

ACCOUNTING AND FINANCIAL REPORTING FOR  
POLLUTION REMEDIATION OBLIGATIONS

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ACCOUNTING AND FINANCIAL REPORTING FOR  
POLLUTION REMEDIATION OBLIGATIONS

I. 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 and hazardous materials contamination remediation obligations, i.e., obligations to address the current or potential detrimental effects of **existing** pollution and contamination by participating in remediation activities such as site assessments and cleanups. These obligations require the recognition and reporting of remediation liabilities and, in certain instances, may 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 Statement No. 49 **excludes** prevention or control obligations with respect to:

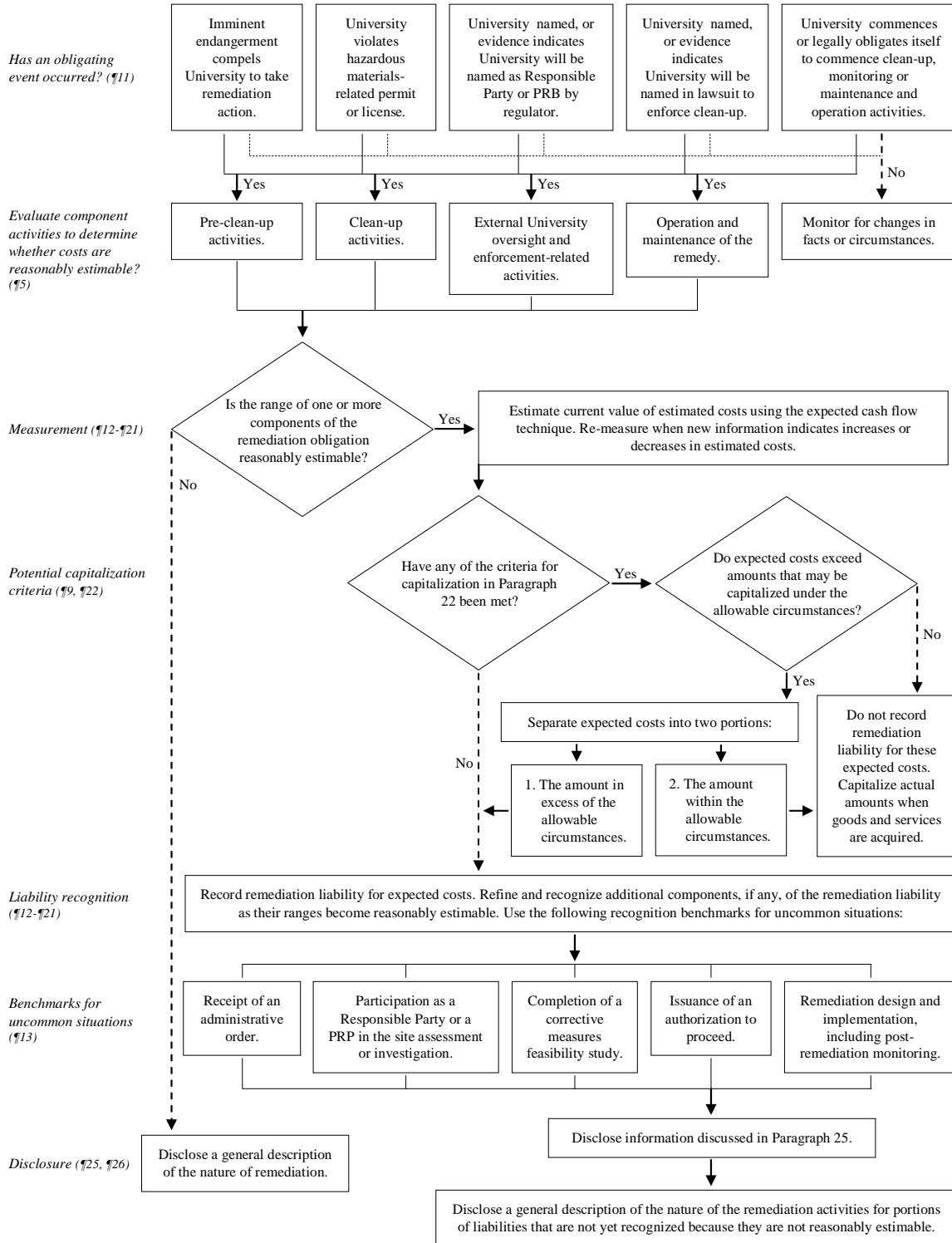
- current operations, and
- future remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure requirements, nuclear reactor decommissioning, or closure of campus hazardous waste handling facilities.

Once any one of five obligating (or triggering) events specified in Section III occurs, campuses are required to estimate the components of expected 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.

II. RECOGNITION AND MEASUREMENT FRAMEWORK

The diagram on the following page provides an overview of the recognition and measurement framework:

University determines or reasonably believes site may be polluted or contaminated:



### III. OBLIGATING OR TRIGGERING EVENTS

When campus management knows or reasonably believes that a facility or site is contaminated, the financial staff, in consultation with the appropriate management, must determine whether one or more components of a remediation obligation are recognizable as a liability when **any** of the following events occurs:

- *The campus is compelled to take remedial action because contamination creates an imminent endangerment to public health or welfare or the environment, leaving it little or no discretion to avoid remedial action. This criterion applies to events that compel the campus to take remedial action even if no law requires such action.*
- *The campus is in violation of a hazardous materials-related permit or license requiring corrective remedial action (i.e., Resource Conservation and Recovery Act (RCRA) permit or similar permits under state law).*
- *The campus is named, or evidence indicates that it will be named, by a regulator as a Responsible Party (RP) or a Potentially Responsible Party (PRP) for remediation, or as an entity responsible for sharing remedial costs.*
- *The campus is named, or evidence indicates that it will be named, in a lawsuit to compel it to participate in remediation. There is a presumption that a lawsuit can be excluded from consideration if it is substantially the same as a lawsuit previously determined to be without merit in relevant judicial determinations.*
- *The campus commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should be based on the portion of the remediation project that the campus has initiated and is legally required to complete. If the campus voluntarily assumes a remediation obligation, it may not need to record a liability for the entire cleanup effort:*

*Example:* If the campus sells land and voluntarily obligates itself to clean part of the site in the sales agreement, or if the campus voluntarily signs a consent decree making itself a responsible party for cleanup activities, the campus is required to recognize a liability for only that work that the campus had legally obligated itself to do. This could be significantly less than the cost the campus would expect to incur to clean the entire site.

