

Attachment HE-10 - TAB 7 Part 16: GASBS No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations

Purpose

The purpose of GASBS No. 49 is to provide financial reporting standards for pollution (including contamination) remediation obligations. It is imperative that the institution's fiscal staff coordinate with appropriate personnel to obtain all relevant input regarding the institution's real property and buildings in order to identify polluted sites and properly implement this new statement.

Per GASBS No. 49 paragraph 9, pollution remediation obligations generally will result in recognition and reporting of pollution remediation liabilities. Also, in certain instances, an obligation to participate in pollution remediation activities will result in recognition and reporting of capital asset transactions at the time those assets are acquired.

This document is provided for informational purposes and is not authoritative. HEIs must refer to GASBS No. 49 for reporting requirements.

Applicability

Higher Education Institutions (HEIs) are required to properly report any activity/balances related to the implementation of this new statement in their individually published financial statements as well as the financial statement template for FY 2009. HEIs will need to determine if any restatements are required based on the implementation of this new statement.

Attachment HE-10, Financial Statement Template, TAB 7 Part 16 is for HEIs to answer certain questions regarding this new GASB statement.

Definitions & examples

Per GASBS No. 49 paragraph 5, a **pollution remediation obligation** is defined as an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. Below are some examples; however, this listing is not all inclusive:

- Asbestos or lead based paint abatement from old buildings
- Clean-up related to leaking underground fuel storage tanks
- Clean-up related to hazardous wastes or hazardous substances

Pollution remediation activities include: pre-cleanup activities, cleanup activities, external government oversight and enforcement-related activities, and operation and maintenance of the remedy (i.e. postremediation monitoring). Per GASBS No. 49 paragraph 7, the following outlays are not part of performing pollution remediation and should not be included: fines, penalties, toxic torts, product and process (workplace) safety outlays, and litigation support involved with potential recoveries.

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

- 1) Landfill closure and postclosure care obligations within the scope of GASBS No. 18.
- 2) Other 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 does apply to those activities at the time of the retirement if obligating events are met and a liability has not been recorded previously.
- 3) Recognition of asset impairments (see GASBS No. 42) or liability recognition for unpaid claims by insurance activities.
- 4) Pollution prevention or control obligations with respect to current operations or fines, penalties, and other nonremediation outlays discussed in GASBS No. 49 paragraph 7.
- 5) 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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**TAB 7
Part 16a,
obligating
events**

Per GASBS No. 49 paragraph 10a, once an obligating event occurs, a HEI should determine whether one or more components of a pollution remediation obligation are recognizable as a liability.

TAB 7 Part 16a, Obligating Events, is to document the following:

HEI knows or reasonably believes a site is polluted/contaminated,
and
an obligating event* has occurred.

Note*: Per GASBS No. 49 paragraph 11, an obligating event is when any of the following events occurs:

- 1) HEI is compelled to take remediation action because pollution creates an imminent endangerment to public health or welfare or the environment, leaving it little or no discretion to avoid remediation action.
- 2) HEI is in violation of a pollution prevention-related permit or license, such as a Resource Conservation and Recovery Act permit or similar permits under state law.
- 3) The HEI is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as a HEI responsible for sharing costs.
- 4) The HEI is named, or evidence indicates that it will be named, in a lawsuit to compel the HEI to participate in remediation.
- 5) The HEI commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should be based on the portion of the remediation project that the HEI has initiated and is legally required to complete.

A “**yes**” answer to Part 16a will require descriptions of the following: site, pollution/contamination, and obligating event as well as the month and year the obligating event took place.

A “**no**” answer to Part 16a will allow the HEI to skip to Part 17.

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**TAB 7
Part 16b,
recognition
benchmarks**

Per GASBS No. 49 paragraph 10b, components of a liability should be recognized as they become reasonably estimable. This statement provides **benchmarks*** for evaluating when various components become reasonably estimable. GASBS No. 49 paragraphs 12 & 13 provide additional information on recognition benchmarks.

Per GASBS No. 49 paragraph 12, in some cases a HEI may be able to reasonably estimate a range of all components of its liability early in the process because the site situation is common or is similar to situations at other sites with which the HEI has experience.

TAB 7 Part 16b, Recognition Benchmarks: Part 1, is to document if the range of all components of the pollution remediation liability has been reasonably estimated because the site situation is common or is similar to other sites that the HEI has had experience.

A “**yes**” answer would allow the HEI to go to 16c. A “**no**” answer would require an explanation and the HEI would continue to 16b Part 2.

TAB 7 Part 16b, Recognition Benchmarks*: Part 2, is to document if the pollution remediation obligations are for sites that are not common or similar to other sites that the HEI has had experience and whether the HEI has estimated a range of certain components of the pollution remediation liability as the following recognition benchmarks have occurred:

- receipt of an administrative order,
- participation, as a responsible party or a potentially responsible party, in the site assessment or investigation,
- 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 postremediation monitoring.

A “**yes**” answer will require the HEI to provide a description of the benchmarks that have occurred. A “**no**” answer would require an explanation.

