

State of Rhode Island
Department of Administration

OFFICE OF ACCOUNTS AND CONTROL

SECTION
Accounting

POLICY/PROCEDURE NUMBER
A-66

SUBSECTION

EFFECTIVE DATE / PAGE NUMBER
April 2, 2014 / 1 of 4

POLICY / PROCEDURE
Accounting and Financial Reporting
for Pollution Remediation Obligations

AMENDMENT / REVISION

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes uniform reporting standards for the financial reporting and disclosure requirements relating to pollution remediation by governments. GASB 49 defines when pollution remediation-related obligations should be reported in the financial statements and how those obligations' costs and liabilities should be determined.

Pollution remediation obligations are obligations taken to address the current or potential detrimental effects of existing pollution (for example, hazardous waste spills or asbestos contamination) by participating in pollution remediation activities such as site assessments, remediation project design and cleanups.

Obligating Events

GASB 49 requires the State to reasonably estimate and report a remediation liability when one of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the State is compelled to take action.
- The State is in violation of a pollution-related permit or license.
- The State is named or has evidence it will be named as a responsible party by a regulator.
- The State is named or has evidence it will be named in a lawsuit to enforce a cleanup.
- The State commences or legally obligates itself to conduct remediation activities.

State agencies are not required to search for additional potential remediation situations or expand their existing pollution remediation efforts, but simply to report a liability for all pollution remediation projects that meet one of the obligating events listed above.

Recognition and Measurement Criteria

Components of a liability (for example, legal services, site investigation, design, clean-up costs and required post-remediation monitoring) should be recognized as their cost ranges become reasonably estimable. In general, the State accrues for remediation costs for

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projects in the design, clean-up and post remediation monitoring phases. Measurement is based on the current value of outlays expected to be incurred. The current value should be based on reasonable and supportable assumptions about future events that may affect the eventual settlement of the liability. 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 within a range of possible estimated amounts—the estimated mean or average.

In some cases agencies may be able to reasonably estimate only certain components of the liability. In that case, the agency should accrue only the reasonably estimable costs and re-evaluate the entire liability in the next fiscal year. In other cases, the entire remediation cost may be reasonably estimable, and the entire cost should be accrued. The remediation obligation accruals may be subject to change over time. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the accrued liability.

In situations where a reasonable estimate cannot be made or is not material, a liability should not be accrued.

Several agencies within State government have as part of their mission the responsibility to investigate possible pollution sites and oversee the remediation of those sites. These agencies have the expertise to estimate the extent and cost of remediation obligations based on prior experience in identifying and funding similar remediation activities, and should assist in the measurement of the liability.

Capitalization of Pollution Remediation Outlays

Usually pollution remediation outlays are reported as an expense when a liability is recognized. However, goods or services should be capitalized in the government-wide and proprietary fund statements under the following circumstances:

- A property is being prepared in anticipation of a sale. The agency should only capitalize the amounts that would result in the carrying amount of the property not exceeding its estimated fair value upon completion of the remediation.
- A property is being prepared for use, and when the property was acquired it had known or suspected pollution that was expected to be remediated.

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- An agency must perform pollution remediation to a capital asset that restores a pollution-caused decline in service utility that was previously recognized as an asset impairment. The agency should only capitalize the pollution remediation outlays necessary to place the asset into its intended location and condition for use.
- Property, plant, and equipment are acquired that has a future alternative use. Outlays should be capitalized only to the extent of the estimated service utility remaining after pollution remediation activities have ceased.

Recoveries

In some instances, recoveries from responsible parties may reduce the State's obligation. An agency may be able to recover the costs associated with the remediation of pollution from an insurer or another responsible party. If the expected recoveries are not yet realized or realizable, they should reduce the measurement of the pollution remediation liability. If, on the other hand, the expected recoveries are realized or realizable, they should be recognized separately as recovery assets from the liability (for example, cash or receivables). If recoveries become expected in periods following the completion of all remediation work, such that a pollution remediation liability no longer exists, those transactions should be recorded as revenue and an asset (i.e. cash if realized and accounts receivable if realizable).

Exclusions

GASB 49 states that pollution remediation obligations do not include pollution prevention or control obligations with respect to current operations. For example, obligations to install smokestack scrubbers, treat effluent, or use environmentally-friendly products are not considered pollution remediation obligations. Moreover, the following do not apply:

- Landfill closure and postclosure care obligations.
- Other future pollution remediation activities that are required upon retirement of an asset (such as a nuclear power plant decommissioning) during the periods preceding the retirement. *(Note: GASB 49 will apply to those activities at the time of retirement if obligating events are met and no previous liability has been recorded.)*
- Recognition of asset impairments of liability recognition for unpaid claims by insurance activities.

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- Pollution prevention control obligations with respect to current operations, or to fines, penalties, or other nonremediation outlays.
 - Accounting for nonexchange transactions, such as brownfield development grants.