



Liability for Contaminated Sites

November 2009

**COMMENTS MUST BE RECEIVED BY
JANUARY 29, 2010**

This Exposure Draft is issued by the Public Sector Accounting Board. The members of the Board are drawn from government, public accounting, business and academe. All members serve as individuals and not as representatives of their governments, employers or organizations.

Individuals, governments and organizations are invited to send written comments to the Board on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

All comments received will be available on the website at www.psab-ccsp.ca ten days after the comment deadline, unless confidentiality is requested.

To be considered, comments must be received by January 29, 2010, addressed to:

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A PDF [response form](#) has been posted with this document to assist you in submitting your comments. Alternatively, you may send comments by e-mail (in Word format), to: ed.psector@cica.ca

Public Sector Accounting Standards, Guidelines and Recommended Practices need not be applied to immaterial items. Materiality is a matter of professional judgment in the particular circumstances. Materiality may be judged in relation to the reasonable prospect of its significance in the making of assessments and judgments by the users of financial statements. A material item would be expected to affect assessments of and judgments on government financial operations and management.

Highlights

The Public Sector Accounting Board (PSAB) proposes, subject to comments received following exposure, to issue a new CICA Public Sector Accounting Handbook Section, LIABILITY FOR CONTAMINATED SITES. This Section would apply to all governments and government organizations that base their accounting policies on the CICA Public Sector Accounting Handbook.

Background

When does a liability need to be reported?

Four criteria must be met:

- an environmental standard exists;
- contamination exceeds an environmental standard;
- the government is directly responsible or accepts responsibility for the site; and
- a reasonable estimate of the amount can be made.

What is an environmental standard?

An environmental standard is generally set out in legislation, agreement or contract. Such environmental standards are legally enforceable and compliance is mandatory.

An environmental standard may also be created by internal government policy or by guidelines developed by external organizations that have no enforcement capability. When a government has an established pattern of past practice of remediating contaminated sites to comply with these types of environmental standards, it may have a liability.

When is a government directly responsible?

A government is directly responsible for remediation if it or one of its organizations has caused the contamination. A government may also be directly responsible for contamination on its property caused by others.

When does a government accept responsibility?

A government may assume responsibility for contaminated sites through its own actions or promises. When a government communicates its decision to accept responsibility, it may have lost its discretion to avoid being responsible for remediation.

What happens when the amount is not known?

The amount of a liability may need to be estimated. A liability would be estimated based on management's best estimate using information available at the financial statement date. The estimate would be reviewed at each reporting date as additional information becomes available.

If a government has not done a site assessment, does that mean it has no liability?

Uncertainty about the existence of contamination, because an assessment has not been completed, does not eliminate the need to determine whether a liability exists. For example, a government could use information from completed assessments for similar sites within a group to determine if it is likely that a liability exists.

Does a government have to recognize a liability today even if, for example, the remediation is conditional on demolishing the building in the future?

A government would recognize a liability regardless of whether the requirement to carry out remediation activities will happen in the future. The fact is that the contamination exists and so does the present obligation to remediate it.

Summary of key technical features

Purpose and scope

This standard applies to:

- contaminated sites that are no longer in productive use (i.e., legacy sites such as abandoned mine sites on Crown lands);
- contamination resulting from the operation of an asset that is no longer used but the liability has not been previously recognized; and
- unexpected environmental events such as a toxic spill or natural disaster.

This standard does not apply to costs for the acquisition or betterment of a tangible capital asset to the extent that such costs do not exceed the future service potential when the asset is held for use in operations.

Recognition

Most liabilities for remediation arise from legislation, contracts or agreements.

A government may assume responsibility for remediation through its own actions or promises. However, the exercise of professional judgment in the careful application of the definitions and the essential characteristics of a liability is required to differentiate between obligations that are based on intention or policy of a government and those that bind the government. In making the determination, the government would consider the criteria in LIABILITIES, Section PS 3200, that would indicate that it has created a valid expectation among others that leaves it with no realistic alternative but to remediate the site(s).

