

# **Identification and Recognition of Asbestos Cleanup Costs**

## **Executive Summary**

### What is the Committee proposing?

The Committee is proposing a methodology for estimating costs associated with asbestos cleanup. The guidance in this document provides a framework for the determination of the presence of asbestos and asbestos containing materials and estimation of asbestos removal costs for federal properties.<sup>1</sup>

### Why is the Committee making this proposal?

The methodology proposed in this document will provide additional guidance for implementing the requirements listed in SFFAS No. 6 and Technical Bulletin 2006-1. These proposed steps provide enough implementation guidance to clearly define the level and the type of information that should be used to determine the asbestos cleanup liability for federal properties.

### How does this proposal improve federal financial reporting?

This proposed guidance does not alter existing accounting standards or associated technical guidance. Instead, this proposed methodology provides steps that can be followed to help standardize the implementation of existing standards and provide guidance to help ensure consistent, accurate, and meaningful application of the standards across federal government reporting entities. Consistent application of the accounting standards will help ensure that reporting entities do not misstate asbestos cleanup liabilities or fail to report cleanup liabilities where required.

### How does this proposal contribute to meeting federal financial reporting objectives?

Asbestos cleanup liabilities are a required component of all federal financial reports for fiscal periods beginning after September 30, 2009. In addition to helping the reporting entities meet this reporting requirement, the proposed methodology will help to ensure that federal entities provide reasonable estimates of the cost to effectively clean up asbestos from their properties. These estimates as reported in the financial statements can be used by internal decision makers

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<sup>1</sup> Includes general PP&E, heritage and stewardship assets.

and external financial statement users alike to assess the current state of federal properties and the level of cleanup required to remove asbestos from the full inventory of general property, plant and equipment.

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## Description of Issue

As federal agencies continue to develop their approach to implementing Statement of Federal Financial Accounting Standards (SFFAS) No. 6 for recognition of cleanup cost associated with asbestos, it is apparent that a standard implementation strategy is needed to ensure consistent reporting of asbestos cleanup liabilities. Many federal agencies continue to struggle with a concise interpretation of SFFAS 6 and Technical Bulletin 2006-1 while attempting to determine a cost effective standard implementation methodology for identification and recognition of an estimated liability for asbestos cleanup.

## Scope

This guidance affects all federal entities that own facilities, ships, or other tangible property, plant, and equipment (PP&E) that contain any form of asbestos. It provides additional clarification of SFFAS No. 6 and Technical Bulletin 2006-1 for identification and recognition of asbestos related cleanup costs, and outlines a proposed methodology for identifying and recognizing asbestos liabilities associated with federal properties.

## Relevant Accounting Standards

1. FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
2. FASAB SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
3. FASAB Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*
4. FASAB Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*
5. FASB Statement No. 143, *Accounting for Asset Retirement Obligations*
6. FASB FIN 47, *Accounting for Conditional Asset Retirement Obligations*

## Proposed Implementation Approach

The following methodology is proposed for identifying and estimating cleanup costs associated with asbestos. This methodology is developed on the premise that federal entities must recognize a liability when a future outflow or other sacrifice of resources as a result of past transactions or events is "probable" and "reasonably estimable." The strategy as to how this approach will be executed is at the discretion of the individual federal agency.

### 1. Identify properties containing asbestos:

- a. Review inventory listing of all owned properties.
- b. Identify and eliminate all properties or group of properties not expected to contain asbestos from the list. Document the basis for elimination such as:
  - i. Survey results, or other records indicating the property(ies) is not likely to contain asbestos, or
  - ii. Records indicating all asbestos were previously removed from the property(ies).
  - iii. Asset type is not likely to have asbestos or required to be surveyed for asbestos (e.g., railroad tracks, power lines, airfield pavements, roads, sidewalks, and land).

### 2. Identify information available to support key assumptions:

- a. Scope of asbestos removal required at property(ies) renovation, disposal or demolition:
  - i. Most likely method of property renovation or demolition (e.g., use of heavy equipment, implosion/explosion, or hand methods).
  - ii. Federal, state and local regulatory requirements governing asbestos management to identify added costs to standard demolition (e.g. asbestos surveys, sampling, removal, and non-routine materials management).
- b. Amount, type, location, and condition of asbestos and asbestos containing materials in the property or group of properties:
  - i. Refer to available records, reasonable surveys of the property(ies) and/or property construction information.

