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## Environmental Liabilities Management and Reporting

### Objective

*The objective is to outline the management and reporting for environmental liabilities.*

### Authority

*The Financial Administration Act, 1993, section 16 states the financial statements of the Government of Saskatchewan (referred to as the Summary Financial Statements) for each fiscal year are to be prepared by the Provincial Comptroller in accordance with the accounting policies established by Treasury Board.*

### Applicability

These policies apply to ministries and public agencies.

### Background

The Government reports contaminated sites liabilities in accordance with Public Sector Accounting Board (PSAB) standard PS 3260 Liability for Contaminated Sites.

### Definitions

**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, water bodies or sediment.

**Contaminants** are any physical, chemical, biological or radiological substance in air, soil, water or sediment 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.

**Environmental Site Assessment (ESA)** means any activity to determine the cause, nature or extent of a potential or existing adverse effect that satisfies any prescribed requirements or any requirements set out in the Saskatchewan Environmental Code. ESA is categorized by two phases, Phase I and Phase II.

- The Phase I ESA is a standard research study intended to gather sufficient information to assess the environmental condition of the property and identify actual or potential areas where hazardous substances may have been released to the environment. Activities

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generally include a review of available information on current site conditions and history of the property, a site inspection and interviews with personnel familiar with the site. Typically a Phase I ESA should be carried out in accordance with the current Canadian Standards Association (CSA) standard, especially if there is likelihood that a Phase II ESA may be required.

- The Phase II ESA is an intrusive study where actual physical environmental samples are collected and analyzed to characterize the type, distribution and extent of hazardous substances in the environment. Where a Phase II ESA is required in accordance with the Site Assessment Chapter of the Saskatchewan Environmental Code, it must be carried out in accordance with the current CSA Phase II Environmental Site Assessment Standard (CAN/CSA-Z769-00).

**Corrective action plan** means a plan that details the methods employed to prevent, minimize, mitigate, remedy or reclaim adverse effects. A corrective action plan must include a National Classification System for Contaminated Sites (NCSCS) summary score sheet.

**National Classification System for Contaminated Sites (NCSCS)** is a method for evaluating impacted sites according to their current or potential adverse effect on human health and the environment. It is a system to prioritize further action at impacted sites.

The Canadian Council of Ministers of the Environment (CCME) developed the NCSCS to establish a rational and scientifically defensible system for comparable assessment of contaminated sites across Canada. The system classifies contaminated sites into general categories of risk (high, medium and low risk). The NCSCS category groupings are as follows:

- Class 1: High Priority for Action
- Class 2: Medium Priority for Action
- Class 3: Low Priority for Action
- Class N: Not a Priority for Action
- Class INS: Insufficient Information

The term “action” refers to activities such as remediation, risk assessment, risk management or further site characterization and data collection.

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**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.

- Treasury Board Policy** .01 Ministries and Government organizations are responsible for the assessment and stewardship of their contaminated sites.
- Provincial Comptroller Directives** .02 Treasury Board Branch (TBB) should be notified of potential costs due to contamination or increases/decreases in existing contaminated sites liabilities that will have an expense or budget impact related to remediation spending.
- .03 Environmental Protection Branch, Ministry of Environment should be notified of potentially contaminated or known contaminated sites for inclusion in the impacted sites database.
- .04 A Phase I ESA is to be completed when there is a risk that contamination may have occurred. If there is evidence of contamination, a Phase II ESA may be required. ESA's are typically completed by a qualified environmental contractor.
- National Classification System for Contaminated Sites (NCSCS) Category** .05 Contaminated sites should be assigned a NCSCS category based on ESAs.
- .06 Budget submissions to Treasury Board for funding to clean up a contaminated site are to include the NCSCS category. This will be one factor among several factors that will be taken into consideration in the budget review and prioritization process.
- Ministry Accounting and Reporting Requirements** .07 Each ministry is responsible for maintaining records for its liability for contaminated sites.
- .08 The following minimum information on each individual contaminated site should be maintained:
- location;
  - NCSCS category;
  - custodial responsibility;
  - schedule of the expected amount and timing of remediation payments;
  - valuation method (e.g., discounting); and,

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- capital assets expensed.

.09 The detailed liability information is to be reviewed annually to confirm the estimate of the liability continues to be appropriate. Ministries should consider whether an updated ESA is required.

.10 Ministries should refer to the [Accounting Manual, Appendix A General Revenue Fund Year-end Procedures and Schedules](#) for information on the accounting process for recording contaminated sites liabilities. Schedule A also provides examples of specific situations.

### Recoveries

.11 When a Ministry is expecting to receive funds from a third party (e.g., the federal government) to assist with remediation, an accounting assessment should be completed to determine if a receivable should be recorded.