A government may have a liability when it has an established pattern of past practice of complying with environmental standards contained in its own internal policies or non-regulatory guidelines of external organizations that creates a valid expectation among others that leaves it little or no discretion but to take action. An intention to incur an expenditure in the future does not give rise to a liability. If the government has discretion to alter its policy or past practice, it may not have a liability.

The existence of contamination that exceeds an environmental standard may create a liability independent of whether the contaminated site is being managed in accordance with the environmental standard. For example, a government may have a present obligation that requires it to remediate the contamination at some future date. Although the requirement to remediate a site may depend on the occurrence of some future action (renovation or demolition of a facility containing asbestos), the government has a present obligation. Uncertainty about whether the government will have to remediate the site and the amount and timing of expenditures would be reflected in the measurement of liability.

Measurement

The estimate would include all costs directly attributable to remediation activities including post-remediation operation, maintenance and monitoring. Estimated costs of tangible capital assets that would be acquired as part of remediation would also be included.

The measurement would be the best estimate of the amount required to settle the liability. The best estimate is the amount at which the liability could be settled or transferred to a third party at the financial statement date in a current transaction between willing parties. Quoted market prices in active markets are the best evidence of the measure. When not available, the estimate would be based on the best information available in the circumstances. A net present value of estimated future cash flows is often the best measurement technique in the case of long-term liabilities.

The estimate would take into account any recovery when the amount can be reasonably estimated and when it is likely the recovery will be realized.

A liability continues to be recognized until it is settled or otherwise extinguished. Disbursements would be deducted from the reported liability when they are made. The carrying amount of the liability would be reviewed at each reporting date. Any adjustments to the amount previously recognized would be accounted for in the current period.

Disclosures

These proposals set out disclosures that would assist users in understanding the nature and extent of the liability, its origin and its basis of measurement. Disclosures would set out the reasons a liability has not been recognized.

Comments requested

PSAB welcomes comments from individuals, governments and organizations on all aspects of the Exposure Draft.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify generically the source of the comment in the response. This will promote understanding of how the proposals are affecting various aspects of an organization.

Comments are most helpful if they relate to a specific paragraph or group of paragraphs, and, when expressing disagreement, they clearly explain the problem and indicate a suggestion, supported by specific reasoning for alternative wording.

Supporting reasons for your comments are most valuable when they demonstrate how the ED proposals, or your alternatives:

- produce more relevant information for accountability and decision-making by external users;
- improve the representation of the substance of the underlying transaction or event;
- contribute to improved measures and understanding of financial position and annual results;
- facilitate enhanced comparability; and
- provide sufficient information for external users to understand the financial statements.

Please respond to the following questions:

1. Do you agree with the recognition proposals? If not, why not?
2. Do you agree that an obligation to remediate existing contamination at a site that is conditional on the occurrence of a future event still results in a present

obligation which would be recognized as a liability (refer to paragraph 26 of the ED)?

3. Do you agree with the measurement proposals? If not, why not?
4. Do you agree with the disclosure proposals? If not, why not?
5. Do you agree with the transitional provisions? If not, why not?

For your convenience, a PDF [response form](#) has been posted with this document that can be downloaded here. You can save the form both during and after its completion for future reference. Alternatively, written comments may be submitted by e-mail (Word format preferred) to: ed.psector@cica.ca

Liability for Contaminated Sites

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PURPOSE AND SCOPE

- .01 This Section establishes standards on how to account for and report a liability associated with the **remediation** of contaminated sites. Specifically, it:
 - (a) defines which activities would be included in a liability for remediation;
 - (b) establishes when to recognize and how to measure a liability for remediation; and
 - (c) provides the related financial statement presentation and disclosure requirements.
- .02 In this Section, terms that appear in **bold** type are defined in the glossary of terms.
- .03 This Section provides guidance for applying the definition of liabilities set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and the general recognition and disclosure standards in LIABILITIES, Section PS 3200, in accounting for and reporting a liability for contaminated sites. It may be useful to read this Section in conjunction with CONTINGENT LIABILITIES, Section PS 3300, and CONTRACTUAL OBLIGATIONS, Section PS 3390. Nothing in this Section overrides any standard in another Section of the CICA Public Sector Accounting Handbook.
- .04 For the purposes of this Section, contamination is the introduction into air, soil or water of a chemical, organic or radioactive material or live organism that exceeds an **environmental standard**. A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. A contaminated site does not include airborne contamination or **contaminants** in the earth's atmosphere unless such contaminants have been introduced into soil or water bodies.
- .05 For the purposes of this Section, a liability for remediation that a government is responsible for normally results from items such as:
 - (a) all or part of an operation of the government or government organization that is no longer in productive use (for example, abandoned military installations);

