

# 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 facilities and installed equipment<sup>1,2</sup>, hereafter referred to as ‘property’.

### 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

<sup>1</sup> Includes those assets within general PP&E, heritage and stewardship categories

<sup>2</sup> GAO-01-179SP Appropriation Law-Vol. IV: For the purpose of this document, installed equipment is defined as those equipment items that are (1) permanently attached to the realty, or (2) if not permanently attached, (a) it is necessary and indispensable to the completion and operation of the building, or (b) the structure was designed and built for the purpose of housing the equipment.

31 provide reasonable estimates of the cost to effectively clean up asbestos from their properties.  
32 These estimates as reported in the financial statements can be used by internal decision makers  
33 and external financial statement users alike to assess the current state of federal properties and  
34 the level of cleanup required to remove asbestos from the full inventory of general property,  
35 plant and equipment.

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## 48 **Description of Issue**

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

## 56 **Scope**

57 The scope of this guidance is limited to federal property<sup>3</sup> that contains any form of asbestos. It  
58 provides additional clarification of SFFAS No. 6 and Technical Bulletin 2006-1 for identification  
59 and recognition of asbestos related cleanup costs, and outlines a proposed methodology for  
60 identifying and recognizing asbestos liabilities associated with federal properties.

## 61 **Relevant Accounting Standards**

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

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<sup>3</sup> For the purpose of this document, property is defined as federal facilities and installed equipment, as referenced in the Executive Summary section.

## 70 **Proposed Implementation Approach**

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

76

### 77 **1. Identify properties containing asbestos:**

78 a. Review inventory listing of all owned properties.

79 b. Identify and eliminate all properties or group of properties not expected to contain  
80 asbestos from the list. Document the basis for elimination such as:

81 i. Survey results, or other records indicating the property(ies) is not likely to  
82 contain asbestos;

83 ii. Records indicating all asbestos were previously removed from the  
84 property(ies); or

85 iii. Asset type is not likely to have asbestos or required to be surveyed for  
86 asbestos (e.g., railroad tracks, power lines, airfield pavements, roads,  
87 sidewalks, and land).

88

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

90 a. Scope of asbestos removal required at property(ies) renovation, disposal or  
91 demolition:

92 i. Most likely method of property renovation or demolition (e.g., use of heavy  
93 equipment, implosion/explosion, or hand methods); and

94 ii. Federal, state and local regulatory requirements governing asbestos  
95 management to identify added costs to standard demolition (e.g. asbestos  
96 surveys, sampling, removal, and non-routine materials management).

97 b. Amount, type, location, and expected condition of asbestos and asbestos containing  
98 materials in the property or group of properties:

99 i. Refer to available records, reasonable surveys of the property(ies) and/or  
100 property construction information.

101 c. If sufficient information is not available to make the above key assumptions, the costs  
102 for removal of asbestos would be considered probable but not reasonably estimable at  
103 that time. The existence of asbestos and a statement that such an estimate can not be  
104 made should be disclosed in the notes to the financial statements.

105  
106 **3. If sufficient information is available to make key assumptions, then determine**  
107 **estimating methodology for each property or group of properties, by using one of the**  
108 **following:**

- 109 a. Property-specific cost estimate based on survey data (most accurate, if available);  
110 b. Extrapolation of historical costs to similar property(ies);  
111 c. Cost model used for an individual property or group of similar properties and  
112 information from industry specific cost estimation publications or standardized cost  
113 factors developed for each state; or  
114 d. Other reasonable methodology.

115  
116 **4. Estimate and recognize expected asbestos cleanup at current cost in accordance with**  
117 **SFFAS 6 using methodology from step 3<sup>4</sup>.**

118  
119 **5. When the asbestos cleanup cost can not be estimated using methodologies in step 3, the**  
120 **agency should estimate and recognize any other identifiable costs (e.g. asbestos survey)**  
121 **according to the guidance in SFFAS 6, par. 104.**

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<sup>4</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.

