

Pollution Remediation Obligation (PRO) Transaction Codes

FY09 Beginning Balances: OFM enters obligation amount **by agency** in Account 999. (All obligations reported by agencies are related to governmental fund types.)

TC	DR	CR
602	9998	5287v
601	1820v	9998

At the end of FY09 and each fiscal year thereafter, agencies will record increases and decreases to their pollution remediation obligation using the transaction codes listed below based on the fund type that incurred the obligation. Generally, this will be a governmental type fund.

Agencies should analyze the changes in their pollution remediation obligation amount, by site, and record the increases and decreases as separate transactions. Do not net the increases and decreases. There are 3 types of transactions that may be needed depending on each agency's situation. Refer to example on page 2.

- **NEW SITES:** Estimated obligations for new sites are recorded by debiting expenditures/expenses and crediting the liability for pollution remediation.
- **UPDATED ESTIMATES:** Revised estimates could be the result of having better information about what a particular activity will cost or they could be for additional activities that are now known to be required and are now reasonably estimable. Revised estimates can either increase or decrease the agency's obligation. The increases should be recorded separately from the decreases.
- **PRO EXPENDITURES:** When expenditures are incurred for the previously recorded pollution remediation obligations, decrease the obligation by the actual expenditures up to the previously recorded obligation amount.

GOVERNMENTAL FUNDS – Record in subsidiary account 999

TC	Debit GL	Credit GL	Description
430	6594-WE	5287	Increase PRO for new sites or higher estimates
430-R	(6594) -WE	(5287)	Decrease PRO based on reduced estimates
437	5287	6594-WE	Decrease PRO for completed PRO work that was charged as expenditures in governmental accounts

PROPRIETARY FUNDS – Record in appropriate operating account

TC	Debit GL	Credit GL	Description
212/984	6505*	5287	Increase PRO for new sites or higher estimates
212-R/984-R	(6505)*	(5287)	Decrease PRO based on reduced estimates
955 –OR– 218/985	5287 5287	Cash 6505*	Decrease PRO as work is completed and paid for –OR– Record expenditures as usual & adjust PRO at year-end.

* use appropriate object of expenditure

EXAMPLE: During FY09 an agency becomes aware of two new sites (A & B) that they are responsible for remediating. At the end of FY09, agency records an obligation of \$150,000 for a site hazard assessment (SHA) at Site A and \$120,000 for a SHA that has already begun at Site B. These are the only costs that are reasonably estimable for these sites at that point in time and are obligations of governmental funds.

TC	Debit GL	Credit GL	Amount	Description
430	6594-WE	5287	\$270,000	SHA (sites A & B)

Scenario 1: During FY10, the SHA on site A is started and the agency incurs \$40,000 in costs in their governmental fund. Managers estimate that the assessment can be completed for \$110,000. The SHA on Site B is completed (FY10 expenditures = \$120,000) and results in a determination that remediation is required. The remediation estimate is \$800,000. No other costs are known at this point in time. For FY10, the agency will record two separate transactions:

- an **increase** of \$800,000 to record the estimated cost of remediation on Site B
- a **decrease** of \$160,000 to reduce/eliminate the obligation for the SHA on Site A by \$40,000 and on Site B by \$120,000 based on work completed and actual expenditures recorded in the governmental account

TC	Debit GL	Credit GL	Amount	Description
430	6594-WE	5287	\$800,000	Site B – estimated remediation costs
437	5287	6594-WE	\$160,000	Reduction for SHA work completed

Scenario 2: All facts are the same as scenario 1 **except**, at the end of FY10, managers estimated the SHA on Site A could be completed for \$100,000. (The initial estimate was \$150,000 less the \$40,000 actual FY10 expenditures leaves \$110,000 on the books.) The agency would record the following transactions:

- an **increase** of \$800,000 to record the estimated cost of remediation on Site B [*same as scenario 1*]
- a **decrease** of \$10,000 to reduce the obligation for the SHA on Site A based on the revised estimate
- a **decrease** of \$160,000 to reduce/eliminate the obligation for the SHA on Site A by \$40,000 and on Site B by \$120,000 based on work completed and actual expenditures recorded in the governmental account

TC	Debit GL	Credit GL	Amount	Description
430	6594-WE	5287	\$800,000	Site B – estimated remediation costs
430-R	(6594) -WE	(5287)	\$10,000	Decrease of previous estimate – SHA on site A
437	5287	6594-WE	\$160,000	Reduction for SHA work completed