### Further Information

.12 Questions regarding liabilities for contaminated sites may be directed to the ministry Corporate Services Head, who may consult with the Assistant Provincial Comptroller, Provincial Comptroller's Office.

### References

[Accounting Manual, Appendix A General Revenue Fund Year-end Procedures and Schedules](#)

CPA Canada Public Sector Accounting Handbook, PS 3260 – Liability for Contaminated Sites

Saskatchewan Environmental Code

[Canadian Council of Ministers of the Environment – National Classification System for Contaminated Sites \(NCSCS\)](#)

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## Schedule A

### Examples of Contaminated Sites Journal Entries

#### Example 1 – Acquisition of an Asset Required for Remediation Activities (with an alternative use)

Ministry X determines that an excavator needs to be purchased to complete the remediation of a contaminated site. The cost of the excavator is \$300K with an expected useful life of 20,000 hours. It is expected that the excavator will be used for 2,000 hours to complete the remediation work. Ministry X includes the cost of an excavator (the portion of its useful life that will be used in remediation  $\$300K \times 10\% = \$30K$ ) in the Contaminated Sites Liability. Ministry X plans to use the excavator for future operations once the remediation work is complete. Therefore, Ministry X will record the portion related to future operations as a tangible capital asset when the excavator is purchased.

#### Record Contaminated Sites Liability

<i>Dr. Change in Year-End Contaminated Sites Liabilities (Account # 588960)</i>	<i>\$XX<sup>1</sup></i>
<i>Cr. Contaminated Sites Liabilities (Ministry specific entity, program, organization, account #258960)</i>	<i>\$XX<sup>1</sup></i>

<sup>1</sup> Includes \$30K for the cost of an excavator that will be used for remediation activities.

The following entries are recorded to record the cost of the excavator when it is purchased and to reduce the contaminated sites liability for the amount related to remediation activities.

#### Entry 1 – Record excavator purchase

<i>Dr. Contaminated Sites Remediation (Account # 521700)</i>	<i>\$30K</i>
<i>Dr. Heavy Equipment – Current Year Additions (Account #199310)</i>	<i>\$270K</i>
<i>Cr. Accounts Payable (Account # 253000)</i>	<i>\$300K</i>

#### Entry 2 – Reduce liability for excavator cost related to remediation

<i>Dr. Contaminated Sites Liabilities (Account # 258960)</i>	<i>\$30K</i>
<i>Cr. Change in Year-End Contaminated Sites Liabilities (Account # 588960)</i>	<i>\$30K</i>

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### **Example 2 – Acquisition of an Asset Required for Remediation Activities (no alternative use)**

The cost to remediate and monitor a contaminated site is estimated to be \$10M. This includes the costs to build a road to the site. The road will have no alternative purpose other than to provide access to the contaminated site to allow for remediation and ongoing monitoring activities.

The total cost of the road is included in the contaminated sites liability and expense because the road has no alternative purpose beyond remediation activities for the contaminated site. Accordingly, the cost of the road will be included in the liability estimate of \$10M as follows.

#### **Record Contaminated Sites Liability**

*Dr. Change in Year-End Contaminated Sites Liabilities (Account # 588960)      \$10M*

*Cr. Contaminated Sites Liabilities      \$10M*  
*(Ministry specific entity, program, organization, account #258960)*

### **Example 3 – Underground Fuel Tank Reclamation**

Ministry X discovered an old unused underground fuel storage tank that had caused contamination to the soil during the construction of a new Government building.

An initial consultant assessment has determined that there is contamination that exceeds the environmental standards for petroleum hydrocarbons. However, a more detailed site assessment is required to develop a remediation plan. Environment advises that the average cost to decommission an old fuel tank is \$350K which is made up of the following components:

Remove the Fuel Tank	\$ 30K
Complete Site Assessment	50K
Remediate Fuel Contamination	<u>270K</u>
Total Cost to Decommission	\$ <u>350K</u>

Based on this initial assessment, the Ministry has determined that the contaminated sites liability recognition criteria have been met. The Ministry plans to complete the decommissioning of the tank the next fiscal year. In this instance, the cost to remove the fuel tank, the cost of completing the site assessment and the remediation costs totaling \$350K would be included in the contaminated sites liability estimate. The cost to remove the fuel tank is directly attributable to completing the remediation and is included in the cost estimate. Also, the cost of the site assessment is included in the liability estimate as it is required to prepare the remediation plan and determine the remediation cost.

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The entry to record the liability for the fuel contamination is as follows.

**Record Contaminated Sites Liability**

*Dr. Change in Year-End Contaminated Sites Liabilities (Account # 588960)      \$350K*

*Cr. Contaminated Sites Liabilities      \$350K*  
*(Ministry specific entity, program, organization, account #258960)*

Request a Budget appropriation for the remediation.