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To: County, City, Town, Village, School District and BOCES Chief Fiscal Officers

From: Division of Local Government and School Accountability

Subject: Pollution Remediation Obligations

Please give copies of this bulletin to others who may need this information.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement explains when a government would be required to report a liability in its financial statements related to cleaning up pollution or contamination. The statement also establishes a probability-weighted method that a government would be required to use to determine the estimated amount of pollution obligation liabilities that would be reported in its financial statements.

Except for disclosure in the notes to the financial statements required of all governments that are cleaning polluted or contaminated sites, the provisions of this bulletin are mainly applicable to governmental units who prepare GAAP-based financial statements which include the government-wide full accrual financial statements.

Triggers for Reporting a Pollution-Related Obligation

Over the years, governments have been faced with a responsibility to clean up spills of hazardous wastes or substances, or remove contamination such as asbestos. While Statement 49 does not require governments to search for polluted or contaminated sites, the statement does identify five events that, if any occur, would signal that a government needs to determine if it has to report a remediation obligation (liability) in its financial statements. These triggering events are:

- Pollution poses an imminent danger to the public or environment and a local government has little or no discretion to avoid fixing the problem.

- A local government has violated a pollution prevention-related permit or license.
- A regulator has identified a local government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the cleanup.
- A local government is named in a lawsuit (or evidence indicates it will be) to compel it to address the pollution.
- A local government begins to clean up pollution or conducts related remediation activities (or the government legally obligates itself to do so).

Estimating the Liability – Components and Benchmarks

If a government knows a site is polluted and one or more of the triggers has occurred, then it is expected that the government would attempt to estimate its liability for remediation of the pollution. The total liability for pollution remediation will include several separable components. These components range from the pre-clean-up stage through the operation and remedy itself, e.g., legal fees, testing the polluted site, feasibility study, plan operation and monitoring after the cleanup. In some cases, a government may have sufficient information to arrive at a meaningful estimate of most or all of the components of the liability when an obligating event first occurs, or soon thereafter. In other cases, more time may be needed to arrive at a meaningful estimate of many or most of the components of the liability. Because of this, it is expected that the liability computed would continue to change and evolve as facts become known. If a government can estimate outlays for *only certain portions* of the clean-up effort—such as legal fees or testing the polluted site—then it will report a liability for those activities. The government will later report liabilities for the remaining parts of the clean-up when ranges of outlays for them become reasonably estimable.

The statement identifies benchmarks, or milestones, that are considered turning points for evaluating when a component of the liability becomes reasonably estimable. They include receipt of an administrative order; participation in site assessment or investigation; completion of a corrective action feasibility study; issuance of an authorization to proceed; and design and implementation of the remedy through post-remediation monitoring.