*Example:* If the campus voluntarily decides to remove non-friable asbestos-containing materials (e.g. vinyl flooring), this is NOT considered an obligating event. However, if the removal activity causes the asbestos to become friable, this invokes an obligating event. In addition, if the campus determines that any asbestos-containing materials pose an imminent threat to health and safety, then related asbestos removal is considered an obligating event.

*Example:* If the campus purchases a facility, and in the course of due diligence determines that it will voluntarily remediate contamination or remove hazardous substances, there would be an obligating event for the remediation effort when the campus commences the cleanup activity, not at the time management makes the decision that they will voluntarily enter into the remediation work. The campus only has an obligation to complete the expected cost of completing the removal work that has been started. If all remediation work that has started has been completed at year end, there is not any remediation obligation to accrue or to disclose.

This specific obligating event normally does not include pre-cleanup activities, such as environmental due diligence site assessments, which may be undertaken voluntarily by the campus. If the campus legally obligates itself to commence pre-cleanup activities, those activities also should be included in the measurement of a remediation liability.

In making a determination of whether an obligating event has occurred, campus financial staff should consult Regents Items during the year, in addition to discussing potential events with campus EH&S and Facilities personnel, and campus counsel. The results of these discussions should be documented.

If the campus determines there are no obligating events during the year, that conclusion should be documented based upon the campus discussions with the appropriate staff. No further work is necessary.

If the campus determines an obligating event(s) has occurred, the campus financial staff must (1) consider the types of expenses or capital acquisitions that are involved in the various component activities as discussed in Section V, (2) evaluate the costs associated with various component activities discussed in Section VI to determine whether they are reasonably estimable, (3) follow the required approach to the measurement of the estimated costs as discussed in Section VII, and (4) determine whether any of the allowable circumstances apply that would result in a cost being capitalized as outlined in Section VIII.

#### IV. COMPONENT ACTIVITIES THAT CONSTITUTE REMEDIATION OBLIGATIONS

Once a determination is made that any one of five specified obligating events has occurred, campuses are required to evaluate and estimate the cost of the component activities of expected remediation costs and determine whether costs for those components should be either (1) accrued as a liability or, if appropriate, (2) capitalized when goods and services are acquired.

A remediation obligation is an obligation to address the current or potential detrimental effects of existing contamination by participating in remediation activities. For example, obligations to cleanup spills, hazardous wastes, or hazardous substances and obligations to remove hazardous substances such as asbestos are remediation obligations. Remediation obligations may include costs associated with the following primary component activities:

- *Pre-cleanup activities*, such as performance of a site assessment, site investigation, and corrective measures feasibility study, and the design of a remediation plan. A site assessment is a site-specific baseline risk assessment that identifies hazards, assesses exposure to the hazards and their toxicity, and characterizes and quantifies the potential risks posed by the site. A site assessment may be non-invasive, involving inquiry into previous uses of a site, site reconnaissance, and interviews (a Phase I Preliminary Site Assessment or PSA), or may involve invasive testing for contamination (a Phase II site assessment). Legal costs may be involved.

- *Cleanup activities*, such as neutralization, containment, or removal and disposal of pollutants, and site restoration.
- *External government oversight and enforcement-related activities*, such as work performed by an environmental regulatory authority dealing with the site and chargeable to the campus.
- *Operation and maintenance of the remedy*, including required monitoring of the remediation effort (post-remediation monitoring).

Not all remediation obligations will involve all of the above activities. For example, asbestos removal typically will not involve post-remediation monitoring.

Remediation obligations do *not* include pollution prevention or control obligations with respect to current operations, such as obligations to install air emissions controls, wastewater treatment systems, storm water runoff controls, or use environment-friendly products.

V. EXPENSES OR CAPITAL ACQUISITIONS TO BE CONSIDERED WHEN ESTIMATING THE COST OF REMEDIATION COMPONENT ACTIVITIES

Remediation expenses or capital acquisitions include all direct expenses or capital acquisitions attributable to remediation activities (e.g., payroll and benefits, equipment and facilities, materials, legal and other professional services) and may include estimated indirect expenses (including general overhead). Expenses or capital acquisitions related to natural resource damage (e.g., re-vegetation outlays) are included only if incurred as part of a remediation effort.

Expenses or capital acquisitions for operation and maintenance of a remedial action, including post-remediation monitoring required by a remedial action plan, are part of remediation activity rather than a separate future obligation. However, post-remediation monitoring estimates should take into account that such outlays are not likely to extend indefinitely. Estimates should be reassessed periodically.

Remediation obligations generally will result in recognition and reporting of remediation liabilities. In certain instances, an obligation to participate in remedial activities will result in recognition and reporting of capital asset transactions at the time those assets are acquired (see Section VIII).

Pollution prevention or control expenses with respect to current operations such as air and water pollution controls, fines, penalties and other non-remediation costs such as civil wrongs (toxic torts) arising from exposure to a toxic substance, litigation in support of potential cost recovery, workplace health and safety costs, etc. are *not* part of performing remediation and should not be included.

VI. REASONABLY ESTIMABLE COSTS AND RECOGNITION BENCHMARKS IN UNCOMMON SITUATIONS

Campus financial staff must evaluate and recognize the costs associated with various component activities:

- Once an obligating event has occurred (see Section III), and
- As the ranges of the various component activities become reasonably estimable as outlined in this section.

Measurement of the costs in the range *must use the expected cash flow technique* (see Section VII).

In some cases, campuses may have insufficient information to reasonably estimate the ranges of all of the various component activities of its liability. In these cases, campuses should recognize remediation liabilities as the range of each of the component activities of the liability (e.g., legal services, site investigation, or required post-remediation monitoring) becomes reasonably estimable. In other cases, campuses may be able to reasonably estimate a range of all of the various component activities of its liability early in the process because the site situation is common, or is similar to situations at other sites with which campuses have experience (e.g., leaking underground storage tanks). In such cases, the entire estimated liability should be recognized at this stage.