- c. If sufficient information is not available to make the above key assumptions, the costs for removal of asbestos would be considered probable but not reasonably estimable at that time. The existence of asbestos and a statement that such an estimate can not be made should be disclosed in the notes to the financial statements.
- 3. If sufficient information is available to make key assumptions, then determine estimating methodology for each property or group of properties, by using one of the following:**
    - a. Property-specific cost estimate based on survey data.
    - b. Extrapolation of historical costs to similar property(ies).
    - c. Engineering cost model used for an individual property or group of similar properties and information from industry specific cost estimation publications or standardized cost factors developed for each state.
  - 4. Estimate and recognize asbestos cleanup cost in accordance with SFFAS 6 using methodology from step 3<sup>2</sup>.**
  - 5. When the asbestos cleanup cost can not be estimated using methodologies in step 3, the agency should estimate and recognize any other identifiable costs (e.g. asbestos survey) according to the guidance in SFFAS 6, par. 104.**

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<sup>2</sup> Liability & expense recognition requirements for heritage assets and stewardship land – Technical Bulletin 2006-1 Paragraph 43: Consistent with the treatment of the acquisition cost of stewardship PP&E (i.e., expensing in the period placed in service), the total estimated asbestos-related cleanup costs shall be recognized as expense in the period that the stewardship asset is placed in service and a liability established. (SFFAS 6 par. 101).

Liability recognition requirements for general PP&E – Technical Bulletin 2006-1 Paragraph 33: For assets placed in service after implementation of this technical bulletin, accumulation of the liability shall begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation [either permanently or temporarily]. (SFFAS 6 par. 98).

Expense recognition requirements for general PP&E – Technical Bulletin 2006-1 Paragraph 37: A portion of estimated total asbestos-related cleanup costs shall be recognized as expense during each period that general PP&E is in operation. This shall be accomplished in a systematic and rational manner based on use of the physical capacity of the associated PP&E whenever possible.

**6. Re-evaluate key assumptions and update cost estimate<sup>3</sup>:**

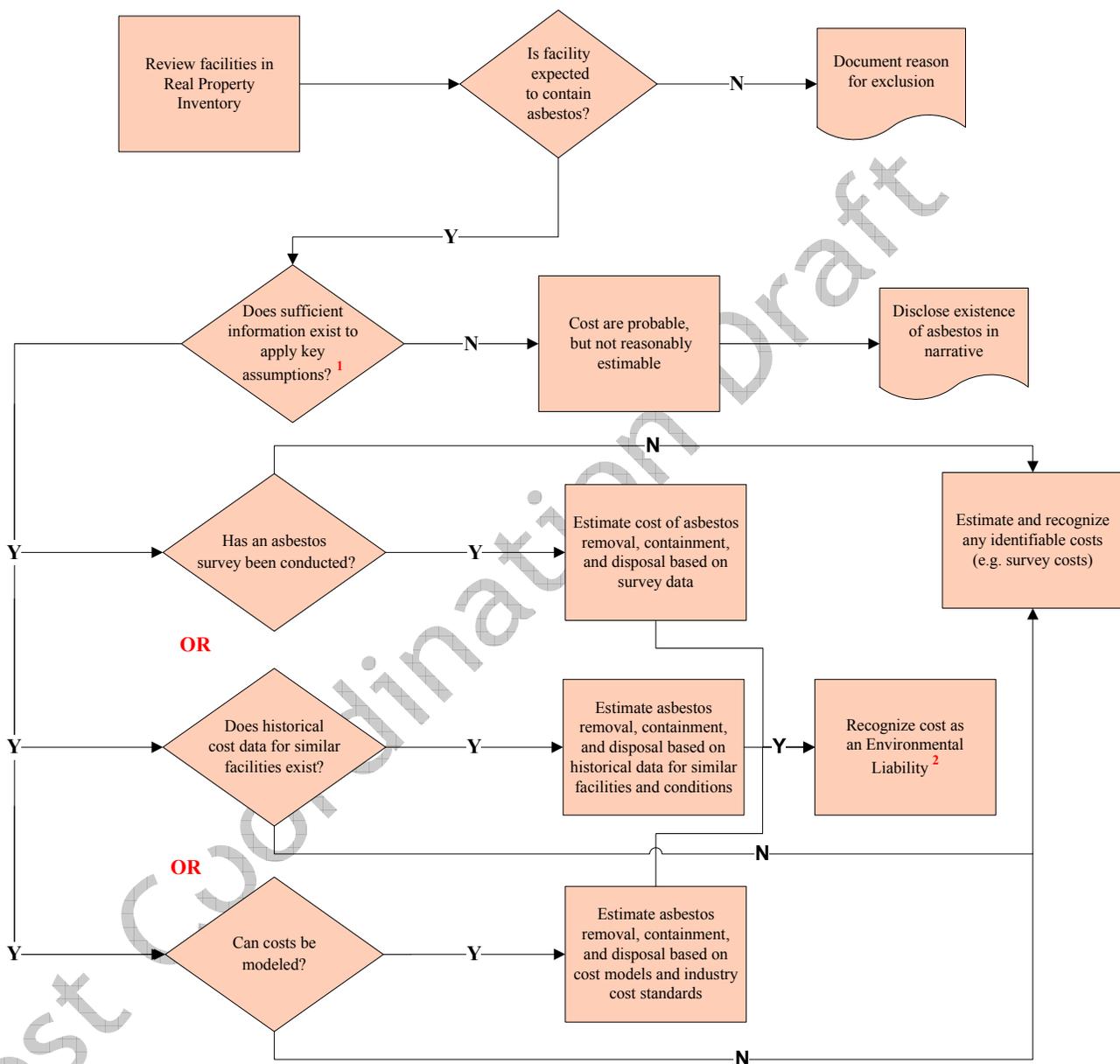
- a. As additional information becomes available, re-evaluate key assumptions, revise cost estimate, and make necessary adjustments to the liability recognition.