Measuring the Amount of the Liability

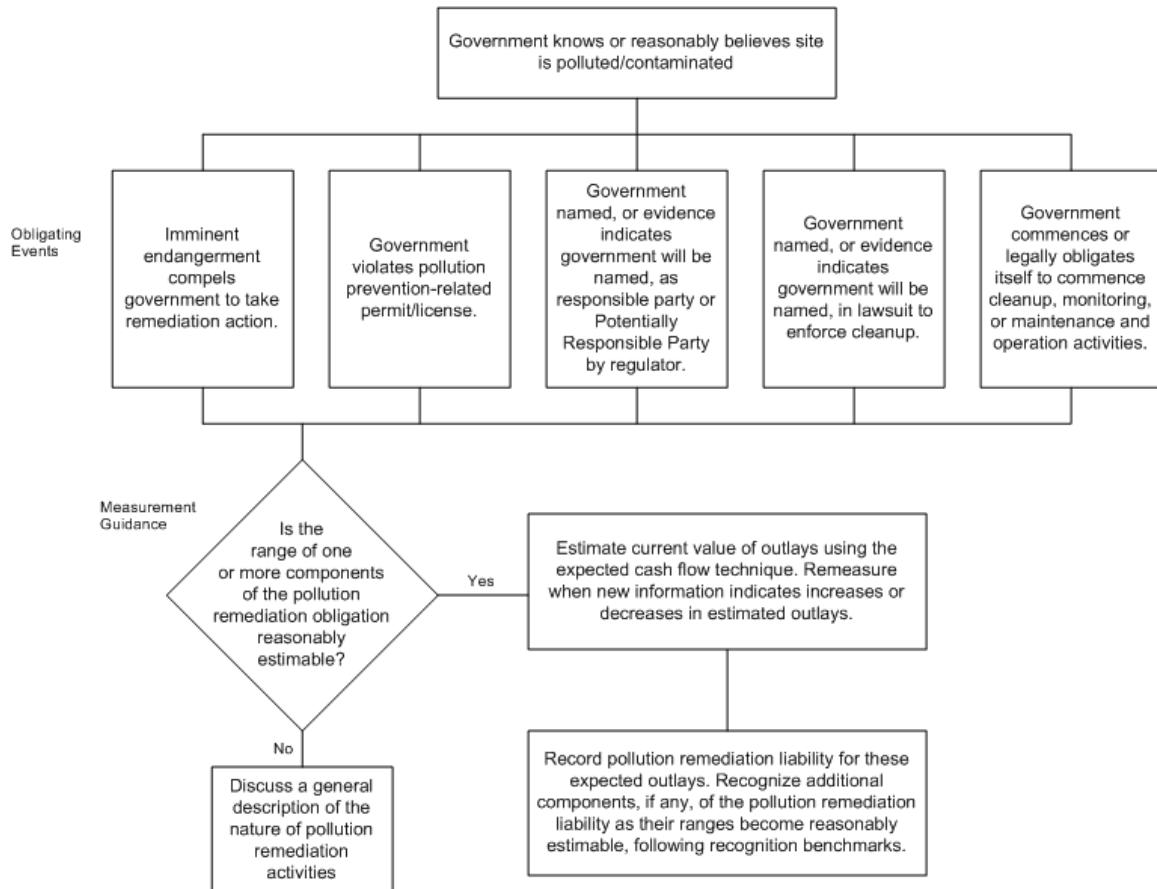
Statement 49 sets forth a method for estimating liabilities using an “expected cash flows” measurement technique. Expected cash flows are based on estimated ranges of outlays for pollution cleanup. This approach involves assigning probabilities or likelihoods to each of the potential outlays and calculating a weighted average of them. For example, a government might estimate that there is a 10 percent chance that cleaning up a polluted site would cost \$1 million, a 60 percent chance of \$2 million, and a 30 percent chance of \$3 million. The expected cash flow would be calculated as follows:

$$(\$1 \text{ million} \times 0.1) + (\$2 \text{ million} \times 0.6) + (\$3 \text{ million} \times 0.3) = \$2.2 \text{ million.}$$

In this example, the \$2.2 million would be reported as a liability in the government’s entity-wide (full accrual) financial statements.

Flowchart Depiction

The flowchart below is presented to aid in the application of this statement.



Financial Reporting

- **Governmental Fund Financial Statements (Modified Accrual)** - For local governments presenting financial statements for governmental funds, typically the general fund or capital projects fund, expenditures would be reported when payment for cleanup activities is due. In many cases, there may be no change in amount that governments currently recognize as an expenditure and liability in governmental fund financial statements. Governmental funds recognize expenditures whenever a liability has been incurred **and** it is expected that the liability will be liquidated with expendable available resources. For goods and services received for pollution remediation activities, amounts that are normally expected to be liquidated with expendable available resources should be recognized as a liability upon receipt of those goods and services.
- **Government-Wide and Proprietary Fund Financial Statements (Full Accrual)** - A government would report expenses in the government-wide financial statements as it accrues costs related to cleaning the pollution. Pollution remediation costs should be

reported in the statement of activities and the statement of revenues, expenses and changes in net assets. The recognition of a liability would normally (except those amounts that are capitalized) be matched by an expense in accordance with guidance provided by GASB 34. As work is done on the site cleanup, the liability would be reduced for payments made.

Note Disclosure

If the liability or portions of it are not reported in the financial statements because a range of potential outlays cannot be estimated, then a government should describe the nature of the pollution remediation activities in the notes to the financial statements. In addition, all governments that report pollution remediation liabilities should disclose information about those liabilities in the notes, including:

- The nature and source of the obligation to clean up the pollution.
- The amount of the estimated liability if it is combined with other liabilities in the financial statements.
- The methods and assumptions employed to estimate the liability.
- The potential for changes in the estimate due to changes in prices, technology, laws and regulations, and other factors.
- An estimate of the amount the government expects to recover from insurance or other parties, thereby reducing its liability.

Effective Date

The requirements of this statement are effective for financial statements for periods beginning after December 15, 2007.

Additional Information

The New York State Department of Environmental Conservation maintains databases by county containing pollution or contamination information relating to the superfund program, petroleum spills and brownfields. This information as well as phone numbers of this Department's regional offices can be accessed at its Web site: <http://www.dec.ny.gov>. Click on DEC Databases and Interactive Maps in the center of the Web page, then on Database of Inactive Hazardous Sites and Spills.

If you have accounting questions pertaining to this bulletin, please contact the State Comptroller's [regional office](#) that serves your local government.