The range of an estimated remediation liability often will be defined and periodically refined, as necessary, as different stages in the remediation process occur.

A. HOW GASB STATEMENT NO. 49 DIFFERS FROM FASB STATEMENT NO. 5

It is important to note that guidelines for accrual of a loss contingency under FASB Statement No. 5 do not apply to recognition of remediation costs and liabilities. The guidelines articulated in FASB Statement No. 5—where a loss must be probable, reasonably estimable and reported at the lower end of a range when no best estimate is available—are *not* controlling for recognition of pollution remediation costs and liabilities. The recognition and measurement concepts in GASB Statement No. 49 are fundamentally different than those required under FASB Statement No. 5.

Accruing for the cost and liability for remediation situations is based upon the following criteria:

- **Recognition** that a remediation liability exists is predicated on whether an obligating event has occurred. If an obligating event has occurred, the campus is required to measure the estimated costs. This differs from the recognition criteria in FASB Statement No. 5 in that it is predicated on whether a loss contingency is "probable."
- **Measurement** of the remediation cost and liability must be based upon the expected cash flow technique which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. This differs from the measurement criteria in FASB Statement No. 5 in that it requires accrual of the low end of the estimated range of costs.

B. USING RECOGNITION BENCHMARKS IN THE ESTIMATION PROCESS FOR UNCOMMON SITUATIONS

Certain stages of a remediation effort or process, and of Responsible Party (RP) or Potentially Responsible Party (PRP) involvement provide benchmarks that should be considered when evaluating the extent to which a range of potential outlays for a remediation effort or process is reasonably estimable. Benchmarks should not, however, be applied in a manner that would delay recognition beyond the point at which a reasonable estimate of the range of a component of a liability can be made.

The recognition benchmarks that follow typically apply to remediation obligations that are not common or similar to situations at other sites with which the campus has experience. At a minimum, the estimate of remediation costs and liability should be evaluated as each of the following benchmarks occurs (see additional language in GASB Statement No. 49 if necessary).

- *Receipt of an administrative order.* The campus may receive an administrative order compelling it to take a response action at a site or risk penalties. Such response actions may be relatively limited or they may be broad.

The ability to estimate outlays resulting from administrative orders varies with factors such as site complexity and the nature and extent of the work to be performed. The benchmarks that follow should be considered in evaluating the ability to estimate such outlays insofar as the actions required by the administrative order involve these benchmarks. The costs associated with performing the requisite work generally are estimable within a range, and recognition of a remediation liability for this work generally should not be delayed beyond this point.

- *Participation, as an RP or a PRP, in the site assessment or investigation.*
- *Completion of a corrective measures feasibility study.* At substantial completion of the corrective measures feasibility study, both a range of the remediation outlays and the campus' allocated share generally will be reasonably estimable.
- *Issuance of an authorization to proceed.* At this point, the regulatory authority has issued its determination (e.g., an EPA record of decision) specifying a preferred remedy.
- *Remediation design and implementation, through and including operation and maintenance, and post-remediation monitoring.* During the design phase of the remediation, the campus develops a better understanding of the work to be done and is able to provide more precise estimates of the total remediation costs.

VII. MEASURING COSTS ASSOCIATED WITH REMEDIATION COMPONENT  
ACTIVITY

Remediation liabilities should be measured based upon the remediation costs expected to be incurred to settle those liabilities. In addition, the component activities of the remediation liability should initially be recognized when the range of the obligation in total, or for any element of each component activity, becomes reasonably estimable.

In terms of measurement, remediation costs and liabilities must:

- Be based upon the current value of costs expected to be incurred; and
- Be measured using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts.

See Appendix A for a worksheet that may be used to evaluate the site and to estimate the liability using the expected cash flow technique.

A. CURRENT VALUE OF COSTS EXPECTED TO BE INCURRED

Current value is the amount that would be paid if all equipment, facilities and services included in the estimate were acquired during the current period, rather than their present value. Projecting uncertain remediation cash flows to specific future periods, and then discounting those cash flows, will add more subjectivity than relevance to the measurement.

Because settlement of a remediation liability is not always possible in the current period, settlement can involve future events. The current value of a remediation liability should be based on reasonable and supportable assumptions about future events that may affect the eventual settlement of the liability. For example, the current value of a remediation liability should be based on applicable federal, state, or local laws or regulations that have been approved, regardless of their effective date, and the existing technology expected to be used for the cleanup.

The meaning of reasonable and supportable assumptions is subject to judgment; however, it is not limited to a virtually-certain-to-occur belief and is not necessarily related to the degree to which evidence can be verified objectively.

B. EXPECTED CASH FLOW TECHNIQUE

The expected cash flow technique uses all expectations about possible cash flows and is the sum of probability-weighted amounts in a range of possible estimated amounts, resulting in the estimated mean or average.

Reasonable estimates of ranges of possible cash flows may be limited to a few discrete scenarios or a single scenario, such as an amount specified in a contract for remediation services.

If the potential liability is not significant, one or two discrete scenarios may be sufficient for purposes of estimating the cost and liability. For practical reasons, the campus may choose to use only a limited number of potential outcomes (data points) for calculating the expected cash flow. The campus may choose to use only best case, worst case, and most likely potential cash flows. If the campus does not have a reasonable basis for specifying the probability and amount of a most likely potential cash flow, it may use only two data points. For example, if potential remediation costs in a particular component activity range from \$1 million to \$3 million and no amount within the range is considered to be a better estimate than any other amount, a liability of \$2 million would be reported, calculated as follows:  $(\$1 \text{ million} \times 50\%) + (\$3 \text{ million} \times 50\%)$ .

If the potential liability is significant, a limited number of discrete scenarios and probabilities should be developed that capture the array of possible cash flows, even in cases in which the campus has access to only limited data about the possible cash flows within a range. In developing those scenarios, the campus could use actual cash flows for other remediation projects, if available, adjusted for changes in circumstances. Each application of the expected cash flow technique will differ based on the facts and circumstances of each measurement situation, available information and judgments applied.

