

GASB STATEMENT NO. 49, ACCOUNTING AND FINANCIAL REPORTING FOR POLLUTION REMEDIATION OBLIGATIONS

1. INTRODUCTION

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, i.e., obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. These obligations will generally require the recognition and reporting of pollution remediation liabilities and, in certain instances, will result in recognition and reporting of capital asset transactions at the time those assets are acquired. **Remediation activities, as defined, are different from prevention or control activities.**

The scope of the Statement No. 49 *excludes* pollution prevention or control obligations with respect to:

- current operations, and
- future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

Once any one of five specified obligating, or triggering, events occurs, the University is required to estimate the components of expected pollution remediation costs and determine whether costs for component activities should be (1) accrued as a liability or, if appropriate, (2) capitalized when goods and services are acquired. Obligating events include the following:

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

Pollution remediation costs should be capitalized in University financial statements, subject to certain allowable circumstances and limitations, such as if the costs are incurred (1) to prepare property for sale in anticipation of a sale, (2) to prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated, (3) to perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment, or (4) to acquire property, plant and equipment that have a future alternative use other than remediation efforts.

Most pollution remediation costs do not qualify for capitalization and should be accrued as a liability and expense when a range of expected costs is reasonably estimable or as an expense upon receipt of goods and services. If the University cannot reasonably estimate the range of all components of the liability (see discussion of component activities in Section 4), it should recognize the liability as the range of each component (e.g., legal services, site investigation, required post-remediation monitoring) becomes reasonably estimable. The liability should be recorded at the current value of the costs the University 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.

For pollution remediation obligations that are not common or similar to situations at other sites with which the University has experience, GASB Statement No. 49 includes a series of recognition benchmarks—steps in the remediation process—that the University should consider in determining when components of pollution remediation liabilities are reasonably estimable. Thus, the measurable transactions and events that result in a pollution remediation liability may be relatively limited at initial recognition, but would increase over time as more components become reasonably estimable. GASB Statement No. 49 also requires re-measurement of the liability (and its components) when new information indicates increases or decreases in estimated costs.

The measurement of the University's pollution remediation liability should include remediation work that the University expects to perform for other parties; however, expected recoveries from those other parties, and insurance recoveries, reduce the measurement of the University's pollution remediation expense when reasonably estimable (and reduce associated expenditures when the recoveries are measurable and available). If the expected recoveries are not yet realized or realizable, they also reduce the measurement of the University's pollution remediation liability. If the expected recoveries are realized or realizable, they should be reported as recovery assets (e.g., cash or receivables. See the discussion in IRM on GASB Statement No. 42).

For recognized pollution remediation liabilities and recoveries, GASB Statement No. 49 requires the University to disclose the nature and source of pollution remediation obligations, 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 in estimates, and estimated recoveries that reduce the measurement of the liability. The University is required to disclose a general description of the nature of pollution remediation activities for liabilities (or components thereof) that are not reasonably estimable.

GASB Statement No. 49 does *not* apply to the following:

- Postclosure care obligations within the scope of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. This is unlikely for the University in that GASB Statement No. 18 is based on the October 9, 1991, U.S. Environmental Protection Agency (EPA) rule, “Solid Waste Disposal Facility Criteria,” which establishes closure requirements for all municipal solid waste landfills (MSWLFs) that receive solid waste after October 9, 1991.
- Other future pollution remediation activities required upon retirement of an asset (asset retirement obligations, such as nuclear power plant decommissioning) during the periods preceding the retirement. However, GASB Statement No. 49 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 or liability recognition for unpaid claims by insurance activities (see the discussion in the IRM on GASB Statement No. 42 for this topic).
- Pollution prevention or control obligations with respect to current operations such as obligations to install smokestack scrubbers or use environmental-friendly products (paragraph 6), or to fines, penalties and other nonremediation costs such as civil wrongs arising from exposure to a toxic substance, workplace safety costs, etc (paragraph 7).
- Accounting for nonexchange transactions, such as Brownfield redevelopment grants.

GASB Statement No. 49:

- Generally prescribes new reporting requirements, rather than amending previous guidance.
- Is effective for FY 2008–2009, with measurement of pollution remediation liabilities required at June 30, 2008 so that beginning net assets can be restated. However, if the University has sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods, restatement of the University’s financial statements for prior periods will be required. In that case, the University will adopt the provisions for the FY 2008–2009 and restate June 30, 2007 net assets and FY 2007–2008 results, as outlined in paragraph 27.
- Applies to all entities where these transactions have occurred or may occur including:
 - the separately audited UCRP and PERS-VERIP financial statements;
 - the separately audited UC Retirement Savings Plans, including the DCP, 403(b), and 457(b);
 - the separately audited OPEB financial statements;
 - the campus foundations;
 - the separately audited Medical Center, UC Press and CEB financial statements; and
 - the separately audited Health and Welfare Plan financial statements.

This document is prepared in order to outline the University’s approach to the application of GASB Statement No. 49 to the University’s financial statements. A site evaluation worksheet for identifying pollution remediation obligations is provided in Appendix A.

In general, the transactions discussed in GASB Statement No. 49 may not necessarily be normal, ongoing operating transactions. The Controller and Controller’s staff should review non-routine transactions or circumstances at year end to determine that any obligating events that may result in pollution remediation obligation are identified, evaluated and properly reported.

