

Comptroller's Directive No. 1-16
Attachment 26
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.

This attachment is similar to prior year's Attachment 19.

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.

Note: The beginning balance will automatically populate based on the control agency number/project selected on the **Tab 1 – Obligating Events** tab of the attachment spreadsheet. In order to obtain the appropriate beginning balances, the following agencies must key the specified control agency number/projects.

- The Department of Corrections must aggregate central office and all facilities using 701. The Department submitted several attachments in the prior year and the drop-down list has been updated as follows:
 - **701-2 Wise**
 - **701-3 Patrick Henry**
 - **701-6 Brunswick**
 - **701-7 Greensville**
 - **701-8 Keen Mountain**

Note: For new projects, choose **701 – New Project** from the drop-down list and save the file with the next number in sequence. For example, 701-9Att26.xlsx.*

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Applicable agencies, continued

- The Department of Behavioral Health and Developmental Services must aggregate central office and all facilities using 720.

Note: For new projects, choose **720 – New Project** from the drop-down list and save the file with the next number in sequence (e.g., 720-5Att26.xlsx*).

- The Department of Transportation submitted several attachments in the prior year and the drop-down list has been updated as follows:

- 501-1 Culpeper
- 501-2 Elko

Note: For new projects, choose **501 – New Project** from the drop-down list and save the file with the next number in sequence (e.g., 501-3Att26.xlsx*).

- The Department of Environmental Quality submitted several attachments in the prior year and the drop-down list has been updated as follows:

- 440-1 Saunders Supply
- 440-2 Greenwood Chemical
- 440-3 Kim-Stan Landfill
- 440-4 Atlantic Wood

Note: For new projects, choose **440 – New Project** from the drop-down list and save the file with the next number in sequence (e.g., 440-5Att26.xlsx*).

***Note:** If the agency has an earlier version of Excel and has problems opening the attachment file, DOA can provide the attachment saved in an earlier version of Excel (.xls).

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Questions and training

For questions or to request detailed training from an analyst, please contact: AttachmentAnalyst@doa.virginia.gov.

Please reference the attachment number in the subject line of the e-mail.

Detailed **GASBS No. 49** training is available in the Knowledge Center at: <https://covkc.virginia.gov>. Click on the “Learning Center” link and then click the “Course Catalog” link. Search using the keyword “Directive” and then click the course reference link. If you have difficulty accessing the training, please contact doatraining@doa.virginia.gov.

Due date

September 8, 2016

Data entry

Only cells highlighted in yellow allow for data entry. Error messages in cells are intended to alert preparers that established parameters are not being followed. **Failure to correct Errors or provide answers to all required questions prior to submission will prohibit acceptance of the attachment. Selected cells requiring a response will be populated with an “Answer Required” message until a response is entered.**

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 preparer is certifying that all of the questions have been completed and are accurate; the reviewer is certifying that the attachment has been reviewed and is complete and accurate; the preparer and reviewer were not the same individual for any tab; and the preparer and reviewer have read and understood the instructions for the attachment. If agency staffing does not allow for a different preparer and reviewer, please contact DOA.**

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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 Att26-Project Number. For example, if agency 151 has two pollution remediation projects to report, two attachments will be submitted. The attachments will be renamed as follows: 151Att26-1.xlsx and 151Att26-2.xlsx. When submitting attachments for pollution remediation projects reported in the prior year, use the naming convention provided in the drop-down list which corresponds to your prior year submission.

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

Please include **Agency Number** and **Attachment Number** in the **subject line** of the submission e-mail.

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 automatically 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 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.

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**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) 1) Prior Year Projects

Prior year explanations for previously reported projects will populate. If any of the information has changed, enter the revised information in part 2.

2) New Projects for FY 2016

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.

- C) If the submission relates to a project reported in the prior year, the information from the prior year will populate when the agency/project is selected from the drop-down list at the top of the spreadsheet. Review the information to ensure it is correct.
- D) Confirm project related information obtained from prior year **Attachment 19** submission, published on DOA's website at www.doa.virginia.gov is accurate.

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**Specific
instructions:
Tab 2 –
Measurement**

If a government knows a site is polluted and one or more of the obligating events in Part 1A 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

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.

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.