- (b) all or part of an operation of entities outside the government reporting entity that is no longer in productive use for which the government accepts responsibility (for example, an abandoned mine site on crown land or an abandoned gas station);
- (c) contamination related to the acquisition, construction, development or operation of an asset that is no longer in use that was not previously recognized as an asset retirement obligation;
- (d) the improper operation of an asset;
- (e) changes to environmental standards relating to all or part of an operation that is no longer in productive use; and
- (f) an unexpected event resulting in contamination (for example, accidental toxic chemical spills or natural disasters).

.06 This Section does not apply to:

- (a) costs for acquisition or betterment of tangible capital assets that are within the scope of TANGIBLE CAPITAL ASSETS, Section PS 3150, to the extent that such costs do not exceed the future economic benefits related to the asset or post-remediation fair value of the asset if held for sale (for example, brownfield redevelopment);
- (b) liabilities that result from acquisition, construction or development and ongoing use of an asset that are asset retirement obligations (for example, operating a nuclear facility);
- (c) liabilities associated with the disposal or sale of long-lived tangible capital assets (for example, privatization of water utility); and
- (d) liabilities for closure and post-closure care of a solid waste landfill site when the site or a phase stops accepting waste specifically dealt with under SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE LIABILITY, Section PS 3270.

.07 This Section does not deal with disclosure requirements for the following items:

- (a) measurement uncertainty related to the estimate of a liability for remediation recognized or disclosed in financial statements (see MEASUREMENT UNCERTAINTY, Section PS 2130);
- (b) a liability for remediation when a reasonable estimate of the amount involved cannot be made (see LIABILITIES, Section PS 3200); and
- (c) a contingent liability for remediation (see CONTINGENT LIABILITIES, Section PS 3300).

RECOGNITION

.08 ► *A liability for remediation of contaminated sites should be recognized when, as at the financial reporting date:*

- (a) *an environmental standard exists;*
- (b) *contamination exceeds the environmental standard;*
- (c) *the government:*
 - (i) *is directly responsible; or*
 - (ii) *accepts responsibility; and*
- (d) *a reasonable estimate of the amount can be made.*

An obligation for remediation of contaminated sites cannot be recognized as a liability unless all criteria are satisfied.

An environmental standard exists

- .09 An environmental standard is generally set out in the form of a statute, regulation, by-law, order, permit, contract or agreement. The environmental standard is legally enforceable, binding and compliance is mandatory. Breaches may be enforced through prosecution, fines, jail and similar penalties, order or loss of permit. Compliance may also be enforced through administrative proceedings.
- .10 A government would evaluate the existence of an environmental standard based on existing or enacted legislation, contract or agreement in effect at the financial statement date. In determining whether an environmental standard exists, the government would not take into account proposed changes in legislation that may create an environmental standard, regardless of the effective date. A change in or adoption of a new environmental standard may result in the future sacrifice of economic benefits to remediate existing contamination, but at the financial reporting date, there is no existing environmental standard that would be precedent to recognition of a liability.
- .11 An environmental standard may be both quantitative and qualitative. A quantitative environmental standard may stipulate an acceptable or desirable ambient concentration of substances in soil and groundwater. Quantitative environmental standards are the most easily verifiable.
- .12 Regulatory provisions may prohibit adverse environmental impacts in qualitative terms. For example, an environmental protection act may stipulate that no person may discharge a contaminant into the natural environment that causes an adverse effect when the adverse effect could be impairment of the natural environment for any use that can be made of it. In such cases, the benchmarks for determining whether the environmental standard has been breached are highly variable. Exercise of professional judgment would be required in determining whether the government has a liability.
- .13 To illustrate, runoff from the tailings at an abandoned mine site on Crown lands may contain concentrations of arsenic that exceed accepted maximum standards set out in an act or regulation. The legislation may require that the responsible party perform remediation activities. This would create a liability for the responsible party for the cost of remediation of the site.
- .14 In some cases, environmental standards may be created by internal government policy or by guidelines developed by organizations external to the government (for example, recognized business or industry associations, Canadian Council of Ministers of Environment). Voluntary compliance with such environmental standards may create a liability. The determination would require the exercise of professional judgment considering the individual circumstances and the criteria for recognition of a liability in this Section and LIABILITIES, Section PS 3200.