Note*: Per GASBS No. 49 paragraph 13, these recognition benchmarks typically apply to pollution remediation obligations that are not common or similar to situations at other sites with which the HEI has experience.

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**TAB 7
Part 16c,
measurement**

Per GASBS No. 49 paragraph 10c, measurement is based on the current value of outlays expected to be incurred. The components of the liability should be **measured** 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. GASBS No. 49 paragraphs 14 to 17 provide additional information on measurement.

TAB 7 Part 16c, Measurement - \$, is to document if **all** of the pollution remediation liability has been reasonably estimated in accordance with GASBS No. 49. If no* to this part, the following must be provided: explain the nature of the pollution remediation liabilities or portions of the pollution remediation liabilities that cannot be reasonably estimated and must be disclosed.

Note*: Per GASBS No. 49 paragraph 26, if pollution remediation liabilities, or portions thereof, are not yet recognized because they are not reasonably estimable, the HEI should disclose a general description of the nature of the pollution remediation activities.

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Remeasurement - informational

GASBS No. 49 paragraph 13 states that the \$ range of estimated remediation liability often will be defined and **periodically refined**, as necessary, as different stages in the remediation process occur. GASBS No. 49 paragraph 18 states that estimates of the pollution remediation liability **should be adjusted** when benchmarks are met or when new information indicates changes in estimated outlays are needed.

In future years, there will be a part added titled, Remeasurement, and will be to document if the HEI has determined if a remeasurement of the pollution remediation liability is needed. Since FY 2009 is the first year to implement GASBS No. 49, this part has been excluded; however, it will be a requirement in future years. This information is added here because in the future a part will be added after Part 16c and before Part 16d.

TAB 7 Part 16d, expected recoveries

GASBS No. 49 paragraphs 19 to 20, provides guidance on how to account for recoveries. The reporting of expected recoveries from other responsible parties, potentially responsible parties, and insurance recoveries* that indemnify the HEI for its pollution remediation obligations varies depending on the following:

- Expected recoveries are not yet realized or realizable
- Expected recoveries are realized or realizable

Per GASBS No. 49 paragraph 19a, if expected recoveries are not yet realized or realizable, they should reduce the measurement of the HEI's pollution remediation liability. Per GASBS No. 49 paragraph 19b, if expected recoveries are realized or realizable, they should be recognized separately from the liability as recovery assets (i.e. cash or receivables). Per GASBS No. 49 paragraph 20, expected recoveries should be measured consistently with the related pollution remediation outlays (based on their current value and using the expected cash flow technique).

TAB 7 Part 16d, Expected Recoveries, is to document if the HEI expects any of the recoveries discussed in GASBS No. 49 paragraphs 19 & 20. If the HEI does expect recoveries, the following information must be provided: expected recovery amount, source of expected recovery, and indicate if realized or realizable.

Note*: GASBS No. 42 provides reporting guidance on insurance recoveries; however, GASBS No. 49 should be followed for reporting of insurance recoveries to indemnify the HEI for pollution remediation obligations.

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**TAB 7
Part 16e –
accounting for
recoveries that
become
expected later**

GASBS No. 49 paragraph 21, provides guidance on how to account for recoveries that become expected in periods after completion of remediation work such that the pollution remediation liability no longer exists. These recoveries would be reported as revenue* and cash or receivables when they are realized or realizable. Note *: Per GASBS No. 49 paragraph 23, if this revenue meets the definition of Special Item or Extraordinary Item, it would be reported on those line items.

TAB 7 Part 16e, Accounting for Recoveries that Become Expected Later, is to document whether the HEI expects any realized or realizable recoveries as discussed in GASBS No. 49 paragraph 21. If the HEI does expect these type of recoveries, the following must be provided: description, source of recoveries, \$ amount, and FST line items these are reported on.

**TAB 7
Part 16f,
capitalization of
pollution
remediation
outlays**

GASBS No. 49 paragraph 22 states pollution remediation outlays, including outlays for property, plant, and equipment should be reported as an expense when a liability is recognized as discussed in paragraphs 12 to 21 with the following exception. **Pollution remediation outlays should be capitalized, subject to certain limitations, when goods or services are acquired if acquired for any of the following:**

- 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.

Do not record a pollution remediation liability for expected outlays that can be capitalized. Capitalize actual amounts when goods/services are acquired. Refer to GASBS No. 49 paragraph 22 for guidance on the amounts that can be capitalized.

TAB 7 Part 16f, Capitalization of Pollution Remediation Outlays, is to document if any of the expected pollution remediation outlays will meet the criteria in GASBS No. 49 paragraph 22 for capitalization.

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**TAB 7
Part 16g,
reporting**

TAB 7 Part 16g, Reporting, is to document whether pollution remediation liabilities, outlays, and recoveries are properly reported on the financial statement template in accordance with GASBS No. 49.

Note: Per GASBS No. 49 paragraph 23, pollution remediation costs should be reported as expenses unless they meet the definition of Special Items or Extraordinary Items.

See Examples 1 to 3 on the following pages for example entries.

