



GASB 49 Compliance Services **Reporting Standards for Government Agencies**

Historical systemic biases have generally resulted in government agencies understating many of the liabilities on the balance sheet. Such understatements have misrepresented an agency's financial position and have resulted in poor capital planning. To counteract this pervasive problem, the Government Accounting Standards Board recently enacted Statement No. 49 mandating key changes to prior reporting requirements. Specifically, this Statement addresses accounting and financial reporting standards for pollution remediation obligations, which address current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

According to the Statement, once any one of five specified obligating events described below occurs, a government entity is required to estimate the components of expected pollution remediation outlays and determine whether corresponding outlays should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- *The government is compelled to take pollution remediation action because of an imminent endangerment*
- *The government violates a pollution prevention–related permit or license*
- *The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs*
- *The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation*
- *The government commences or legally obligates itself to commence pollution remediation.*

The requirements of this Statement are effective for financial statements for periods beginning after **December 15, 2007**, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented.

While requiring several new reporting methodologies, this Statement offers several benefits to government agencies, including:

- 1) Enhances the comparability of financial statements among governments by requiring all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported.
- 2) Enhances the users' ability to assess governments' obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable. The pre-GASB 49 standards did not require recognition of pollution remediation liabilities until after they were judged to be probable of occurrence, causing a number of expected liabilities not to be reported.
- 3) Current standards require liabilities to be reported as a single-point estimate, which may not consider all potential outcomes. This causes reporting of liabilities at amounts that may differ significantly from the expected amounts (the amounts that, on average, will be incurred). This Statement improves past financial reporting obligations by requiring consideration of recognition once an obligating event occurs and by requiring reporting of liabilities using the expected cash flow measurement technique.

ERCI's domain knowledge can be instrumental for government agencies seeking to ensure their environmental liabilities reporting comply with GASB Statement No. 49. ERCI provides consulting services to government agencies who wish to validate current and future remediation reserves, determine asset retirement obligations, ensure compliance with new reporting requirements, and improve the efficiency of their environmental expenditures. Finally, ERCI works with its government clients to develop and implement a methodology to accurately price environmental liabilities and create and preserve an audit trail for their environmental liability estimates.

To ensure that your government agency is compliant with these new reporting requirements, please contact your ERCI consultant today and request a proposal for ERCI's GASB 49 Compliance Services.