Contamination exceeds the environmental standard

- .15 The existence of an environmental standard in and of itself is not the obligating event that creates a liability. The existence of contamination that exceeds an environmental standard at the financial reporting date is a necessary condition for recognition of a liability. For example, a site assessment completed at the site of a discontinued mine operation on Crown land has identified **soil**

contamination that imposes an obligation on the government to undertake remediation activities. It is the occurrence of the contamination that exceeds an environmental standard that is the past event or transaction that may result in the sacrifice of future economic benefits.

- .16 To determine if contamination exists that exceeds an environmental standard, it would be necessary to assemble and review all available historical and current information pertaining to the site or group of sites. Factors to consider include, but are not limited to, the following:
 - (a) the nature of past activities at the site(s) or adjacent properties;
 - (b) site(s) location, hydrology and geology;
 - (c) results from testing and field investigations;
 - (d) similarities to and experience at other known contaminated sites;
 - (e) significance of site(s); and
 - (f) cost versus benefit of conducting detailed site assessments.
- .17 The determination of whether contamination exceeds an environmental standard may be uncertain. Uncertainty about the existence or non-existence of contamination does not eliminate the need to determine whether a liability exists and would be recognized.
- .18 The determination will depend on the probability that future site investigations will confirm that contamination existed at the financial statement date. If the probability is likely that future site investigations will confirm contamination, a liability would be recognized if the amount can be reasonably estimated.
- .19 A government may have an inventory of abandoned mine sites within its jurisdiction. The government has completed site assessments at some of the more significant sites confirming that contamination exists that exceeds an environmental standard. Based on the available site assessment information and the similarities in historical operations for non-assessed sites, it is likely that all sites in the group have been contaminated and require remediation. The government would recognize a liability if a reasonable estimate of the amount can be made.

Government is directly responsible

- .20 In some cases, a government is directly responsible for remediation:
 - (a) because of its own past activities that, even though they may have been consistent with the environmental requirements at the time, have caused contamination (for example, military installations, operation of transportation works yards); and
 - (b) when activities such as mining or exploration occurred on government-owned land or on land that the government has since acquired, and a responsible party cannot be identified or, if identifiable, lacks the means to remediate the damage (for example, “inherited” responsibility for abandoned mines on Crown land through bankruptcy proceedings and court decisions).
- .21 A legal obligation establishes a clear duty or responsibility to another party that justifies recognition of a liability. For purposes of this Section, a legal obligation can result from:
 - (a) agreements or contracts;
 - (b) legislation of another government; or
 - (c) a government’s own legislation.

