



Governmental Accounting Standards Board  
of the Financial Accounting Foundation

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## **Governments to Report Liabilities Connected with Their Obligations to Clean Up Pollution**

The responsibility to clean up pollution or contamination—such as a Superfund site or asbestos in a public school—poses significant obligations with large price tags for some governments. Governments often are aware of these obligations long before they commence clean up activities, but little or no information about those obligations may be included in their annual audited financial reports until after the clean up has begun. Consequently, citizens, council members, bond analysts, and other financial report users may not be aware that those potential demands on a government's resources exist, which means they have incomplete information with which to make decisions. This has occurred primarily because there has been no specific guidance for state and local governments about how to estimate and report the costs of pollution remediation.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, to provide that guidance. Application of this new standard will often result in liabilities related to pollution remediation being reported in the financial statements earlier than before. Specifically, Statement 49 explains when pollution remediation-related obligations should be reported and how those obligations' costs and liabilities should be determined. The Statement also requires note disclosures about the liabilities.

### **Triggers for Reporting**

Statement 49 does not require governments to go on a scavenger hunt for pollution. Instead, it sets forth five events and circumstances that would signal that a government should determine if it has to report a remediation liability for potential obligations that they are aware of:

- Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem
- A government violates a pollution prevention-related permit or license
- A regulator identifies (or evidence indicates a regulator will identify) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up

- A government is named (or evidence indicates that it will be named) in a lawsuit to compel it to address pollution
- A government begins or legally obligates itself to begin clean up or post-clean up activities (limited to amounts related to activities the government is legally obligated to complete).

### **Estimating the Liability**

If a government knows a site is polluted and one or more of the triggers has occurred, then it would attempt to estimate the potential outlays for the clean up. If the outlays can be reasonably estimated, then a government generally would calculate a liability using a probability-weighted procedure (described below) and report the liability in its financial statements. (For certain outlays, such as those to prepare a polluted property for sale or to purchase equipment that can be used for other purposes beyond the remediation activities, a government will not report a liability but instead will record capital assets when those assets are acquired.)

If a government can estimate outlays for *only certain portions* of the clean up effort—such as legal fees, testing the polluted site, or monitoring after the clean up—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. Periodically during the clean up effort, the estimated outlays will be reevaluated and revised as new information becomes available.

The probability-weighted approach to determining the amount of the liability is called the expected cash flow measurement technique. It involves determining a range of probabilities or likelihoods that different potential outlays will be necessary and calculating a weighted average of the potential outlays. 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:

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

The \$2.2 million would be reported as the liability in the government's financial statements.

Governments will report expenses in the government-wide financial statements as they record liabilities related to cleaning up the pollution. As clean up work is done, the liability will be reduced for payments made. For governments that also present financial statements for governmental funds, expenditures will be reported when clean up goods and services are received.

## Note Disclosures

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 will describe the nature of the pollution remediation activities in the notes to the financial statements. In addition, all governments that report pollution remediation liabilities will disclose information about those liabilities in the notes, including:

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

## Implementation Deadline

Governments are required to measure their pollution remediation liabilities as of the start of the first fiscal year beginning after December 15, 2007 (for example, fiscal years ending December 31, 2008, or June 30, 2009).

- [Order Statement 49](#)
- Read the [news release](#)
- Read a [question-and-answer fact sheet](#) about Statement 49