

**ACCOUNTING AND FINANCIAL REPORTING FOR  
POLLUTION REMEDIATION OBLIGATIONS  
A FEW BASIC QUESTIONS AND ANSWERS**

**1. What is the GASB?**

The Governmental Accounting Standards Board or GASB is the private, independent, not-for-profit organization that — through an open and thorough due process — establishes and improves standards of financial accounting and reporting for state and local government.

In November 2006 the GASB issued its Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance to governments regarding how and when to measure and report the costs and obligations associated with pollution cleanup efforts.

**2. What is a pollution remediation obligation?**

A pollution remediation obligation refers to a government's responsibility to address the current or potential detrimental effects of existing pollution through such activities as environmental assessments or cleanups.

**3. Why is it important to have an accounting standard on pollution remediation obligations?**

Prior to this statement, governments had no consistent method of accounting for such obligations. This created diversity in practice, which often caused similar transactions or events to appear very differently in the financial statements. Moreover, in some cases certain material obligations were not reported at all.

Consequently, the users of government financial statements did not have access to clear, transparent, and comparable information. Statement 49 will help users to assess a government's obligations by requiring both earlier reporting of obligations and recognition of obligations that may not have been reported before.

**4. How does this standard benefit state and local governments?**

Governmental entities will now benefit from clear and consistent guidance. Also, the measurement guidance is more consistent with standards promulgated and used by environmental professionals.

**5. How does the Statement impact remediation efforts?**

The Statement requires all governments to report their cleanup obligations once certain criteria for recognition are met, which will result in some governments reporting obligations that previously were omitted. However, the Statement does not require governments to do more remediation work than they already are required to do.

**6. What are the key circumstances under which a government will now be required to report a liability related to pollution remediation?**

According to the standard, a government will now have to estimate its expected outlays for pollution remediation if it knows a site is polluted and any of the following recognition triggers occur:

- a) Pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid fixing the problem
- b) A government has violated a pollution prevention-related permit or license
- c) A regulator has identified (or evidence indicates a regulator will do so) a government as responsible (or potentially responsible) for cleaning up pollution, or for paying all or some of the cost of the clean up
- d) A government is named in a lawsuit (or evidence indicates that it will be) to compel it to address the pollution
- e) A government begins to clean up pollution or conducts related remediation activities to the extent that the government is legally obligated to complete those activities.

7. **How do recoveries affect the liability?**

If a government expects to recover some of the cost of remediation from other responsible parties or insurance and the amount can be reasonably estimated, then the recovery reduces the government's pollution remediation expense.

(Associated expenditures are reduced when the recoveries are measurable and available.) If the expected recoveries are not yet realized or realizable, they reduce the measurement of the government's pollution remediation liability until they become realized or realizable, at which time they are reported as recovery assets (for example, cash or receivables).

8. **Do all remediation obligations result in liabilities?**

Most pollution remediation obligations result in liabilities and related expenses and expenditures. However, pollution remediation outlays are capitalized (in other words, reported as a capital asset) in certain limited situations (for example, outlays to prepare polluted property for sale).

9. **When will governments implement Statement 49?**

Governments will begin reporting pollution remediation obligations no later than in their financial statements for periods beginning after June 15, 2007 (for example, fiscal years ended June 30, 2008). However, liabilities should be measured at the beginning of that period so that beginning net assets can be restated.

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