Department of Defense

New FASAB Technical Guidance for Environmental Liabilities Reporting

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Agenda

- Environmental Closure Liabilities
  - What are they?
  - What are the standards?
- FASAB AAPC PP&E Disposals Task Force
- TR 11 - AAPC Implementation Guidance for Cleanup Costs Associated with Equipment
- EL vs Ongoing operations
- Asbestos TB 2006/9 – 1 Requirements
- Implementation Issues
- TR 10 - AAPC Implementation Guidance on Asbestos Cleanup Costs

Today's Topic is Closure Liabilities

Acquisition, Technology and Logistics

Note 14. Environmental Liabilities and Disposal Liabilities

Environmental Liabilities and Disposal Liabilities *As of September 30*	2009	2008 *Dollars in Millions*
Environmental Liabilities–Nonfederal		
Accrued Environmental Restoration Liabilities		
Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 7,957.4	$ 8,873.5
Active Installations—Military Munitions Response Program (MMRP)	5,223.5	5,035.1
Formerly Used Defense Sites-IRP & BD/DR	3,452.9	3,233.2
Formerly Used Defense Sites--MMRP	13,545.9	14,859.0
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action	772.8	812.8
Environmental Closure Requirements	2,193.7	1,868.1
Environmental Response at Operational Ranges	164.0	204.7
Asbestos	1,183.3	428.6
Non-Military Equipment	114.4	89.2
Other	1,222.8	1,118.2
Base Realignment and Closure Installations (BRAC)		
Installation Restoration Program	3,684.7	3,772.6
Military Munitions Response Program	1,063.6	1,075.0
Environmental Corrective Action / Closure Requirements	344.0	372.8
Environmental Disposal for Military Equipment / Weapons Programs		
Nuclear Powered Military Equipment / Spent Nuclear Fuel	12,672.4	12,255.7
Non-Nuclear Powered Military Equipment	36.4	39.1
Other National Defense Weapons Systems	194.4	197.4
Chemical Weapons Disposal Program		
Chemical Agents and Munitions Destruction (CAMD)	6,956.0	10,636.7
CAMD Assembled Chemical Weapons Assessment (ACWA)	5,447.8	5,634.2
Total Environmental Liabilities	**$ 66,230.0**	**$ 70,505.9**

Accounting Standards - Definitions

- SFFAS 5 - Liabilities
  - Liability: Probable future outflow or other sacrifice of resources as a result of past transactions or events… recognized when the event occurs.
- SFFAS 6 – PP&E
  - Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.
  - Cleanup costs shall be estimated when the associated PP&E is placed in service…recognized over the asset life.

What do we need to report?

- Assets or sites that operate in a compliant manner may have a future EL
  - Closure / post-closure requirements specified in operating permits (USTs/ASTs, landfills)
  - Non-routine HW disposal associated with closure and disposal of structures, equipment, munitions, and weapons

A portion of estimated total cleanup costs shall be recognized as expense during each period PP&E is in operation…begin when PP&E is placed in service SFFAS #6

(Future) Expense Recognition in Current Period

- Information Needed
  - Placed in Service Date
  - Useful Life for tanks, facilities
  - Total and Used Capacity for Landfills
- Calculating the amount to be recognized in current period
  - Tanks, Facilities:
    - Closure cost * (yrs in service / total useful life) – amt prev. recognized
  - Landfills:
    - Closure cost * (capacity used / total est capacity) - amt prev. recognized
- Disclosure: Method for assigning est total cleanup costs to current operating periods – Useful Life or Capacity

AAPC PP&E Disposals Task Force

- Established in January 2008
- Federal agency-wide participation: DOI, DoD, DOE, NASA, Commerce, DHS, NSF, DOT, FAA, EPA, GSA, OMB, auditors
- Tasked with developing implementation guidance for EL associated with asset retirement and disposal.
- Focused on two areas of concern:
  - Accounting for Cleanup Costs Associated with Equipment: Routine vs. Disposal Environmental Liability
  - Identification and Recognition of Asbestos Cleanup Costs

Implementation Guidance on Cleanup Costs Associated with Equipment - Background

- Environmental liabilities are defined by cleanup costs and hazardous waste in SFFAS 6.
- Cleanup costs that occur when operations cease are recognized over the life of the asset.
- However, "…. ...cleanup that is part of "**ongoing part of operations** are accounted for in accordance with liability standards…"

What constitutes "ongoing part of operations"?
What are the "liability standards"?

