

MEMO

To: Local Governments

From: Talbot, Korvola & Warwick, LLP

RE: Implementation Considerations for GASB Statement No. 49

Local governments are beginning to consider the implementation of GASB Statement No. 49. The Statement addresses presentation and disclosure in the financial statements as a result of pollution remediation. The following paragraphs summarize the considerations of implementing GASB Statement No. 49, and some of the unique accounting and reporting requirements thereof.

The Statement is effective for the fiscal year ending June 30, 2009. Implementation requires that liabilities be calculated as of June 30, 2008, and includes a requirement that the government restate beginning net assets for those liabilities. The Statement is applicable to all state and local governments.

GASB Statement No. 49 requires local governments to report and disclose activities associated with pollution remediation when there is an established existence of pollution, and any of five (5) triggering events occurs.

The five (5) triggering events referred to above are:

1. The government is compelled to remediate because of imminent danger,
2. The government violates a pollution prevention-related permit, or license,
3. The government is named, or likely to be named as a potentially responsible party (PRP) for remediation, or responsible for sharing costs of remediation,
4. The government is named, or likely to be named in lawsuit to compel remediation, or
5. The government commences or legally obligates itself to commence remediation.

Reporting and disclosure requirements include estimating the components of remediation outlays and making a determination of the potential for accrual, or capitalization of the goods and services related to remediation when acquired. The Statement is fairly clear in the guidance as to which accounting treatment is prescribed and when.

The government may capitalize remediation outlays (in the entity-wide and proprietary funds) in certain circumstances, and subject to limitations. Most outlays are not eligible for capitalization. Those that are eligible include:

1. Those costs required to prepare property for sale,
2. Costs associated with preparing property for use, when it was acquired with known or suspected pollution that was expected to be remediated,
3. Costs associated with remediation performed to restore what was previously recognized as an impairment, or
4. The costs to acquire property, plant and equipment which have an alternative use other than for remediation.

The Statement includes a series of recognition benchmarks – steps in the remediation process – that need to be considered in determining when pollution remediation liabilities are reasonably estimable and may be required to be reported. Costs could be relatively difficult to estimate initially but as more information comes available, those estimates may become more easily defined. The Statement also requires remeasurement throughout the remediation when new information is obtained which indicates increases or decreases in estimated outlays.

The government should recognize the remediation liability by component, as those components become estimable. For example, legal services may be the first component of remediation outlays and may be reasonably estimated on the front end of the project. As site work is planned, those costs would be estimated and recorded as the current value of expected outlays (which may be reevaluated with new information as the project progresses), and monitoring costs would be likely to be estimated towards the later stages of remediation and recognized at that point.

The Statement provides for disclosure requirements related to recognized remediation liabilities and recoveries that include:

1. The nature and source of remediation obligations,
2. The amount of the estimated liability,
3. The methods and assumptions involved in reaching the estimate,
4. Any potential for changes in the calculated estimate,
5. Any estimated recoveries that reduce the estimated liability, and
6. A general description of any remediation activities for which the government can't reasonably estimate their liability.

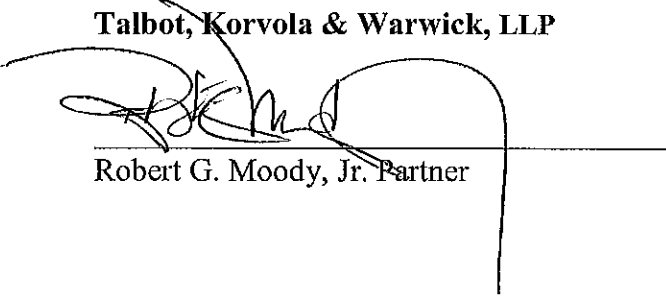
It is important to note that the Statement only applies to situations where pollution is known to exist and remediation activities may take place. The Statement specifically excludes pollution prevention or control activities and related costs.

Reporting for remediation depends on the funds involved, in accordance with GASB Statement No. 34 and the basis of accounting therefore. Entity-wide statements and proprietary funds would report costs in the Statement of Activities and the Statement of Revenues, Expenses and Changes in Fund Net Assets, respectively. The fund statements would report as appropriate, either as an element of operating expense, as a special item, or as an extraordinary item in accordance with GASB Statement No. 34.

Governmental fund statements will recognize liabilities to be liquidated with current resources in accordance with recognition under the modified accrual basis of accounting. Expenditures should be reported as incurred, net of any related recoveries.

Local governments should closely review GASB Statement No. 49 for any application to their operations, and consult with their audit firms for additional guidance or for specific consideration of presentations and disclosures required under the Statement.

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