- .22 An agreement or contract could take the form of a certificate of approval governing the operation of a government facility. The certificate of approval contains enforceable requirements for the facility's operation. Non-compliance with the terms and conditions of the certificate of approval could result in the government incurring a liability for remediation of environmental damage. For example, a government has a pesticide storage facility that it operates under an environmental certificate of approval. It could be responsible under the certificate of approval for cleanup of contaminated ground water as a result of the failure of the facility's containment system.
- .23 In the event of contamination, another government's legislation may create a legally enforceable obligation for a government. For example, as a result of inventory shrinkage, a provincial ministry of environment has issued an order under petroleum storage regulations of its environmental protection act to a local government to replace petroleum storage tanks in its public works yard and cleanup contamination. The local government would recognize a liability for removal and cleanup costs.
- .24 When a government's activities have resulted in contamination that exceeds an environmental standard established by that government's own legislation, it is clear that the environmental damage has occurred. This can present some challenges in meeting the three essential characteristics of a liability necessary for recognition. For example, there is generally no identifiable third party to whom the government has a duty and responsibility. The regulator may have established a past practice or policy of not enforcing the government's own legislation or negotiating compliance when government organizations are involved.
- .25 A government's own legislation that contains details of the government's policy in relation to a particular program or regulation of its activities can create a legal obligation when it or one of its organizations is non-compliant with the legislation. In these circumstances, this Section would require that the government recognize a liability if other recognition criteria are met.
- .26 The existence of contamination that exceeds an environmental standard may create a liability independent of whether it is being managed in accordance with the environmental standard. The government may have an unconditional present obligation that requires it to remediate the contamination now or at some future date. For example, the government may have facilities that contain asbestos. Existing legislation requires the government to handle and dispose of asbestos when a facility undergoes major renovations or is demolished. Otherwise, there is no requirement to remove the asbestos now. Although removal of the asbestos may depend on renovation or demolition of a facility, the government has a present obligation. The timing of the settlement does not relieve the government of its present obligation. Uncertainty about whether the government will be required to handle and remove the asbestos and the amount of future economic benefits it will sacrifice to settle the liability would be reflected in the measurement of the liability. Similarly, a government may have a liability to remediate contamination at an abandoned mine site regardless of the fact that it has adopted an interim strategy of containment.
- .27 Elected or government officials may announce government intentions in a period following the financial statement date but before the completion of the financial statements. If a condition or situation did not exist at the date of the financial

statements, there is no liability. However, it may be a subsequent event (see SUBSEQUENT EVENTS, Section PS 2400).

Government accepts responsibility

- .28 A government may voluntarily assume responsibility for remediation of contaminated sites (for example, abandoned gas stations) through its own actions or promises. However, only those assumed obligations for remediation that meet the definition of a liability in LIABILITIES, Section PS 3200, at the financial statement date can be recognized. Obligations that are based on intention or policy of a government may not satisfy the three essential characteristics of a liability for recognition.
- .29 Most liabilities for remediation arise from legal obligations, settlement of which can be enforced by a court of law. LIABILITIES, Section PS 3200, recognizes that present obligations do not only result from legally enforceable agreements, contracts or legislation, but may also result from constructive and equitable obligations. Some constructive and equitable obligations may be enforced by a court in accordance with the legal principle known as **promissory estoppel** or other legal principles having similar effect.
- .30 Constructive and equitable obligations require the careful application of the definitions because determining when a government has such an obligation can be a matter of professional judgment. In the absence of legally enforceable agreements, contracts and legislation, it is often difficult to determine whether a government is actually bound by an obligation to a third party. In exercising professional judgment in the assessment of whether a constructive and equitable obligation exists at the financial reporting date, the government would consider the criteria in LIABILITIES, Section PS 3200, that would indicate the government has created a valid expectation among others that leaves it with no realistic alternative but to remediate a contaminated site or group of sites.
- .31 A government may have established a policy of complying with environmental standards established by its own internal policies or guidelines established by external organizations. The government may have a pattern of past practice of remediating contaminated sites to comply with these types of standards that, absent evidence to the contrary, others can presume that the government will continue. In these situations, the government may have created a valid expectation that it will continue to remediate contaminated sites. It may have little or no discretion but to take action. In these cases, it may have a constructive and equitable obligation. On the other hand, if the government has discretion to alter its policy, it may not have a constructive and equitable obligation.
- .32 An essential characteristic of a liability is that there is a present obligation resulting from a past event that leaves the government little, if any, discretion to avoid settling it. Only present obligations arising from past events existing independently of the government's future actions result in liabilities. An intention to incur an expenditure in the future is not sufficient to give rise to a present obligation even if the outflow is necessary for the government to fulfill its inherent responsibilities.
- .33 Evidence that a government may have a present obligation for remediation separate from legal documents can include, but is not limited to, consideration of the following:

