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# State of Maine

## GASB 49 Accounting and Financial Reporting for Pollution Remediation Obligations Implementation Guidance

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GASB No. 49 addresses when a government would be required to report a liability in its financial statements related to cleaning up pollution or contamination. The statement identifies specific events (obligating events) that trigger a requirement to initially measure remediation liabilities and subsequent circumstances (recognition benchmarks) that trigger a requirement for remeasurement. The statement requires the remediation liability to be measured using an expected cash flow technique based on probability-weighted average of all estimated outcomes.

Those specific events, which trigger a requirement to measure the remediation liability are:

- The government is compelled to take remediation action because of pollution-caused imminent endangerment.
- The government is in violation of a pollution related permit or license.
- The government is named, or evidence indicates that it will be named, as a responsible party or potentially responsible party (PRP) or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

### **Estimating the Remediation 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-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. 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 of 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 evaluation when a component of a liability becomes reasonably estimable. These benchmarks are a summons to reconsider the possibility of recognizing what ideally should have already been recognized. Thus, a benchmark should always trigger, rather than delay, recognition. Benchmarks 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.

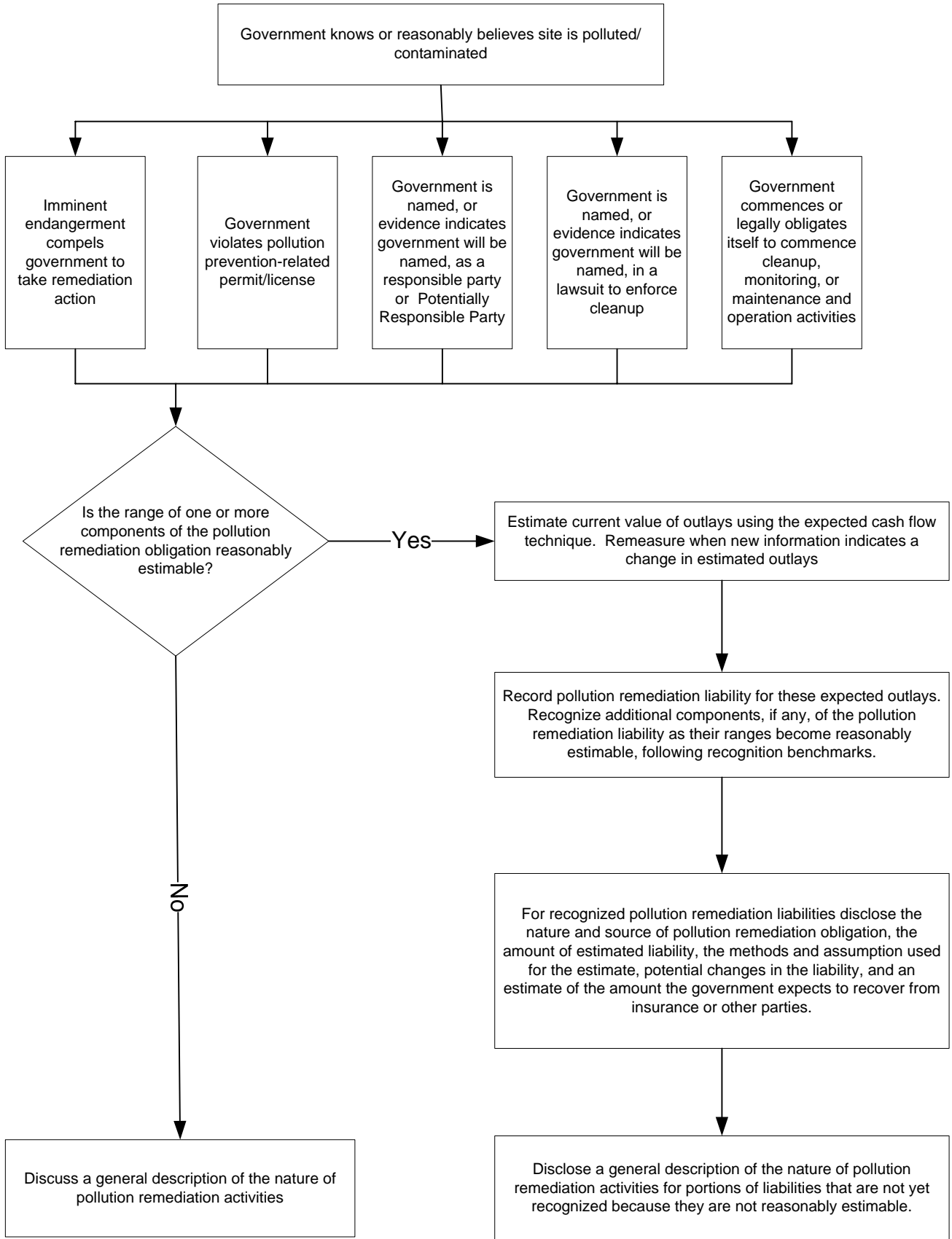
### **Measuring the Amount of the Liability**

The statement 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 estimates that outlays to conduct a site assessment and complete a corrective measures feasibility study will range from \$80,000 to \$120,000. Either end of the range is equally likely, although actual outlays are considered 40 percent likely to be close to \$95,000. The expected cash flow would be calculated as follows:

$$(\$80,000 \times 30\%) + (\$95,000 \times 40\%) + (\$120,000 \times 30\%) = \$98,000$$

### **Flowchart Depiction**

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



## **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. For liabilities that are recognized the government should disclose information the following information:

- The nature and source of pollution remediation obligations (for example, federal, state, or local laws or regulations)
- The amount of the estimated liability (if not apparent from the financial statements)
- The methods and assumptions used for the estimate
- The potential for changes due to, for example, price increases or reductions, technology, or applicable laws or regulations, and other factors.
- An estimate of the amount the government expects to recover from insurance or other parties, thereby reducing the liability.

## **Effective Date**

The requirements of this statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated.

## **Additional Information**

For pollution remediation projects that are expected to meet or exceed \$200,000 a pollution remediation questionnaire and the applicable forms need to be completed. Please note that for the first year of implementation (fiscal year ending June 30, 2009) we are also requesting that you provide the pollution remediation outlays for the year as well as any recoveries (if applicable) received during the year. The pollution remediation questionnaire, associated forms and additional financial information must be provided to the Office of the State Controller by July 31, 2009. For more information or assistance, please contact Stacey Thomas at 626-8431 or [stacey.thomas@maine.gov](mailto:stacey.thomas@maine.gov) or Heidi McDonald at 626-8437 or [heidi.mcdonald@maine.gov](mailto:heidi.mcdonald@maine.gov).