C. OBLIGATION TO REMEASURE, UPDATE AND ADJUST THE COSTS AND LIABILITIES

There is a requirement to continue to evaluate and update the costs until the remediation obligation has been entirely satisfied. Campuses should continue to refine liability estimates as this additional information becomes available, and at least annually in conjunction with the year-end close and preparation of its financial statements.

Further information likely will become available at various points until site remediation work is completed, subject only to post-remediation monitoring. Additional information may include changes in the remediation plan or operating conditions, or to the type of equipment, facilities, and services that will be used, price increases or reductions for specific cost elements such as ongoing monitoring requirements, changes in technology and changes in legal or regulatory requirements.

Contingencies that might result in gains usually are not reflected in the accounts since to do so might be to recognize revenue prior to its realization.

D. INCORPORATING RECOVERIES INTO THE MEASUREMENT

Expected recoveries from other parties, and expected insurance recoveries from policies that indemnify the campus for its remediation obligations, except if expected to result in a capital asset, should be included in the measurement by reducing the expense. However, the remediation liability may, or may not, be affected as follows:

- If the expected recoveries are not yet realized or realizable, the affected liability should be reduced, i.e. the expected recovery is net against the liability (debit liability and credit expense).
- However, if the expected recoveries are realized or realizable as outlined in GASB Statement No. 42, they should be recognized separately from the liability as recovery assets (e.g., debit cash or receivables and credit expense or capital contribution if related to capitalizable costs). Insurance recoveries should be recognized only when either realized or realizable. Clearly, if

insurance proceeds have been received, the recovery must be recognized and recorded. In addition, if the insurance company has admitted or acknowledged coverage, an insurance recovery would be realizable and should be recorded. If the insurer has denied coverage, the insurance recovery generally is not recognizable.

Under the expected cash flow technique, the measurement of the campus' remediation liability should include all remediation work that the campus expects to perform, including work expected to be performed for other RPs or PRPs, whether or not the University is required to do that work. Expected recoveries from those other parties and expected insurance recoveries from policies that indemnify the University for its remediation obligations also should be included in the measurement by reducing the expense and affecting the liability as follows:

- Expected recoveries from other RPs, PRPs and insurers should be measured consistently with the related remediation outlays based on their current value and using the expected cash flow technique.
- If recoveries become expected in periods following the completion of all remediation work, such that a remediation liability no longer exists, those transactions should be recorded, for example, as revenue or capital contribution (if related to a capitalizable cost) and cash or accounts receivable when they are realized or realizable.

#### VIII. ALLOWABLE CIRCUMSTANCES FOR CAPITALIZING REMEDIATION COSTS

Remediation costs, including costs for property, plant, and equipment, should generally be reported as an expense and a liability recognized. Some projects (e.g., land improvements or remodeling), for which the primary objective is other than remediation, may include remediation activities. *Except for the allowable circumstances as provided below, incremental costs attributable to remediation activities (costs that would not be incurred absent contamination) should be reported as an expense when a remediation liability is recognized.*

Remediation costs should only be capitalized when goods and services are acquired for any of the following four circumstances, and only to the extent allowable in each circumstance:

- *To prepare property in anticipation of a sale.* In this circumstance, the University should capitalize only amounts that would result in the carrying amount of the property not exceeding its estimated fair value upon completion of the remediation. If costs exceed the estimated fair value upon completion of the remediation, they must be recorded as an expense and liability in the measurement process.
- *To prepare property for use when the property was acquired with known or suspected contamination that was expected to be remediated.* In this circumstance, the University should capitalize only those remediation costs expected to be necessary to place the asset into its intended location and condition for use.

In the case of preparing purchased contaminated property for use and restoring contamination-impaired property, the GASB considered and rejected a strict fair value cap because the University may, as a matter of public policy, invest more into land and facilities than their fair value.

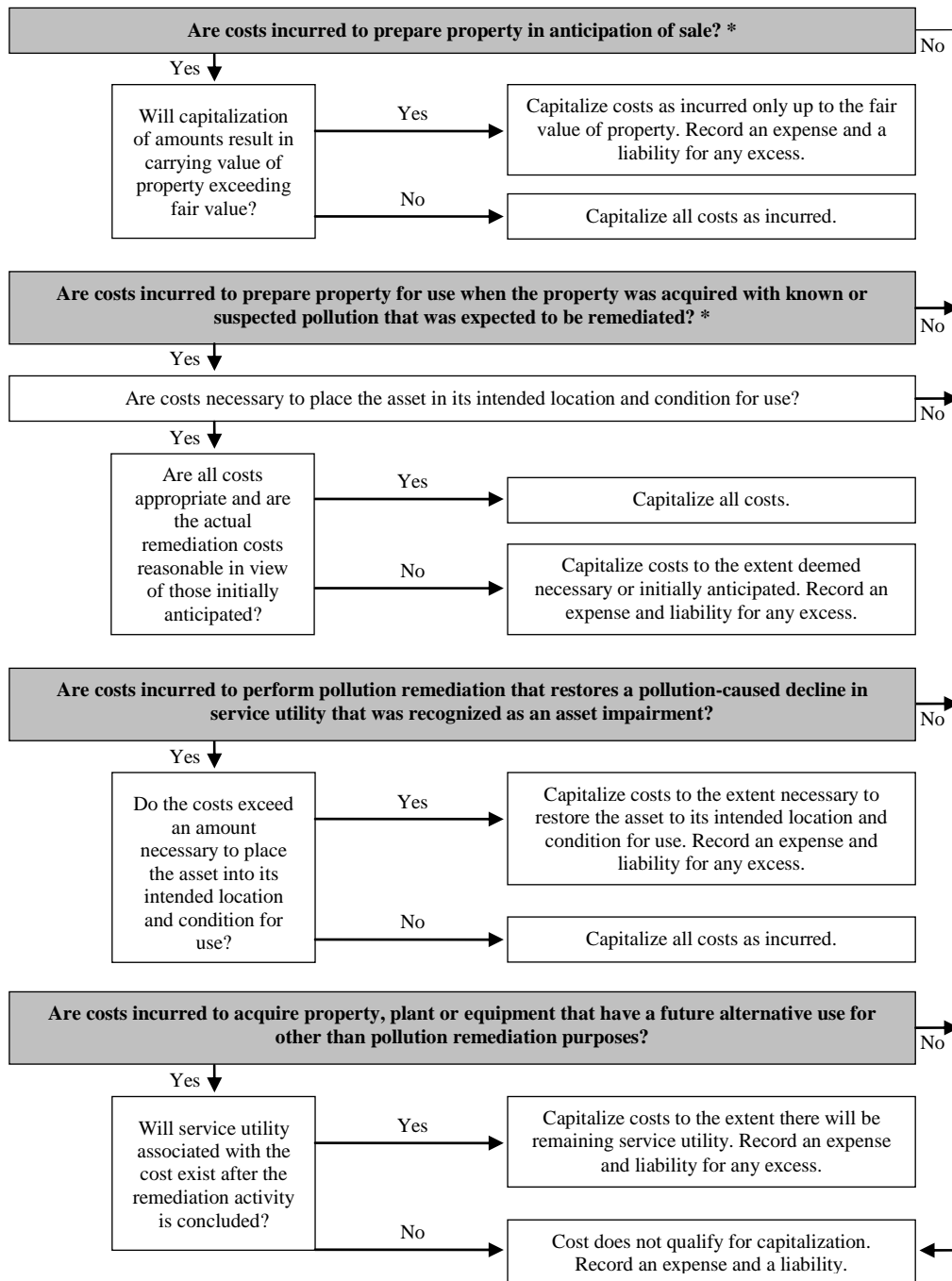
In determining costs expected to be necessary to place an asset into its intended location and condition for use, the University should consider that not all increases in expected costs are appropriately considered to be necessary. For example, if a remediation project would not have been initiated had anticipated costs been as high as those actually incurred, the University generally should not capitalize all of the costs. In certain circumstances, the costs originally expected to be incurred may be indicative of the amount necessary to place the asset into its intended location and condition for use.