- (a) The government body, management board or person with the appropriate level of authority has committed the government to a remediation plan.
 - (b) The remediation plan identifies the specific location of the contaminated site or sites.
 - (c) The remediation plan has been communicated to those directly affected (for example, residents of surrounding communities) through public consultation, information sessions, workshops or other activities in such detail as to allow those affected to determine the benefits that would accrue to them.
 - (d) The remediation plan specifically identifies the target level of reduction in risk the site(s) pose to human health and the environment and the amount of the environmental costs to be incurred to achieve those targets.
 - (e) The time frame for implementing the plan has been identified and indicates that significant changes to the plan are not likely.
 - (f) The details of the plan are such that there is a reasonable expectation that the promise can be relied upon.
- .34 The mere act of budgeting for remediation activities does not result in incurring a liability. Just because a government budgets for remediation activities does not mean a liability actually exists. As well, care must be exercised in using budgeted amounts as the basis of measurement of a liability that may or may not reflect the full extent of the liability.
- .35 A government announcement to provide long-term funding for remediation activities may not result in a liability. In some cases, the government maintains total discretion over the eventual disposition of the funds committed to remediation activities. Alternatively, a government may commit funding for remediation for higher risk sites. However, there may be similar sites of lesser significance and risk that the government is not committing to remediate. Nevertheless, these lesser risk sites may still represent a liability for the government.

Responsibility is uncertain

- .36 There may be a situation when an environmental standard exists and contamination exceeds the standard. The government is not directly responsible, nor does it accept responsibility. However, due to certain circumstances, there is uncertainty as to whether the government may be responsible.
- .37 In this case, the government may have a contingent liability. The existence at the financial reporting date of contamination that exceeds an environmental standard is an existing condition or situation. A decision that a government is responsible by a regulator or court is the future event not wholly within the government's control that will resolve the uncertainty and confirm the incurrence or non-incurrence of a liability. The future confirming event proves or disproves the existence of a liability at the financial statement date.
- .38 Determining whether a liability for remediation of a contaminated site exists at the financial statement date is a matter of judgment. It requires an assessment of the probability that the outcome of the future event will confirm responsibility. CONTINGENT LIABILITIES, paragraph PS 3300.13, outlines the range of probabilities.

- .39 If it is likely that the future event will confirm the government's responsibility, a liability would be recognized if the amount can be reasonably estimated. If it is unlikely that a government will be responsible, no liability would be recognized. If the outcome of the future event cannot be determined, the existence, nature and extent of the contingent liability would be disclosed. CONTINGENT LIABILITIES, Section PS 3300, provides additional guidance.
- .40 If there is uncertainty about whether a contaminated site exists, the future event that resolves the uncertainty is wholly within the government's control (for example, completion of a site assessment). The fact that a government has evidence to suggest that contamination may exist, but lacks specific information to confirm with certainty the nature and extent, is a measurement issue. This type of uncertainty does not constitute the type of uncertainty that characterizes a contingent liability.

MEASUREMENT

- .41 ► *The estimate of a liability should include costs directly attributable to remediation activities. Costs would include post-remediation operation, maintenance and monitoring. The estimate would include costs of tangible capital assets acquired as part of remediation activities to the extent those assets have no alternative use.*
- .42 Directly attributable costs would include, but are not limited to, payroll and benefits, equipment and facilities, materials, and legal and other professional services. Costs related to natural resource damage (for example, revegetation outlays) are included only if incurred as part of an environmental standard.
- .43 Estimated costs would be those required to bring a site up to the minimum standard prior to contamination. For example, there may be a lower standard for land that was used for industrial purposes as opposed to residential purposes.
- .44 In some cases, the remediation strategy for a contaminated site involves ongoing activities such as treatment of effluent from a contaminated site. These are part of the remediation activities rather than a separate future service obligation. When ongoing operation, maintenance and monitoring are an integral part of the remediation strategy for a contaminated site, the estimate of the liability would include the costs for such activities.
- .45 Remediation activities may involve the acquisition of a tangible capital asset with a limited life. For example, as part of the remediation, a water treatment plant may be required to treat water effluent from an abandoned mine site.
- .46 The costs of any asset less any residual value required for remediation activities that would otherwise meet the definition of a tangible capital asset as described in TANGIBLE CAPITAL ASSETS, Section PS 3150, is reported as an expense when a liability is recognized. The tangible capital asset is not held for use in the production or supply of goods and services. There are no ongoing operations against which the costs can be allocated.
- .47 Some tangible capital assets acquired as part of remediation activities may have an incidental use. For example, paving over a contaminated site may mitigate environmental damage as well as providing a parking lot. Since the primary

purpose of the expenditure is mitigation, the cost would be included in the estimate of the liability and recognized as an expense in the period.