Implementation Guidance on Cleanup Costs Associated with Equipment - Technical Guidance

- Cleanup associated with “ongoing operations” are operating expenses, not an accrued environmental liability.
  - Immediate cleanup (e.g., spill)
  - Routine HW disposal (part of “ongoing operations”)
- What do they mean by “liability standards”? (SFFAS 1)
  - Liabilities that routinely recur in normal operations and are due within a fiscal year
  - Accounts Payable: When an entity accepts title to goods (or service), it recognizes a liability for the unpaid amount

EL vs Ongoing Operations

– When is cleanup the same as ongoing (day-to-day) operations?

– Considerations include:

- Regulatory requirements - Is it the same waste code as routinely disposed waste?
- Method of managing the waste - Does it go to the same place as routinely disposed waste?
- Ongoing contract - Is this activity non-routine, requiring a special contract?

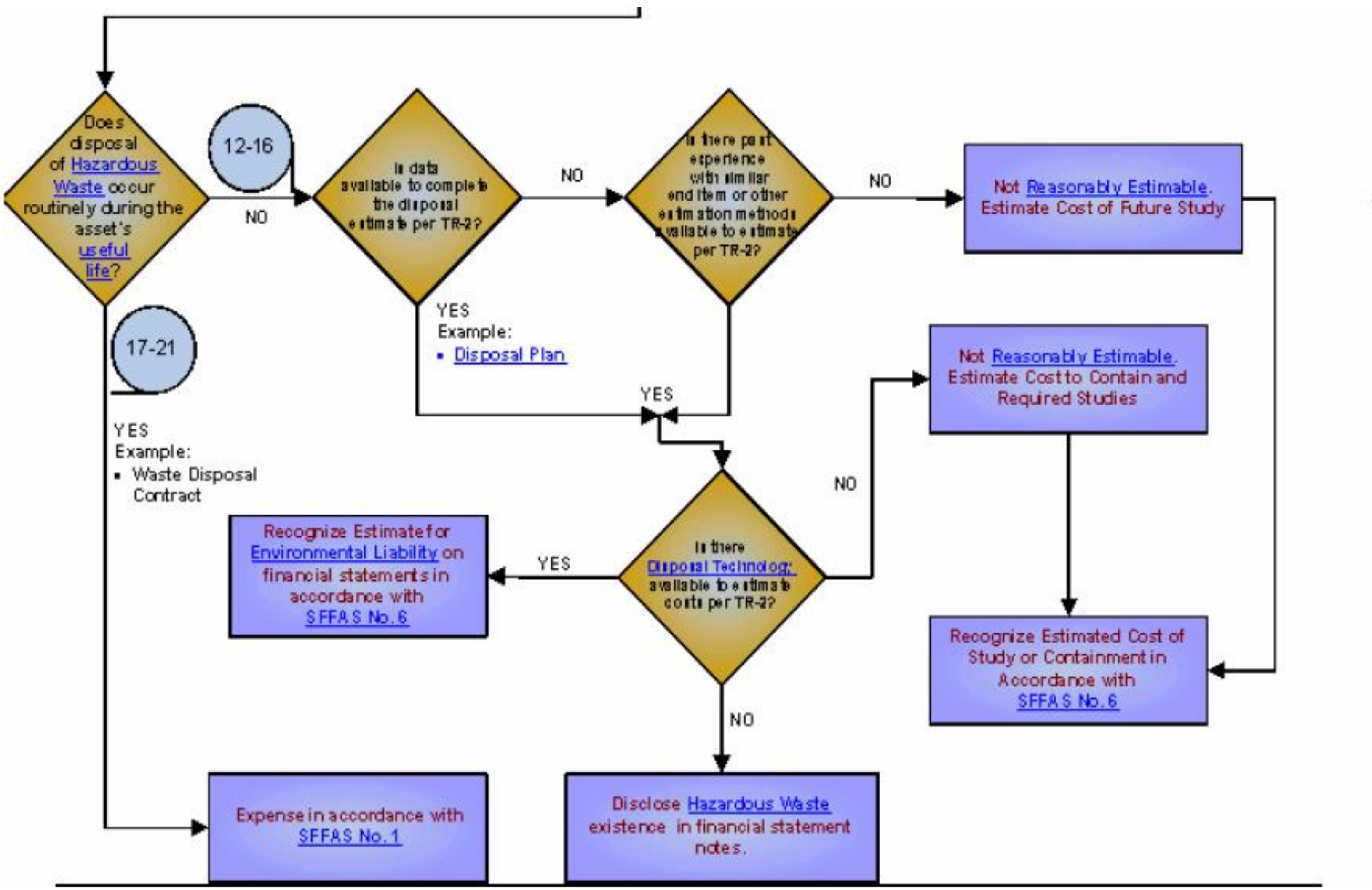
Common Operational Waste

- Batteries, cleaning solvents, motor oil
- Wastewater from equipment cleaning
- Certain sludges, residues characteristic of operational waste
- Product or waste recovered for reuse: fuel, used oil

Environmental Liability

- Ship scrapping operations
- Nuclear waste
- Asbestos
- Permitted unit closures

Recognizing EL for Equipment



Technical Bulletin 2006/9-1: Asbestos

- Estimate all asbestos-related cleanup (i.e., disposal) costs; not just asbestos that requires immediate cleanup.
- Both friable and non-friable