**TAB 7
Part 16h,
disclosures**

GASBS No. 49 paragraph 25 requires the following disclosures:

- Nature and source of pollution remediation obligations,
- Amount of the estimated liability (if not apparent from the statements)
- Methods and assumptions used for the estimate
- Potential for changes (i.e. from price increases/decreases, technology, applicable laws or regulations, etc..)
- Estimated recoveries reducing the liability

TAB 7 Part 16h, Disclosures, is to provide disclosure information required by GASBS No. 49.

**TAB 7
Part 16i,
restatements**

TAB 7 Part 16i, Beginning Net Asset Restatements, is to document if there are any restatements needed for the implementation of GASBS No. 49.

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Example 1

Below are examples of possible AJEs related to GASBS No. 49. This is not authoritative and HEIs must make the appropriate AJEs to comply with the reporting requirements of this statement.

Assumptions: During FY 2009 an obligating event took place. The expected pollution remediation outlays total \$1,000,000 and the expected recoveries that are not yet realizable or realized total \$200,000. The pollution remediation expense and liability would be the net amount of \$800,000. This example assumes no outlays meet the capitalization criteria of GASBS No. 49 paragraph 22.

If during FY 2010, the previous years' expected recoveries are realized, a recovery asset (i.e. cash) of \$200,000 would be recorded and the pollution remediation liability would be increased by \$200,000.

FY 2009 AJEs

Expenses*	800,000	
Other Liabilities		800,000

This entry is to report the estimated pollution remediation liability of \$1,000,000 net of the expected recoveries of \$200,000 that are not yet realized or realizable (see GASBS No. 49 paragraph 19a).

Note: If the obligating event related to this liability had occurred in prior years, the HEI must make the appropriate adjustments for a restatement.

FY 2010 AJEs

Cash	200,000	
Other Liabilities		200,000

This entry is to report the \$200,000 of recoveries that are realized in FY 2010 (see GASBS No. 49 paragraph 19b).

Remeasurement: GASBS No. 49 paragraph 18 requires estimates of pollution remediation liability to be adjusted when benchmarks are met or when new information indicates changes in estimated outlays are needed. If needed, entries to adjust the pollution remediation liability must be made. Since this pollution remediation liability is an estimate, if changes are needed to the estimate in FY 2010, a restatement would not be needed per SFAS 154 paragraphs 2d & 19.

Note*: Per GASBS No. 49 paragraph 23, this amount should be reported on the Special Item or Extraordinary Item line items rather than expenses if they meet those definitions.

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Example 2

Assumptions: This example has the same assumptions as Example 1; however, the \$200,000 of expected recoveries are realizable for FY 2009.

FY 2009 AJEs

Expenses*	800,000	
Receivables, Net	200,000	
Other Liabilities		1,000,000

Since the expected recoveries are realizable, the receivable is reported and the entire estimated liability amount is reported. Total expenses of \$1,000,000 are reduced by the expected realizable recoveries of \$200,000.

As noted in Example 1, if the obligating event took place in prior years, the HEI will need to determine the appropriate adjustments for restatements.

FY 2010 AJEs

Cash	200,000	
Receivables, Net		200,000

This entry is to report the recoveries received in FY 2010.

As noted in Example 1, a revision to the liability may be needed based on the remeasurement.

Note*: Per GASBS No. 49 paragraph 23, this amount should be reported on the Special Item or Extraordinary Item line items rather than expenses if they meet those definitions.

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Example 3

Assumptions: This example assumes the same assumptions as example 1; however, \$300,000 of the \$1,000,000 of expected pollution remediation outlays are expected to meet the capitalization criteria in GASBS No. 49. In addition, \$150,000 of the \$200,000 expected recoveries will be for the capital assets. These recoveries were not realized or realizable until FY 2010. This also assumes the capital assets were acquired in FY 2010.

FY 2009 AJEs:

Expenses*	650,000	
Other Liabilities		650,000

This entry is to report the net estimated pollution remediation liability of \$650,000 (Total \$1,000,000 less the \$300,000 for items expected to meet the capitalization criteria in GASBS No. 49 less the \$50,000 of expected recoveries not yet realizable and are not for the capital assets to be acquired). Per GASBS No. 49 paragraph 22, pollution remediation outlays that meet certain criteria should be capitalized when the goods and services are acquired.

As noted in Example 1, if the obligating event took place in prior years, the HEI will need to determine the appropriate adjustments for restatements.

FY 2010 AJEs:

Cash	200,000	
Other Liabilities		50,000
Program Revenue-Capital Grants & Contributions		150,000

This entry is to report \$200,000 of recoveries that are realized in FY 2010. The \$150,000 of the recovery that is for the capital assets is reported as Program Revenue – Capital Grants & Contributions (see footnote 20 referred to in GASBS No. 49 paragraph 19a).

Capital Assets	300,000	
Cash		300,000

This entry is to report the \$300,000 of capital assets that were acquired during FY 2010.

As noted in Example 1, a revision to the liability may be needed based on the remeasurement.

Note*: Per GASBS No. 49 paragraph 23, this amount should be reported on the Special Item or Extraordinary Item line items rather than expenses if they meet those definitions.

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