GASB Statement No. 49 may be ordered from the GASB’s website at www.gasb.org. There is no Implementation Guide at this time from the GASB for this Statement.

2. NEXT STEPS—REQUIRED ACTIONS

| Responsibility (C, OP) | Required Completion Date | Action Item/Task |
|------------------------------|--------------------------------|--|
| Fiscal Year 2006-2007 | | |
| OP | 30-Jun-07 | UCOP to develop and communicate to campuses detailed accounting procedures for recording pollution remediation obligations, including requirements for restatement of prior periods |
| Fiscal Year 2007-2008 | | |
| C, OP | 01-Jan-08 | Campuses to implement ongoing procedures for monitoring and recording pollution remediation obligations , including procedures to monitor known and potentially polluted sites for obligating events, benchmark events, and cost estimates of pollution remediation activities. |
| C, OP | 15-Jan-08 | Complete Steps 1 and 2 of Appendix A, Summary Site Evaluation of Pollution Remediation Obligations. This will be a preliminary identification of existing obligations as of June 30, 2007. By February 28, 2008, OP and campuses will complete a review to identify any additional existing pollution remediation obligations. Obligating events will be documented using the worksheet provided in Appendix A. |
| C, OP | 28-Feb-08 | Complete steps 3 through 5 of Appendix A, Summary Site Evaluation of Pollution Remediation Obligations, using Appendix B to document the measurement of the costs and liability. This procedure will develop estimates of existing pollution remediation obligations. For each existing obligation, by February 28, 2008, OP and campuses will measure the existing pollution remediation obligations using the worksheet provided in Appendix B. Once the measurement has been completed, Appendix A for each site will be updated and completed. This information will provide the basis for the restatement worksheets. Send the completed Appendix A for each site to UCOP. Discuss as appropriate. |

| Responsibility (C, OP) | Required Completion Date | Action Item/Task |
|-----------------------------------|---|--|
| C, OP | 28-Feb-08 | Complete the restatement worksheet through June 30, 2007 on Appendix D for property and equipment. For each existing obligation, by February 28, 2008, OP and campuses will complete the property and equipment restatement worksheet shown in Appendix D. |
| C, OP | 28-Feb-08 | Complete the restatement worksheet through June 30, 2007 on Appendix E for costs, liabilities and recoveries. For each existing obligation, by February 28, 2008, OP and campuses will complete the costs, liabilities and recoveries restatement worksheet shown in Appendix E. |
| OP | 31-Mar-08 | Assign new accounting codes. Assign new accounting codes to record pollution remediation costs, liabilities and recoveries (Appendix C). |
| C, OP | 30-Apr-08 | Establish new accounting codes in campus ledger. Establish new pollution remediation costs, liabilities and recovery accounting codes in campus ledger. |
| OP | 30-Apr-08 | Add accounting codes to CFR driver tables. Add new pollution remediation costs, liabilities and recovery accounting codes to CFR driver tables. |
| C, OP | 30-Apr-08 | Add a closing step to the closing schedule. Add a closing step to properly identify, measure and record any new pollution remediation obligating events, or update any estimates for previously recorded pollution remediation obligations. |
| OP | 31-May-08 | Develop footnote reports. Develop CFR footnote report to accumulate annual impairment and recovery information (see Appendix F). |
| C, OP | 15-Jun-08 | Update the restatement worksheet through June 30, 2008 on Appendix D for property and equipment. For each new or existing obligation, by June 15, 2008, OP and campuses will update the property and equipment restatement worksheet shown in Appendix D. |
| Fiscal Year 2008-2009 | | |
| C, OP | 15-Aug-08 | Update the restatement worksheet through June 30, 2008 on Appendix E for costs, liabilities and recoveries. For each new or existing obligation, by August 15, 2008, OP and campuses will complete the costs, liabilities and recoveries restatement worksheet shown in Appendix E. |
| OP | 15-Aug-08 | Determine GASB Statement No. 49 implementation date. Based upon the results of the campus review of historical pollution remediation costs through June 30, 2008, determine whether the University will implement GASB Statement 49 early, i.e., for the FY 2007-2008 fiscal year. |

| Responsibility (C, OP) | Required Completion Date | Action Item/Task |
|---------------------------|--------------------------------|---|
| C, OP | 15-Jun-09 | Update the restatement worksheet through June 30, 2009 on Appendix D for property and equipment. For each new or existing obligation, by June 15, 2009, OP and campuses will update the property and equipment restatement worksheet shown in Appendix D. |
| C, OP | 15-Aug-09 | Update the restatement worksheet through June 30, 2008 on Appendix E for costs, liabilities and recoveries. For each new or existing obligation, by August 15, 2008, OP and campuses will complete the costs, liabilities and recoveries restatement worksheet shown in Appendix E. |
| C, OP | 15-Aug-09 | Record pollution remediation costs, liabilities and recoveries if not implemented early. Restate June 30, 2007 net assets, fiscal year 2007-08 activity and June 30, 2008 net assets. Record pollution remediation costs and liabilities and related recoveries. This includes historical pollution remediation costs and liabilities as of June 30, 2007, as well as pollution remediation costs, liabilities and recoveries that may have originated between July 1, 2007 and June 30, 2009. |