- No asset lasts forever; must assume future repair, removal, renovation, or demolition.
- Recognize liability for costs that are probable and reasonably estimable.
- Recognize liability when asset is placed in service.
- Effective for reporting period after Sept 30, 2011.

Implementation Issues

- Agencies are not required to track non-friable asbestos
- Removal of non-friable asbestos not always required
- State regulation results in decentralized data collection
- Contingent nature of the cleanup requirements:
  - Location and quantity
  - Condition
  - Disposal methodology (e.g., bull-doze, hand removal)
  - State regulation

Can we Make Assumptions?

- Where is the non-friable asbestos?
  - Destructive Testing not required
  - Assumptions based on: year built, use/application (fire retardant), similar assets
- How will the asset be disposed?
- Current condition of asbestos may indicate future condition.
- What is the State regulation (asbestos tile removal required prior to demolition?)

Reasonable assumptions can be made in some cases to make up for a lack of actual data (FASAB TR 10)

Implementation Guidance on Asbestos Cleanup Costs

- Review inventory listing of all real property
- Identify and eliminate all real property or group of real properties on the list that are not expected to contain asbestos – document!
- For remaining assets, determine:
  - Scope of asbestos removal required based on
    - Method of renovation or demolition
    - Applicable regulatory requirements
  - Amount, type, location, and expected condition of asbestos