122

123 **6. Re-evaluate key assumptions and update cost estimate<sup>5</sup>:**

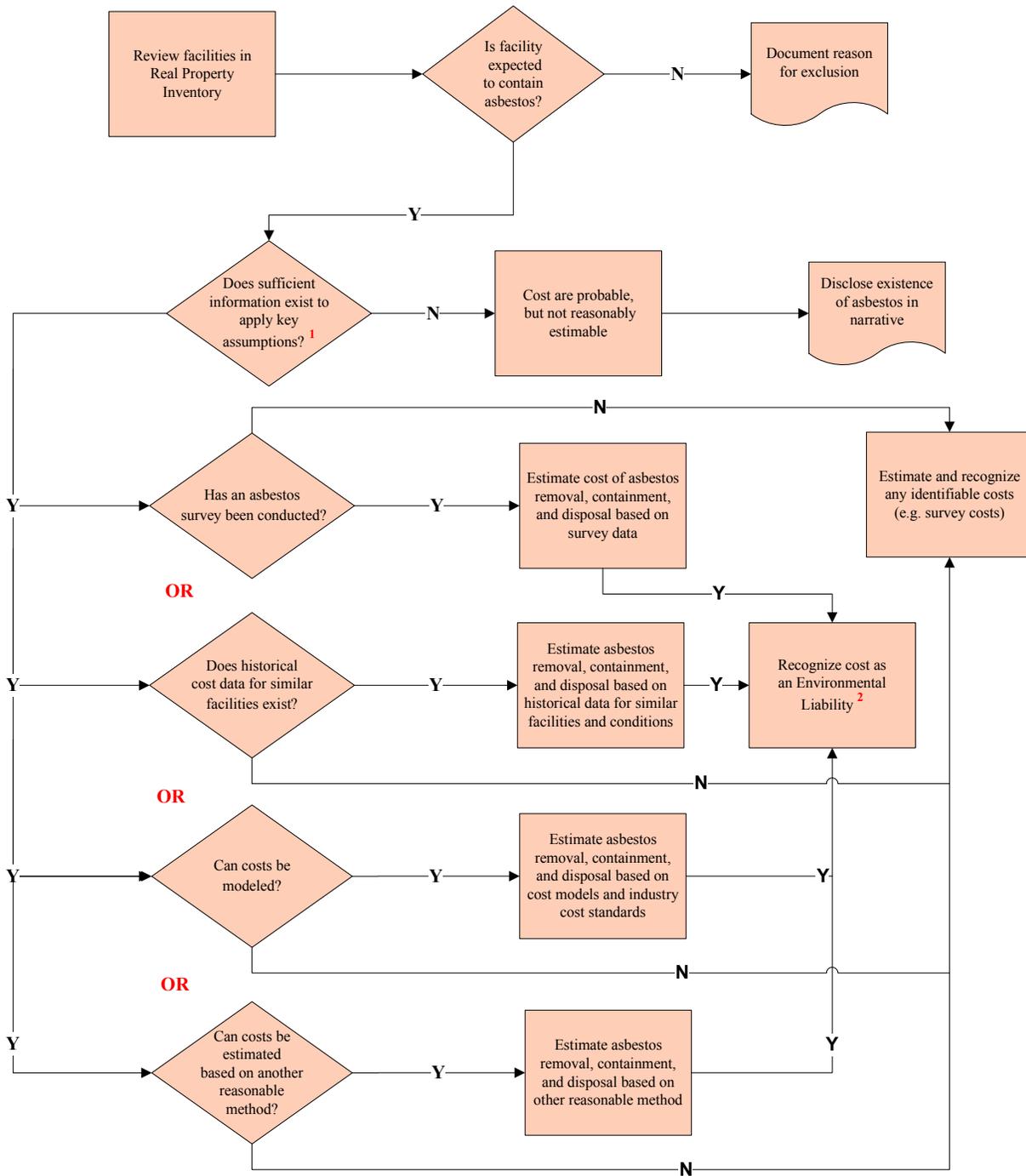
- 124 a. As additional information becomes available, re-evaluate key assumptions, revise  
125 cost estimate, and make necessary adjustments to the liability recognition.

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<sup>5</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

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129 **Benefits and Costs**

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

136 **Examples of Practices**

137 A. Evaluate asbestos cleanup costs associated with property repair or renovation.

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

142

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

- 145 • An asbestos survey performed on the property indicates that the blown-in attic  
146 insulation and the ceiling tiles located in a portion of the property that requires  
147 repair contains asbestos.
- 148 • A review of the federal and state requirements indicate that regardless of  
149 renovation or demolition method, the attic insulation and ceiling tiles will likely  
150 require removal in accordance with asbestos regulations.
- 151 • There is cost information available for removing, containing, and disposing of  
152 similar asbestos-containing materials.

153

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

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

162

163 B. Evaluate asbestos cleanup costs associated with property demolition.

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

167

168 At the acquisition date, the following is determined:

- 169 • There is no evidence or certification that the asbestos containing material was  
170 used in the construction, or that any asbestos that was present has been removed;
- 171 • The condition of materials suspected to contain asbestos was not surveyed by the  
172 previous owner;
- 173 • No asbestos survey or other assessment has been performed to estimate the type,  
174 location, or extent of asbestos in the property;
- 175 • There are no assets that are similar in size, age and functionality that could be  
176 used to obtain information about the type, location, or extent of asbestos in the  
177 similar assets;
- 178 • There are no current reliable factors or parameters to be applied to a relevant  
179 asbestos liability estimation model; and
- 180 • It is not possible to determine the existence of asbestos without destroying or  
181 weakening the existing structure or disturbing potential asbestos, which would be  
182 undesirable.

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184

185 Based on the information above and in accordance with Technical Release 2, the presence of  
186 asbestos in the property satisfies the probability requirement of liability recognition.

187 However, the cost of removal, containment, and disposal of the asbestos is not reasonably  
188 estimable at this time. In this case, the federal entity must estimate a liability for conducting  
189 an asbestos survey and any other identifiable associated cost, recognize that liability in  
190 accordance with the guidance in SFFAS 6, par. 104, and disclose information about the

191 property in the notes to the financial statement. Also, as relevant information about the  
192 property and its asbestos become available, the federal entity should reconsider its key  
193 assumptions and use an acceptable estimation technique (i.e. cost model or similar property)  
194 to develop a reasonable estimate of asbestos cleanup costs.

## 195 **Bases for Conclusion**

### 196 1. Recognition versus disclosure of asbestos cleanup costs.

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

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### 211 2. Asbestos cleanup cost estimation approach.

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213 Cost estimates for future asbestos cleanup are dependent on information that is often not  
214 discovered until closer to initiation of a renovation or demolition project. As a result, cost  
215 estimates may be based on key assumptions that become more accurate as an asbestos cleanup  
216 project is planned. Thus, the methodology presented offers several options for developing cost  
217 estimates depending on the availability of asbestos information (i.e., cost model for individual or  
218 grouped properties, extrapolation of historical costs, property-specific cost estimate based on  
219 survey data). The methodology incorporates refinement of the cost estimate as better and  
220 relevant information becomes available over the life of the asset. Once a renovation or disposal

221 project is planned and detailed asbestos surveys are conducted as dictated by environmental  
222 regulation, environmental liabilities should more accurately reflect future asbestos cleanup costs.

223 **Suggestion to the Board**

224 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