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<sup>3</sup> Technical Bulletin 2006-1, Paragraph 34: As reestimates are made, the cumulative effect of changes in total estimated asbestos-related cleanup costs related to current and past operations shall be recognized as expense and the liability adjusted in the period of the change in estimate (SFFAS 6 par. 99). In certain scenarios, such as when cleanup costs have been fully expensed, the reestimate may result in a credit to expense for that year.

## General Approach to Identifying and Recognizing Asbestos Cleanup Costs



<sup>1</sup> - Key assumptions include renovation or demolition method, any non-standard costs and the quantity and quality of asbestos to be removed. As additional information becomes available, the federal entity should reevaluate its key assumptions and make necessary adjustments to the cost estimate and liability.

<sup>2</sup> - In accordance with the requirements of SFFAS 6, pars. 97, 101, and 104

## Benefits and Costs

The expected benefit of this guidance is improved financial reporting of probable liabilities and expected cash outflow resulting from a standard implementation approach across the federal government. This consistency and standardization will help reduce misinterpretation, confusion, and inefficient implementation, which will ultimately reduce the cost of implementation imposed by the standard. The expected costs are the opportunity costs associated with determining how and when asbestos liability exists, and of developing and maintaining asbestos cleanup estimates.

## Examples of Practices

A. Evaluate asbestos cleanup costs associated with facility repair or renovation.

A federal entity recognizes the potential to repair or renovate a facility during the course of its operating life. For a facility containing asbestos, the asbestos management plan states that measures must be taken to contain and properly dispose of the asbestos if the materials become damaged or need to be removed.

When the asset is placed into service or the entity first reports asbestos cleanup costs for a given facility, the following considerations may apply:

- An asbestos survey performed on the facility indicates that the blown-in attic insulation and the ceiling tiles located in a portion of the facility that requires repair are suspected of containing asbestos.
- A review of the federal and state requirements indicate that regardless of renovation or demolition method, the attic insulation and ceiling tiles will likely require removal in accordance with asbestos regulations.
- There is cost information available for removing, containing, and disposing of similar asbestos-containing materials.