- *To perform remediation that restores a contamination-caused decline in service utility that was recognized as an asset impairment.* In this circumstance, the University should capitalize only those remediation costs expected to be necessary to place the asset into its intended location and condition for use. In some instances, such as remediation of petroleum contamination in soils, removal or remediation costs also may restore lost service utility. In other instances, such as removal of asbestos insulation

preparatory to replacing it with non-hazardous insulation, removal costs may not restore lost service utility.

- *To acquire property, plant, and equipment that have a future alternative use for other than remediation purposes.* In this circumstance, costs should be capitalized only to the extent of the estimated service utility that will exist after remediation activities uses have ceased.

As illustrated on the following page, capitalization related to the first two items listed above is appropriate only if the costs take place within a reasonable period prior to the expected sale or following acquisition of the property, respectively, or are delayed, but the delay is beyond the University's control.



\* Implicit in the criteria for the first two bullet items listed previously is that costs will take place within a reasonable period prior to the expected sale or following acquisition of the property, respectively. If not, record an expense and a liability.

IX. RECORDING REMEDIATION COSTS IN THE STATEMENT OF REVENUES,  
 EXPENSES AND CHANGES IN NET ASSETS

If the conclusion is that remediation costs and a liability should be recognized as a result of an obligating event, and the amount is estimable and measurable, it must be reported in the University's statement of revenues, expenditures and changes in net assets in one of three categories: an operating remediation cost, a special remediation cost, or an extraordinary remediation cost.

- *Operating remediation cost.* All remediation costs, or revenue, must be recorded as an operating activity unless they specifically meet the definition of a special or extraordinary cost (see below).
- *Special remediation cost.* The special cost category includes remediation costs that are associated with circumstances within the control of campus or University management and are either unusual in nature or infrequent in occurrence (GASB Statement No. 34, ¶156).
- *Extraordinary remediation cost.* The extraordinary remediation cost category includes costs that are not within the control of campus or University management and are both unusual in nature and infrequent in occurrence (GASB Statement No. 34, ¶155).

In the case of either a special or extraordinary cost, the cost is classified within the Other Changes in Net Assets section of the University's statement of revenues, expenses and changes in net assets. The distinguishing features between an operating cost and either a special or extraordinary cost depend on whether the event or circumstance is either unusual, infrequent, or both. Generally, recording remediation costs as special and/or extraordinary is difficult to justify.

Events or circumstances that are considered to be unusual in nature should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the University, taking into account the environment in which the University operates. Unusual in nature is not established by the fact that an event or transaction is beyond the control of management.

Events or circumstances that are considered to be infrequent in occurrence would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the University operates. Paragraphs 20-22 of Accounting Principles Board Opinion No. 30 provide a more detailed definition of unusual in nature and infrequency in occurrence.

The distinguishing features between a special cost and an extraordinary cost depend on whether the event or circumstance is within the control of campus or University management.

Recognizing that differences among the three categories may be subtle, UCOP-Financial Management can assist in researching the appropriate accounting codes to use in any given situation. In any event, if the cost is recorded as an operating cost, it must also be recorded by the function that used the polluted capital asset requiring remediation. If the cost is recorded as a special or extraordinary cost, it will not be considered in the University's disclosure of operating expense by function, but the cost will still need to be recorded by function for Campus Financial Schedule purposes.

#### X. DISCLOSURE REQUIREMENTS

UCOP will need information on remediation costs and liabilities in order to disclose the following information in the University's footnotes:

- The nature/type of contamination and source of the remediation obligation (e.g., 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 estimates;
- The potential for changes due to, for example, price increases or reductions, technology or applicable laws or regulations; and
- Estimated recoveries reducing the liability.

For remediation liabilities, or portions thereof, that are not yet recognized because they are not reasonably estimable, the University will disclose a general description of the nature of the remediation activities.

In order to accumulate the necessary information, campuses will submit completed worksheets to UCOP that are designed to capture this information. The worksheets will be provided to the campuses each year during the closing process.