- .48 A tangible capital asset acquired as part of remediation activities may have an alternative use once such activities cease. If the tangible capital asset has an alternative future use, only that portion of its cost related to its use in remediation activities would be included in the estimate of a liability. When the tangible capital asset is acquired, the balance of the cost would be capitalized only to the extent of the estimated service potential that would exist after it is no longer used in remediation activities. It would be amortized to expense over the remainder of its useful life in the periods of alternative future use. For example, if a water treatment plant is required to treat water from an abandoned mine site but it is also going to be used for the treatment of potable water for consumption, only the estimated cost of that portion that would be used in remediation activities would be included in the estimate of the liability. When the treatment plant is actually acquired, expenditures would be capitalized to the extent of the estimated service that would be recovered from activities other than remediation of the contaminated site.
- .49 ► *A liability for remediation should be estimated based on information available at the financial statement date.*
- .50 The estimate of a liability for remediation would be based on existing environmental standards and technology expected to be used in remediation activities. The effect of new legislation would not be taken into consideration in estimating the liability until such legislation is enacted regardless of effective date.
- .51 A government's total liability may not necessarily become determinable at a specific point in time. The amount of a liability may become determinable over a continuum of events and activities as information becomes available. For example, the estimate of costs may only become known as the government completes the various stages of assessing the extent of the contamination. In these cases, the government would recognize a liability based on management's best estimate at the time.
- .52 When a government is able to estimate the environmental costs of all stages of remediation activities because the situation is common, the government would use its experience as the basis for the estimate. For example, the remediation activity involves removal of underground fuel storage tanks or is similar to other situations with which the government has experience. In these cases, the government would recognize the entire estimated liability.
- .53 If new information becomes available between the financial statement date and the date of completion of the financial statements that would affect the estimates of a liability, this would be accounted for in accordance with SUBSEQUENT EVENTS, Section PS 2400.
- .54 Governments may estimate their liability for remediation based on an assessment of a group of contaminated sites that have typical or common characteristics such as similarities in historical land use activities. In some cases, estimates may be based on an individual site investigation taking into consideration unique site characteristics such as the historical land use, site-specific conditions and nature and extent of contamination.

- .55 A government may not complete site assessments each reporting period because of the cost of gathering and processing information required. In the years between the completion of site reassessments, a review of the estimate of the liability could be based on an extrapolation of previously completed site assessments, taking into consideration such factors as changes to the remediation strategies, technological changes, experience gained, changes to assumptions, actual expenditures, changes in legislative standards, unforeseen changes in cost estimates. When the effect of any change is significant, recognition of a new estimate may be necessary.
- .56 Events that may indicate a need to do a detailed reassessment of contaminated sites upon which the estimate of the liability is based can include, but are not limited to, consideration of the following:
- (a) significant technological developments;
 - (b) lapsed time since the last site assessments were completed;
 - (c) new information from detailed site assessments, site characterizations, or technical reviews done on similar contaminated sites; and
 - (d) a change in the legislation.
- .57 ► *The measurement technique adopted by a government should result in the best estimate of the amount required to settle the liability.*
- .58 The best estimate can be described as the amount at which that liability could be settled or transferred to a third party at the financial statement date in a current transaction between willing parties (i.e., other than in a forced or liquidation transaction). Quoted market prices in active markets are the best evidence for measurement when available. When quoted market prices are not available, the estimate of the liability is based on the best information available in the circumstances, including prices for similar liabilities and the results of present value or other valuation techniques.
- .59 Professional judgment will be required in assessing the appropriate measurement technique that results in the best estimate of the amount required to settle the liability. The appropriate measurement technique depends on the extent and complexity of contamination, materiality of the damage, and time frame over which remediation activities will occur.
- .60 When the cash flows required to settle a liability are expected to occur over extended future periods, a present value technique is often the best available technique with which to estimate the measure of a liability.
- .61 ► *The carrying amount of a liability for remediation should be reviewed at each financial reporting date. Any revisions to the amount previously recognized should be accounted for in the period in which revisions are made.*
- .62 A liability continues to be recognized until it is settled or otherwise extinguished. Disbursements would be deducted from the reported liability when they are made.
- .63 Continual assessment of the carrying amount of a liability is required. When a change in an estimate of the amount of a liability is required, it would be accounted for in accordance with ACCOUNTING CHANGES, Section PS 2120.