Based on the information above and in accordance with Technical Release 2, since there are asbestos containing materials present, the probability requirement of recognizing a cleanup liability is satisfied. Also, since there is information about the cost of removal, containment and disposal of the asbestos, the cost associated with asbestos cleanup is reasonably estimable. The federal entity must estimate the asbestos-related cleanup costs to be incurred

while conducting the repair or renovation, plus the cost of cleaning up the asbestos remaining in the facility at the time of demolition, where reasonably estimable. These estimated costs would then be recognized as a liability according to the guidance in SFFAS 6, par. 104.

B. Evaluate asbestos cleanup costs associated with facility demolition.

A federal entity acquires an asset that is suspected to contain asbestos. Federal accounting standards require that federal entities estimate the liability associated with asbestos removal, containment, or disposal.

At the acquisition date, the following is determined:

- The asset is constructed prior to 1989<sup>4</sup> and there is no evidence or certification that the asbestos containing material was not used in the construction, or that any asbestos that was present has been removed;
- The condition of materials suspected to contain asbestos was not surveyed by the previous owner;
- No asbestos survey or other assessment has been performed to estimate the type, location, or extent of asbestos in the facility;
- There are no assets that are similar in size, age and functionality that could be used to obtain information about the type, location, or extent of asbestos in the similar assets;
- There are no current reliable factors or parameters to be applied to a relevant asbestos liability estimation model, and
- It is not possible to determine the existence of asbestos without destroying or weakening the existing structure or disturbing potential asbestos, which would be undesirable.

Based on the information above and in accordance with Technical Release 2, the presence of asbestos in the facility satisfies the probability requirement of liability recognition. However, the cost of removal, containment, and disposal of the asbestos is not reasonably estimable at this time. In this case, the federal entity must estimate a liability for conducting an asbestos

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<sup>4</sup> See National Emissions Standards for Hazardous Air Pollutants (NESHAP) authorized by 40 CFR part 60

survey and any other identifiable associated cost, recognize that liability in accordance with the guidance in SFFAS 6, par. 104, and disclose information about the facility in the notes to the financial statement. Also, as relevant information about the facility and its asbestos become available, the federal entity should reconsider its key assumptions and use an acceptable estimation technique (i.e., cost model or similar facility) to develop a reasonable estimate of asbestos cleanup costs.

Bases for Conclusion:

1. Recognition versus disclosure of asbestos cleanup costs.

An asbestos cost estimate is developed in accordance with the methodology outlined in Technical Release 2 once the existence of the asbestos is determined. If the asbestos is probable, the entity must determine whether the costs can be reasonably estimated. Asbestos cost estimates rely on information such as the amount, type, and condition of asbestos in the property, the disturbance activity, and the federal, State and local asbestos regulations. This information is not always available due to: a) absence of environmental or legal driver to track the existence of asbestos, b) asbestos embedded in materials not visible through observation, and c) changes in regulatory restrictions on the use of asbestos in materials. For purposes of developing asbestos cleanup cost estimates, assumptions can be made in some cases to make up for a lack of actual data. When reasonable assumptions and associated estimates (i.e., supported by industry best practices) can not be made, the presence of asbestos and the inability to reasonably estimate an amount of the total cleanup costs should be disclosed in agency's financial statements.

2. Asbestos cleanup cost estimation approach.

Cost estimates for future asbestos cleanup are dependent on information that is often not discovered until closer to initiation of a renovation or demolition project. As a result, cost estimates may be based on key assumptions that become more accurate as an asbestos cleanup project is planned. Thus, the methodology presented offers several options for developing cost estimates depending on the availability of asbestos information (i.e., cost model for individual or grouped facilities, extrapolation of historical costs, facility-specific cost estimate based on survey data). The methodology incorporates refinement of the cost estimate as better and relevant

information becomes available over the life of the asset. Once a renovation or disposal project is planned and detailed asbestos surveys are conducted as dictated by environmental regulation, environmental liabilities should more accurately reflect future asbestos cleanup costs.

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## **Suggestion to the Board**

Adopt this implementation guidance for SFFAS 6 and TB 2006-1.

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## Appendix A: List of Abbreviations

FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation Number
GPP&E	General Property, Plant, and Equipment
PP&E	Property, Plant, and Equipment
SFFAS	Statement of Federal Financial Accounting Standards
TB	Technical Bulletin
TR	Technical Release

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