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**Specific instructions:
Tab 2 – Measurement,
continued**

All pollution remediation projects require cost estimates for all of the activities needed for removing or neutralizing the pollution. 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:

- Obtain a range of potential outlays for an activity. The range may be shortened to make the calculation simpler.
- 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.
- Multiply the potential outlays by the probability factor.
- Sum the product of the probability weighted amount for that activity. See the example on **Tab 2 - Measurement**. 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.

Capitalization of Expenditures

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.

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**Specific
instructions:
Tab 2 –
Measurement,
continued**

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. 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.

Determine if there are any other **potential** responsible parties for the pollution. Potential responsible parties include any party an agency is communicating with regarding their involvement in the polluting of a particular site.

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**Specific
instructions:
Tab 2 –
Measurement,
continued**

Steps to complete Part 2A, Prior year projects

- Select a pollution remediation activity from the drop-down list.
- CARS fund/fund detail and the FY 2015 estimate will automatically populate.
- Enter the FY 2016 expenditures recorded in CARS, excluding all payables.
- Cardinal fund will also automatically populate.
- Confirm if the Cardinal fund is accurate by selecting Yes/No from the drop-down list. If the Cardinal fund is inaccurate, provide the accurate Cardinal fund with a brief explanation in the next column.
- Enter the amount of payables owed at June 30, expected to be paid in July or August using criteria outlined in the **2016 Fiscal Year End Closing Procedures** at http://www.doa.virginia.gov/General_Accounting/Year_End_Close/Year_End_Memo.cfm.
- Enter amount of payables owed at June 30 but expected to be paid in September using the **Authoritative Literature / Guidance for Preparation of GAAP Basis Fund Financial Statement Templates**.
- Enter the amount of payables expected to be included on **Attachment 29**.
- FY 2016 balance will automatically calculate (estimate less expenditures).
- If this calculated estimate is not accurate, enter the estimated future expenditures to complete the project.
- Enter the probability percentage.*
- Weighted cost will automatically calculate (estimate times probability).
- Enter the amount due within one year.
- Determine if the amount will be capitalized, use the drop-down list to select “yes” or “no”.
- Enter any amount that is expected to be recovered.
- Determine whether or not the expected recovery is realizable or unrealizable, use the drop-down list to select the correct choice.
- Enter the name of the responsible party or insurer.

*If there are several probabilities use separate lines, see the example on **Tab 2 - Measurement** of the Excel spreadsheet.

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**Specific
instructions:
Tab 2 –
Measurement,
continued**

Steps to complete Part 2B, New projects for FY 2016

- Enter the project name.
- Select a pollution remediation activity from the drop-down list.
- Enter the CARS fund/fund detail that expenditures were recorded in CARS.
- Enter the FY 2016 expenditures recorded in CARS, excluding all payables.
- Cardinal fund will automatically populate.
- Confirm if the Cardinal fund is accurate by selecting Yes/No from the drop-down list. If the Cardinal fund is inaccurate, provide the accurate one with a brief explanation in the next column.
- Enter the amount of payables owed at June 30, expected to be paid in July or August using criteria outlined in the **2016 Fiscal Year End Closing Procedures** at http://www.doa.virginia.gov/General_Accounting/Year_End_Close/Year_End_Memo.cfm.
- Enter amount of payables owed at June 30 but expected to be paid in September using the **Authoritative Literature / Guidance for Preparation of GAAP Basis Fund Financial Statement Templates**.
- Enter the amount of payables expected to be included on **Attachment 29**.
- Enter the estimate to complete the project.
- Enter the probability percentage.*
- Weighted cost will automatically calculate (estimate times probability).
- Enter the amount due within one year.
- Determine if the amount will be capitalized, use the drop-down list to select “yes” or “no”.
- Enter any amount that is expected to be recovered.
- Determine whether or not the expected recovery is realizable or unrealizable, use the drop-down list to select the correct choice.
- Enter the name of the responsible party or insurer.

*If there are several probabilities use separate lines, see the example on **Tab 2 - Measurement** of the Excel spreadsheet.

Steps to complete Part 2C, Capitalizable activities reflected as a line item

- Enter the project name
 - Select a pollution remediation activity from the drop-down list
 - Enter the amount capitalized in FAACS
-

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**Footnote disclosure:
Tab 3 – Footnote Disclosures**

Part 3) 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.