ACCOUNTING FOR RECOVERIES

GASB Statement 49, paragraph 19: Under the expected cash flow technique, the measurement of a government’s pollution remediation liability should include all remediation work that the government expects to perform, including work expected to be performed for other responsible parties or PRPs, whether or not the government is required to do that work. Expected recoveries from those other parties, and expected insurance recoveries from policies that indemnify the government for its pollution remediation obligations, also should be included in the measurement by reducing the expense and affecting the liability as follows:

- a. If the expected recoveries are *not yet* realized or realizable, they should reduce the measurement of the government’s pollution remediation liability.
- b. If the expected recoveries *are* realized or realizable, they should be recognized separately from the liability as recovery assets (for example, cash or receivable).²¹

Footnote 21: For example, if expected outlays are \$10,000 and expected recoveries of \$3,000 are realized or realizable, the pollution remediation expense would be \$7,000, the recovery asset would be \$3,000 and the pollution remediation liability would be \$10,000. If the pollution remediation liability had previously been recorded at a net amount of \$7,000 because the recovery was not yet realized or realizable, the liability would be increased by \$3,000 when the \$3,000 recovery is recorded because it becomes realized or realizable.

EXAMPLES (for governmental fund types)

I. Government expects to perform remediation of \$600,000 and expects no recoveries.

<u>Account 999</u>	<u>DR</u>	<u>CR</u>
GL 6594 – Pollution Remediation Expense (subject WE)	\$600,000	
GL 5287 – Pollution Remediation Obligation		\$600,000

II. Government expects to perform remediation of \$600,000 and expects to recover 25% (\$150,000) from another responsible party.

YEAR 1: No agreement has been reached with the other party, OR the agreement is that the other party will reimburse the government as expenditures are incurred. In either case, the recovery is not yet realized or realizable. Reduce the liability, per (a) above, and record only the net amount of the liability: \$600,000 - \$150,000 = \$450,000.

<u>Account 999</u>	<u>DR</u>	<u>CR</u>
GL 6594 – Pollution Remediation Expense (subject WE)	\$450,000	
GL 5287 – Pollution Remediation Obligation		\$450,000

YEAR 2: An agreement is reached that the other party will reimburse the government 25% of costs as expenditures are incurred. The government begins the remediation work and incurs expenditures of \$400,000. So, 25% of actual expenditures is now realizable (\$400,000 x 25% = \$100,000) and should be recorded as a receivable (or as cash when received).

<u>Operating Account</u>	<u>DR</u>	<u>CR</u>
GL 6510 – Cash Expenditures (with appropriate subject)	\$400,000	
GL 7120/4310 – Payments In-Process/Cash		\$400,000
GL 1319 – Other Receivables	\$100,000	
GL 6505 – Accrued Expenditures		\$100,000

In Account 999, reduce the \$450,000 liability recorded in year 1 by \$300,000 to show the net amount of the remaining liability of \$150,000. [\$200,000 (estimated remaining cost) - \$50,000 (estimated remaining recovery) = \$150,000].

<u>Account 999</u>	<u>DR</u>	<u>CR</u>
GL 5287 – Pollution Remediation Obligation	\$300,000	
GL 6594 – Pollution Remediation Expense (subobject WE)		\$300,000

III. **Government expects to perform remediation of \$600,000 and expects to recover 80% (\$480,000) from another responsible party.** An agreement has been reached with the other party and the other party pays the government the agreed-upon amount in a fiscal period *before* the government performs the remediation work. Recognize the recovery separately as a recovery asset, per (b) above. In Account 999, show the full liability for all the remediation work the government expects to perform.

<u>Operating Account</u>	<u>DR</u>	<u>CR</u>
GL 7110/4310 – Receipts In-Process/Cash	\$480,000	
GL 3210 – Revenue		\$480,000
<u>Account 999</u>		
GL 6594 – Pollution Remediation Expense (subobject WE)	\$600,000	
GL 5287 – Pollution Remediation Obligation		\$600,000

When the government incurs costs in the subsequent fiscal period, they would be recorded as expenditures in the operating account [DR 6510 with appropriate subobject / CR Cash]. A corresponding entry would be required in Account 999 to reduce the obligation [DR 5287 / CR 6594-WE].