XI. ACCOUNTING CODES

Accounting codes have been established to record the expense and liability for Pollution Remediation Obligations and to record revenue and the receivable for recoveries. The criteria for determining whether an obligation exists and the details for the calculation of any asset, liability, expense, or revenue are discussed above. Accounting codes have been established in the general ledgers and Corporate Financial Systems to enable mapping to our financial statements. The codes will roll up into the financial statements as follows:

**STATEMENT OF NET ASSETS**

	<u>Current Funds</u>
<i>Roll up in Accounts Receivable-Other:</i>	
CA-Pollution Remediation Obligation Recovery Receivable	AGC 160851
CA-Pollution Remediation Obligation Recovery Receivable- Settlement	AGC 160852
<i>Roll up in Other Noncurrent Assets:</i>	
NA-Pollution Remediation Obligation Recovery Receivable	AGC 161976
<i>Roll up in Other Current Liabilities:</i>	
CL-Pollution Remediation Obligation Liability	AGC 164775
CL-Pollution Remediation Obligation Liability Recovery	AGC 164776
<i>Roll up in Other Noncurrent Liabilities:</i>	
NL- Pollution Remediation Obligation Liability	AGC 165591
NL-Pollution Remediation Obligation Liability Recovery	AGC 165592

<b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>	<u>Current Funds</u>	<u>Unexpended Plant Funds</u>
Roll up in <i>Other Operating Revenue</i> :		
Pollution Remediation Cost	AGC 208460	
Recovery-Prior Year Cost		
Roll up in <i>Other Operating Expense</i> :		
Pollution Remediation Cost	Object 7170	
Pollution Remediation Cost	Object	
Recovery-Current Year Cost	7175	
Roll up in <i>Other Changes in Net Assets (Impairment/Remediation costs and recoveries)</i> :		
Special Pollution Remediation Cost	Object 7181	
Extraordinary Pollution Remediation Cost	Object 7182	
Special Pollution Remediation Recovery-Current Year Cost	Object 7183	
Extraordinary Pollution Remediation Recovery-Current Year Cost	Object 7184	
Special Pollution Remediation Recovery-Prior Year Cost	AGC 208438	
Extraordinary Pollution Remediation Recovery-Prior Year Cost	AGC 208439	
Roll up in <i>Other Changes in Net Assets (Capital Gifts and Grants)</i> :		
Pollution Remediation Capitalizable Costs Recovery- Current Year		TC 1010
Pollution Remediation Capitalizable Costs Recovery-Prior Year		TC 1020

XII. ACCOUNTING ENTRIES

Appendix B provides sample accounting entries that must be made for various activities related to pollution remediation.

XIII. REFERENCES

GASB Statement

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. November 2006

Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. June 1973.

Memoranda

GASB Statement No. 49 Issues Resolution Memorandum No. 49.1, *Overview of the Statement and UC's Approach to Implementation*

GASB Statement No. 49 Issues Resolution Memorandum No. 49.2, *Recording the Pollution Remediation Obligation—Procedural Guidance on Recording the Obligation*

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First Issued 9/30/09; analyst—Jorge Ohy.

APPENDIX A: Evaluation and Estimation Worksheet

SUMMARY SITE EVALUATION OF REMEDIATION OBLIGATIONS

Campus: \_\_\_\_\_  
Site: \_\_\_\_\_  
Completed by: \_\_\_\_\_  
Date: \_\_\_\_\_  
Updated: \_\_\_\_\_

The following worksheet should be completed for each suspected polluted site known to the University.

1. Describe the known contaminated site.

*In a level of detail that is necessary for footnote disclosure, provide description of:*

*a) the campus site*

*b) the nature and extent of the contamination*

*c) the source of the remediation obligation (for example, federal, state or local laws or regulations)*

2. Determine whether an obligating event has occurred.

*Does one or more of the conditions listed below apply to the known contaminated site identified above?  
(Check if answer is "yes.")*

\_\_\_\_\_ The University is compelled to take remediation action because contamination creates an imminent endangerment to public health or welfare or the environment, leaving it little or no discretion to avoid remediation action. If yes, proceed to Step 3; if no, continue the evaluation of whether an obligating event occurred.

\_\_\_\_\_ The University is in violation of a hazardous materials-related permit or license, (Resource Conservation and Recovery Act (RCRA) permit or similar permits under state law) requiring corrective action. If yes, proceed to Step 3; if no, continue the evaluation of whether an obligating event occurred.

- \_\_\_\_\_ The University is named, or evidence indicates that it will be named, by a regulator as a Responsible Party or a Potentially Responsible Party for remediation, or as an entity responsible for sharing remedial costs. If yes, proceed to Step 3; if no, continue the evaluation of whether an obligating event occurred.
- \_\_\_\_\_ The University is named, or evidence indicates that it will be named, in a lawsuit to compel it to participate in remediation. If yes, proceed to Step 3; if no, continue the evaluation of whether an obligating event occurred.
- \_\_\_\_\_ The University commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If yes, proceed to Step 3; if no, continue the evaluation of whether an obligating event occurred.
- \_\_\_\_\_ None of the above applies to this site. (If yes, STOP HERE. Obligating event has not occurred and do not proceed to Step 3. Remediation obligation is not required to be recorded, reported or disclosed. The site should be periodically reviewed for possible obligating events in subsequent years.)

**3. Evaluate each component activity to estimate the known cost of remediation and any recoveries.**

*Is the range of the remediation obligation and recoveries reasonably estimable, in total or for any component activity of the remediation?*

Component activities include:

- 1) *Pre-cleanup activities* including legal services, performance of a site assessment, site investigations, corrective measures feasibility study, and the design of a remediation plan;
- 2) *Cleanup activities* such as neutralization, containment, or removal and disposal of pollutants, and site restoration;
- 3) *External government oversight and enforcement-related activities* such as work performed by an environmental regulatory authority dealing with the site and chargeable to the government and
- 4) *Operation and maintenance of the remedy* including required post-remediation monitoring.

APPENDIX A: Evaluation and Estimation Worksheet

\_\_\_\_\_ **No**, the cost and potential recovery of remediation, in total or for any component activity, is not reasonably estimable at this time. (No remediation obligation is required to be recorded or reported and do not proceed to Step 4; however, the general description of the nature of remediation activities must be disclosed in the footnotes. Send this worksheet to UCOP-Financial Management.)

The site should be re-evaluated annually to determine if the costs have become estimable.

\_\_\_\_\_ **Yes**, the cost of and potential recovery of remediation, in total or for some component activities, are known or are reasonably estimable at this time.