- .64 ► *A liability for remediation of contaminated sites should be reduced by expected net recoveries if the recognition criteria outlined in FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.54-.56, are satisfied.*
- .65 The amount of a recovery is an element of the liability and would be taken into account in measuring the amount. Recoveries would be recognized when the amount can be reasonably estimated and provided the probability of recovery is likely. Recoveries would be net of costs associated with the effort to collect them.
- .66 The estimate of a government's liability would include remediation work that the government expects to perform for other parties. However, expected recoveries from those other parties, and insurance recoveries, reduce the measurement of the government's remediation expense when reasonably estimable.

DISCLOSURE

- .67 ► *A financial statement should disclose information about:*
- (a) the nature of the liability;*
 - (b) the event or transaction creating the liability;*
 - (c) the basis for the estimate of the liability;*
 - (d) when a net present value technique is used, the estimated total undiscounted expenditures and, when possible, the expected timing of payments to settle the liability;*
 - (e) the reasons for non-disclosure of a liability; and*
 - (f) estimated recoveries.*
- .68 A clear and concise description of the accounting policy for a liability for remediation of contaminated sites would be included in a government's financial statements as part of accounting policy note. The description of the accounting policy is necessary for the users' interpretation of the financial statements and when comparing them with the statements of similar entities. Information related to amounts would be included in other notes to the financial statements (see DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100).
- .69 The notes to the financial statements would disclose the basis of recognition and measurement of the liability. Disclosures would include the significant assumptions underlying the reported amount and the impact that a change in the assumptions would have on the estimate. If a present value technique is used to estimate the liability, the estimated total future expenditures for settlement of the liability would be disclosed.
- .70 For an unrecognized liability, disclosing the nature of the liability would provide information about the potential effect on the government's financial statements when the liability becomes measurable. Information would include the reason(s) why a reasonable estimate cannot be made of the amount involved.
- .71 Uncertainties affecting the measurement of a liability for remediation of contaminated sites are disclosed in accordance with MEASUREMENT UNCERTAINTY, Section PS 2130.

TRANSITIONAL PROVISION

- .72 This Section applies to fiscal years beginning on or after April 1, 2012. If application of the Section results in a change in accounting policy, ACCOUNTING CHANGES, Section PS 2120, applies. Earlier adoption is encouraged.

GLOSSARY

Contaminants are any physical, chemical, biological or radiological substance in air, soil or water that has an adverse effect. Any chemical substance whose concentration exceeds background concentrations or that is not naturally occurring in the environment.

An **environmental standard** refers to any guidelines, objectives, criteria or other kinds of limits placed on the presence or discharge of a contaminant into the natural environment

Promissory estoppel is defined in *Black's Law Dictionary* as “the principle that a promise made without consideration may nonetheless be enforced to prevent injustice if the promisor should have reasonably expected the promisee to rely on the promise and the promisee did actually rely on the promise to his or her detriment.

Remediation means the improvement of a contaminated site to prevent, minimize or mitigate damage to human health or the environment. Remediation involves the development and application of a planned approach that removes, destroys, contains, or otherwise reduces availability of contaminants to receptors of concern.

Soil contamination is either a solid or liquid hazardous substance mixed with the naturally occurring soil. Usually contaminants in the soil are physically or chemically attached to soil particles or, if they are not attached, are trapped in the small spaces between soil particles.

APPENDIX A

DECISION TREE — LIABILITY FOR CONTAMINATED SITES