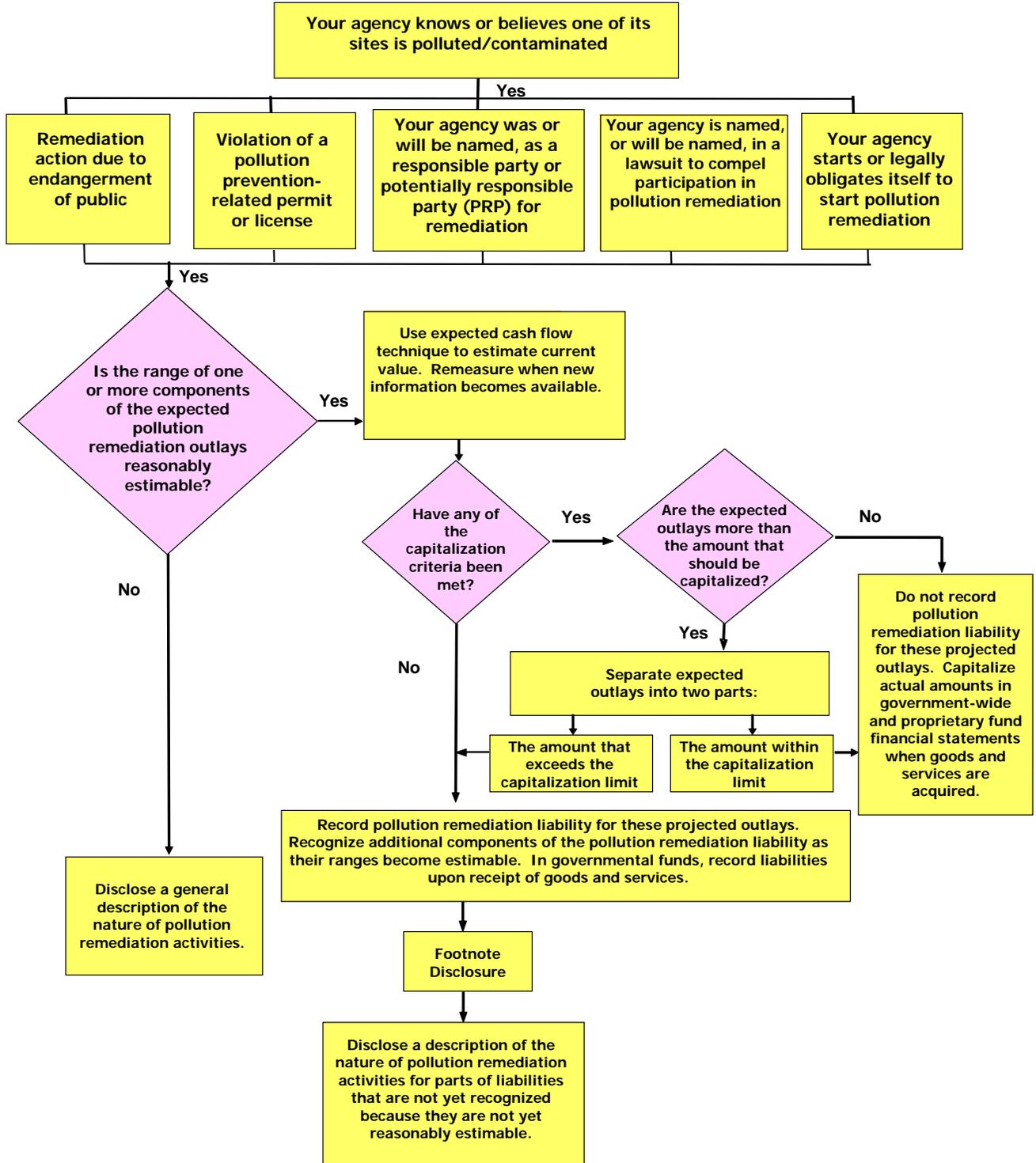
Complete the **Certification** tab, **ensuring that “Incomplete” does not appear in any cell.**

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Flowchart

The flowchart below is presented to aid in the application of GASBS No. 49.



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