability. Move to part 5.*
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**Specific
Instructions:
Tab 5-
Recoveries**

Part 5) Recognition of Recoveries for Pollution Remediation.

Agencies should evaluate all pollution remediation projects for potential recovery of remediation costs by insurers and other responsible parties. Agencies should determine if the recoveries are realized or realizable. An insurance recovery generally is realizable when the insurer admits or acknowledges coverage, potentially before covered outlays take place. Agencies should indicate if expected recoveries relate to capitalizable items. Also, agencies should determine if there are any other responsible parties for the pollution remediation. Responsible parties include:

1. Local governments that may have seized or had donated property that is polluted.
 2. Private businesses that may have abandoned a piece of property with known pollution on it.
 3. Insurance Companies with whom an agency has a policy indemnifying it for pollution. Policies of this nature are specific to the reasons for the pollution. For example, state governments carry insurance for hazardous waste removal. If the company hauling the waste was negligent when it hauled away the waste and another government agency determines that the state is a responsible party, the insurance policy should cover the state for its part of the pollution. List and sum the amounts for the responsible parties, other than the agency, for the remediation effort. These amounts transfer the summed amounts to tab 6, Liability, question C, part 1.
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Specific Instructions: Tab 5-Recoveries (Continued)

Determine if there are any other **potential** responsible parties for the pollution. Potential responsible parties receive a different treatment from the known responsible parties. Potential responsible parties include any party an agency is communicating with regarding their involvement in the polluting of a particular site. The potential responsible parties should be listed and summed then transferred to tab 6, Liability, question C, part 2. Move to part 6.

**Specific
Instructions:
Tab 6-Liability**

Part 6) Final Liability for Pollution Remediation Projects.

- A) Verify that the listing of new activities from tab 3, part C, that will not be capitalized is accurate and provide amount due within 1 year or explain why it isn't accurate.
- B) N/A for FY 09. Beginning with FY 10, verify that the listing of final re-measured activities from tab 4, part C, Re-measurement is complete and accurate or explain why it isn't.
- C) Verify that the listing of expected recoveries from responsible parties and insurers from tab 5 is complete and accurate or explain why it isn't.

Move on to the footnote disclosure tab.

**Footnote
Disclosure:
Tab 7-Footer
Disclosures**

Part 7) Footnote Disclosures.

- A) Provide the nature and source of expected pollution remediation that is not reported because a range of potential outlays cannot be estimated.
- B) Provide the following for expected pollution remediation that was reported:
 - 1. The methods and assumptions employed to estimate the liability.
 - 2. The potential for changes in the estimate due to changes in prices, technology, laws and regulations, and other factors.

Move on to the certification tab

The following page includes a flowchart to aid in the application of **GASBS 49**.

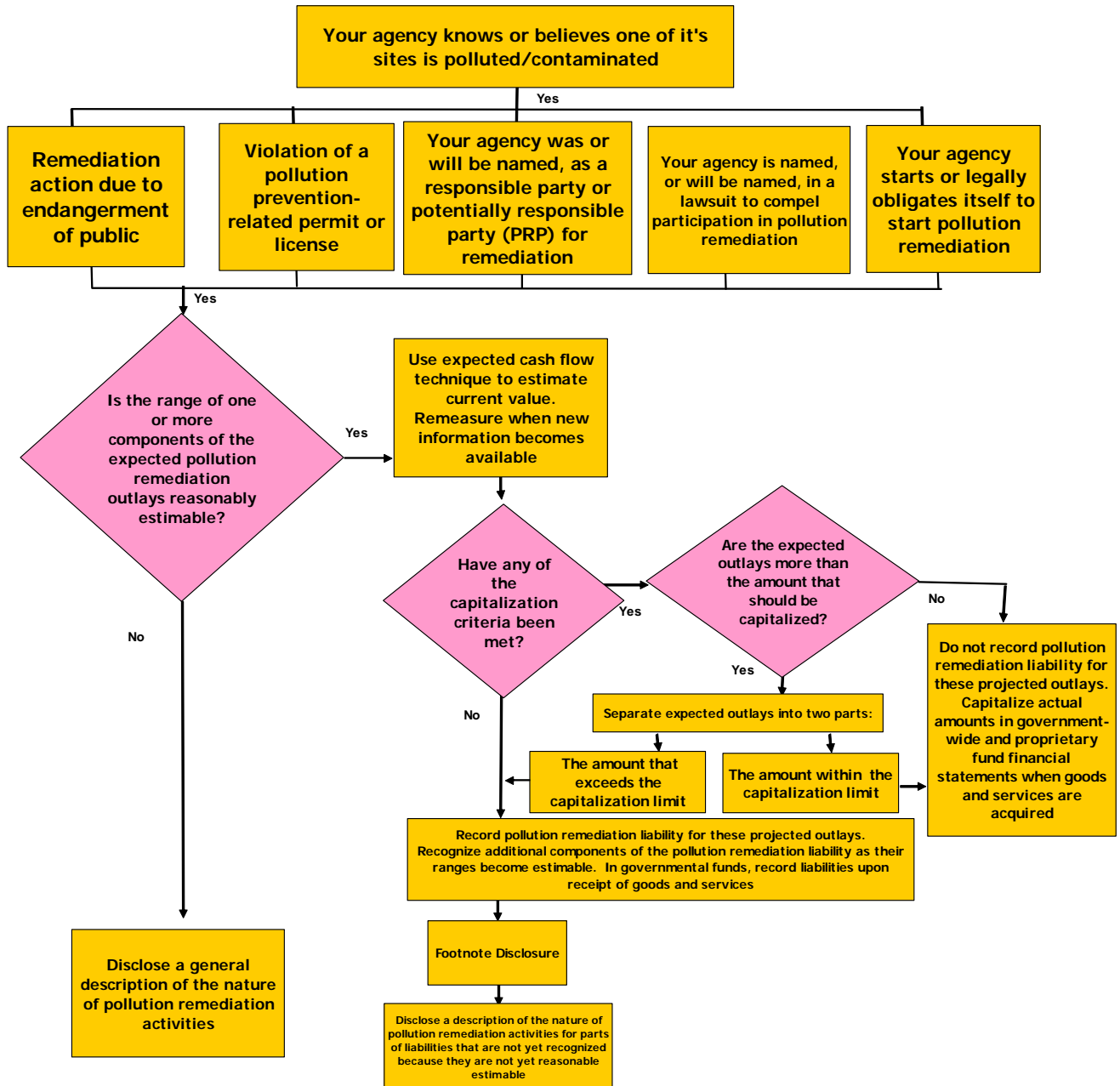
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Flowchart

The flowchart below is presented to aid in the application of GASBS 49.



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