If yes, proceed to Step 4 and provide the range of estimates for the total remediation or for any known component activities.

MEASUREMENT USING THE EXPECTED CASH FLOW TECHNIQUE

Component Remediation Activity	Estimated at June 30, 20xx		
	Estimated Obligation	Probability Weighting	Expected Value
<b>4. Pre-Cleanup Activities</b>			
a) Site assessment			
i. Best case	\$		\$
ii. Most likely			
iii. Worst case			
		100%	
b) Site investigation			
i. Best case			
ii. Most likely			
iii. Worst case			
		100%	
c) Corrective measures feasibility study			
i. Best case			
ii. Most likely			
iii. Worst case			
		100%	
d) Design of remediation plan			
i. Best case			
ii. Most likely			

<ul style="list-style-type: none"> <li>iii. Worst case</li> </ul>		100%	
<ul style="list-style-type: none"> <li>e) Other (please specify)             <ul style="list-style-type: none"> <li>i. Best case</li> <li>ii. Most likely</li> <li>iii. Worst case</li> </ul> </li> </ul>		100%	
<b>Sub-Total: Estimated Pre-Cleanup Activity Obligation</b>			<b>\$</b> <u><u>                    </u></u>

APPENDIX A: Evaluation and Estimation Worksheet

Component Remediation Activity	Estimated at June 30, 20xx		
	Estimated Obligation	Probability Weighting	Expected Value
<b>5. Cleanup Activities</b>			
a) Neutralization			
i. Best case	\$		\$
ii. Most likely			
iii. Worst case			
		100%	
b) Containment			
i. Best case			
ii. Most likely			
iii. Worst case			
		100%	
c) Removal or disposal			
i. Best case			
ii. Most likely			
iii. Worst case			
		100%	
d) Site Restoration			
i. Best case			
ii. Most likely			
iii. Worst case			
		100%	
e) Other (please specify)			
i. Best case			
ii. Most likely			
iii. Worst case			
		100%	
<b>Sub-Total: Estimated Cleanup Activity Obligation</b>			<b>\$</b>

Component Remediation Activity	Estimated at June 30, 20xx		
	Estimated Obligation	Probability Weighting	Expected Value
<b>6. External Government Oversight and Enforcement-Related Activities</b>			
a) Specify, once known			
i. Best case	\$		\$
ii. Most likely			
iii. Worst case			
		100%	
b) Specify, once known			
i. Best case			
ii. Most likely			
iii. Worst case			
		100%	
<b>Sub-Total: Estimated External Government Oversight and Enforcement-Related Activities Obligation</b>			<b>\$</b>
<b>7. Operation and Maintenance of the Remedy</b>			
a) Post-remediation monitoring			
i. Best case	\$		\$
ii. Most likely			
iii. Worst case			
		100%	
b) Other (please specify)			
i. Best case			
ii. Most likely			
iii. Worst case			
		100%	
<b>Sub-Total: Estimated Operation and Maintenance Obligation</b>			<b>\$</b>
<b>Total: Estimated Pollution Remediation Obligation</b>			<b>\$</b>

APPENDIX A: Evaluation and Estimation Worksheet

Component Remediation Activity	Estimated at June 30, 20xx
	Expected Value
<b>8. Less: Costs Outlined Above that Qualify for Capitalization</b>	
a) Pre-cleanup activities	(\$        )
b) Cleanup activities	(        )
c) Corrective measures feasibility study	(        )
d) Design of remediation plan	(        )
<b>Sub-Total: Estimated Liability of Pollution Remediation that May Be Capitalized as Incurred</b>	<b>(\$        )</b>
 <b>Total: Estimated Pollution Remediation Liability, Net of Estimated Capital Costs</b>	 <b>\$       </b>
 <b>9. Less: Estimated Recoveries that Are Not Realized or Realizable</b>	
a) Estimated recoveries that are not realized or realizable	(\$        )
<b>Total: Estimated Pollution Remediation Liability, Net of Estimated Capitalizable Costs and Recoveries that Are Not Realized or Realizable</b>	<b>(\$        )</b>
 <b>Estimated Recoveries that Are Realizable</b>	
a) Estimated recoveries that are realizable	\$

Component Remediation Activity	Estimated at June 30, 20xx		Total
	Expected Value, Current	Expected Value, Noncurrent	
<b>11. Summary per GASB Statement No. 49</b>			
a) Pre-cleanup activities			\$
b) Cleanup activities			
c) External oversight activities			
d) Operation and maintenance activities			
e) Sub-total			
f) Less: Capitalizable costs			
g) Sub-total			
h) Less: Recoveries, not yet realizable			
i) Sub-total			
j) Less: Recoveries, realizable			
<b>Total Cost, Net of Capitalizable Costs and Recoveries</b>			\$

Actual Cash Activity	Expenditures	Receipts
<b>12. Actual Payments and Recovery</b>		
Identify all expenditures and receipts for pollution remediation for the year. All expenditures should be recorded under appropriate object codes. All receipts should be recorded to appropriate recovery object code if recovered during remediation or to appropriate revenue if recovered after completion of remediation.	\$	\$

**13. Footnote on Estimates**

Describe the methods and assumptions used to make the estimates:

Describe the potential for changes in estimates due to, for example, price increases or reductions, technology or applicable laws or regulations:

APPENDIX A: Evaluation and Estimation Worksheet

Account Item	Estimated at June 30, 20xx			
	Current	Noncurrent	Total	
<b>14. GASB Statement No. 49 Summary per this Worksheet</b>				
Total Liability (Item 11g: Total Liability, Net of Capitalizable Costs)	\$	\$	\$	
Liability Recovery (Item 11h: Recoveries, Not Yet Realizable)				
Recovery Receivable (Item 11j: Recoveries, Realizable)				
Actual Payments (Item 12)				
Actual Recovery (Item 12)				
<b>15. Benchmark Events</b>				
The evaluation and refinement of remediation liability estimates should be performed in conjunction with the fiscal closing each year to determine whether the statement of net assets is properly stated and whether each of the following benchmarks has occurred for this site.			Check below if the benchmark events have occurred.	
Check the following benchmarks that have occurred for this site:				
Receipt of an administrative order from a regulatory authority compelling UC to take a response action at the site or risk penalties.				
UC's participation, as a Responsible Party or Potentially Responsible Party, in the site assessment or investigation.				
Completion of a corrective measures feasibility study.				
Issuance by a regulatory authority of an authorization to proceed with a specified remedy.				
Remediation design and implementation, through and including operation and maintenance, and post-remediation monitoring.				
None of the above listed benchmarks has occurred.				