Implementation Guidance on Asbestos Cleanup Costs

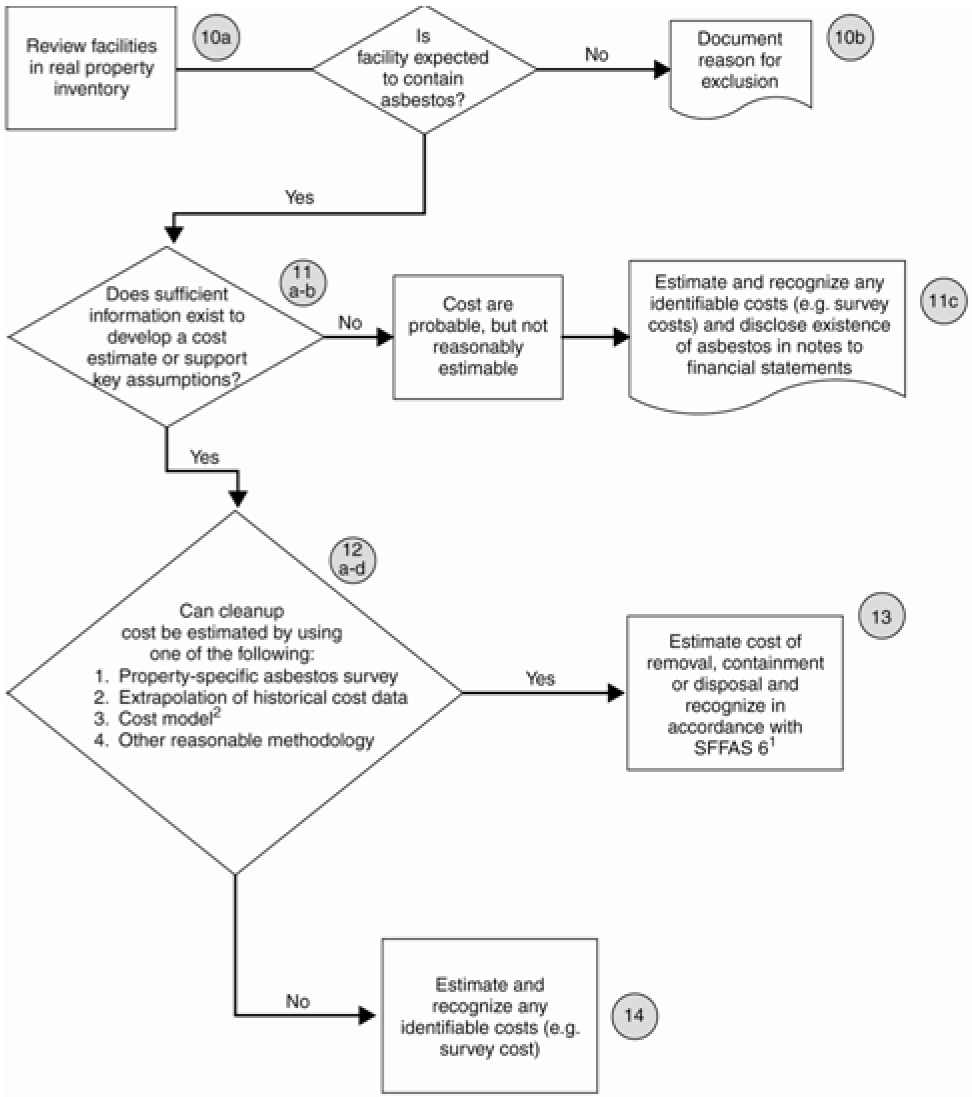
- If the information is either not available or not sufficient to support assumptions, then cleanup is not reasonable estimable at that time.
- Still recognize any other identifiable costs (e.g., asbestos survey).
- Prepare appropriate narrative disclosure.
- Revise estimates as additional information becomes available.

Acceptable Estimating Methodologies

- A property-specific cost estimate based on survey data (most accurate, if available);
- An extrapolation of historical cost or cost estimates for asbestos cleanup of similar real property(ies);
- A cost model used for an individual real property or group of similar real properties;
- Other reasonable methodologies.

As additional information becomes available, key assumptions should be re-evaluated, cost estimates revised, and necessary adjustments made….

Summary of General Approach



EL Policy and Guidance

- Statement of Federal Financial Accounting Standard 6 (SFFAS 5) – Accounting for Liabilities of the Federal Government
- SFFAS 6 – Plant, Property & Equipment
- DoD Financial Management Regulation, 7000.14-R, Volume 4, Chapter 13
- OUSD(C) EL Best Practices Guide
- DUSD (I&E) Management Guidance for Recognizing, Measuring, and Reporting Non-DERP Environmental Disposal and Closure Liabilities (October 2005)

Summary

- Two FASAB Implementation Guides issued
  - Technical Release 10 (Asbestos) and 11 (Equipment)
- Provides additional framework
- Still leaves some implementation issues for the financial reporting entities to resolve:
  - Based on framework and examples, determine specifically what is operational vs accrued liability for equipment
  - Determine specific cost estimating approach for asbestos based on methodologies from the guidance
- Document and share your process with other Financial Reporting Entities!

Questions

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