APPENDIX B: Accounting for Pollution Remediation Obligation

Transaction	Debit (Credit)		Increase (Decrease)		Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
	Statement of Net Assets	SRECNA	Statement of Cash Flows				
1a. Determine that \$1,000 is the non-capitalizable cost of a pollution remediation obligation (PRO): \$300 to be spent in the next year and \$700 thereafter. Of the \$1,000, \$200 has been identified as a recovery that is <u>not yet realizable</u> , \$50 expected in the next year and \$150 thereafter.	<i>PRO Liability</i>		<i>Other Operating Expense—</i>	N/A—No cash involved	Operating income		
	AGC 164775		<i>PRO Expense</i>		(loss)	(\$800)	
	(Current) (\$300)	Object Code 7170	\$1,000		Other liabilities	\$800	
	AGC 165591 (Noncurrent) (\$700)						
OR	<i>PRO Liability Recovery</i>		<i>Other Operating Expense—</i>				
	AGC 164776		<i>PRO Recovery</i>				
	(Current) \$50	Object Code 7175	(\$200)				
	AGC 165592 (Noncurrent) \$150						
1b. Determine that \$1,000 is the non-capitalizable cost of a pollution remediation obligation (PRO): \$300 to be spent in the next year and \$700 thereafter. Of the \$1,000, \$200 has been identified as a recovery that is <u>realizable</u> , \$50 expected in the next year and \$150 thereafter.	<i>PRO Liability</i>		<i>Other Operating Expense—</i>	N/A—No cash involved	Operating income		
	AGC 164775		<i>PRO Expense</i>		(loss)	(\$800)	
	(Current) (\$300)	Object Code 7170	\$1,000		Other liabilities	\$1,000	
	AGC 165591 (Noncurrent) (\$700)						
2. Determine that \$100 of the cost can be capitalized under the allowable circumstances.	<i>PRO Recovery Receivable</i>		<i>Other Operating Expense—</i>		Receivables, net	(\$50)	
	AGC 160851		<i>PRO Recovery</i>		Other assets	(\$150)	
	(Current) \$50	Object Code 7175	(\$200)				
	AGC 161976 (Noncurrent) \$150						
3. Payment of \$300 remediation costs. (Expense will be coded according to natural class of expenditure using established object codes.)	Capital assets	\$100		Purchase of capital assets	(\$100)	N/A—Not an operating transaction. This is a capital and related financing activity.	
	Cash	(\$100)					
4. Recovery of \$50 established as recovery receivable.			<i>Operating Expense</i>	Payments to suppliers and utilities (operating activity)	(\$300)	Operating income (loss)	(\$300)
	Cash	\$50	Object code XXXX	\$300			
3. Payment of \$300 remediation costs. (Expense will be coded according to natural class of expenditure using established object codes.)	<i>PRO Recovery Receivable—Settlement</i>						
	AGC 160852 <sup>1</sup>	(\$50)		Other operating receipts (payments)	\$50	Receivables, net	\$50

APPENDIX B: Accounting for Pollution Remediation Obligation

Transaction	Debit (Credit)		Increase (Decrease)		Reconciliation of Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
	Statement of Net Assets	SRECNA	Statement of Cash Flows			
5. Adjustment of liability at end of fiscal year. Determine that \$800 is the non-capitalizable cost of pollution remediation obligation (PRO), \$200 to be spent in the next year and \$600 thereafter. Of the \$800, \$230 has been identified as a recovery that is <u>not yet realizable</u> , \$60 expected in the next year and \$170 thereafter. <sup>2</sup>			<i>Other Operating Expense— PRO Expense</i>	N/A—No cash involved	Operating income (loss)	\$230
	<i>PRO Liability</i> AGC 164775 (Current)	\$100	Object Code 7170 (\$200)		Other liabilities	(\$230)
	AGC 165591 (Noncurrent)	\$100				
	<i>PRO Liability Recovery</i> AGC 164776 (Current)	\$10	Object Code 7175 (\$30)			
	AGC 165592 (Noncurrent)	\$20				
6. Recovery of \$100 in the fiscal year after remediation activity is completed. Recovery is related to a non-capitalizable cost.	Cash	\$100	<i>Pollution Remediation Cost Recovery—Prior Year</i> AGC 208460 (\$100)	Other operating receipts (payments) \$100	Operating income (loss)	\$100
7. Payment of \$100 of remediation costs determined to be Special Remediation Cost.	Cash	(\$100)	<i>Special Pollution Remediation Cost</i> Object Code 7181 \$100	Other noncapital financing—other receipts (payments) (\$100)	N/A—Not an operating transaction. This is a noncapital financing activity.	
8. Recovery of \$100 in the fiscal year after remediation activity is completed. Recovery is related to a capitalizable cost.	Cash	\$100	<i>Pollution Remediation Capitalizable Cost Recovery—Prior Year</i> TC 1020 (\$100)	Capital financing—capital gifts and grants \$100	N/A—Not an operating transaction. This is a capital and related financing activity.	

- 1 PRO Recovery Receivable—Settlement (AGC 160852) represents cash received in payment of receivables for PRO recovery for the fiscal year. At the beginning of the new fiscal year, balances in AGC 160852 must be closed into PRO Recovery Receivable (AGC 160851).
- 2 This entry will record the adjustment of the liability or receivable at fiscal year-end. Campuses should analyze the amount of PRO Liability (AGC 164775 and AGC 165591), Liability Recovery (AGC 164776 and AGC 165592) and Recovery Receivable (AGC 160851, AGC 160852 and AGC 161976), if appropriate, at year-end and adjust their existing account balances to reflect the June 30 balances, using the object codes provided to record the expense or reduction of expense. Assume prior-year balances per 1a, above.