

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 general property, plant and equipment.

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 general property, plant and equipment.

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 in standardizing implementation of the existing standards and 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 the asbestos cleanup liabilities by either underestimating the amount of asbestos cleanup liabilities or failing 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 as of 30 September 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 real property. These estimates as reported in the financial statements can be used by internal decision makers and external financial

statement users alike to assess the current state of Federal real property 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 has become 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 the accounting standard 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 facilities.

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."

1. Identify facilities containing asbestos:

- a. Review inventory listing of all owned facilities
- b. Identify and eliminate all facilities not expected to contain asbestos from the list.
Document the basis for elimination such as:
 - i. Survey results, or other records indicating the facility does not contain asbestos, or
 - ii. Records' indicating all asbestos was previously removed from the facility.

2. Make key assumptions about asbestos removal:

- a. The scope of asbestos removal required at facility renovation, disposal or demolition:
 - i. Select and document the most likely method of facility renovation or demolition (e.g., use of heavy equipment, implosion/explosion or hand methods).
 - ii. Review Federal, State and local regulatory requirements governing asbestos management to identify added costs to standard demolition (e.g. added surveys, asbestos requiring removal, and non-routine materials management).
- b. The amount, type, location and condition of asbestos and asbestos containing materials in the facility.
 - i. Refer to available records, reasonable surveys of the facility and/or facility construction information, to estimate the quantity and physical quality of asbestos and asbestos containing material that will ultimately be removed.

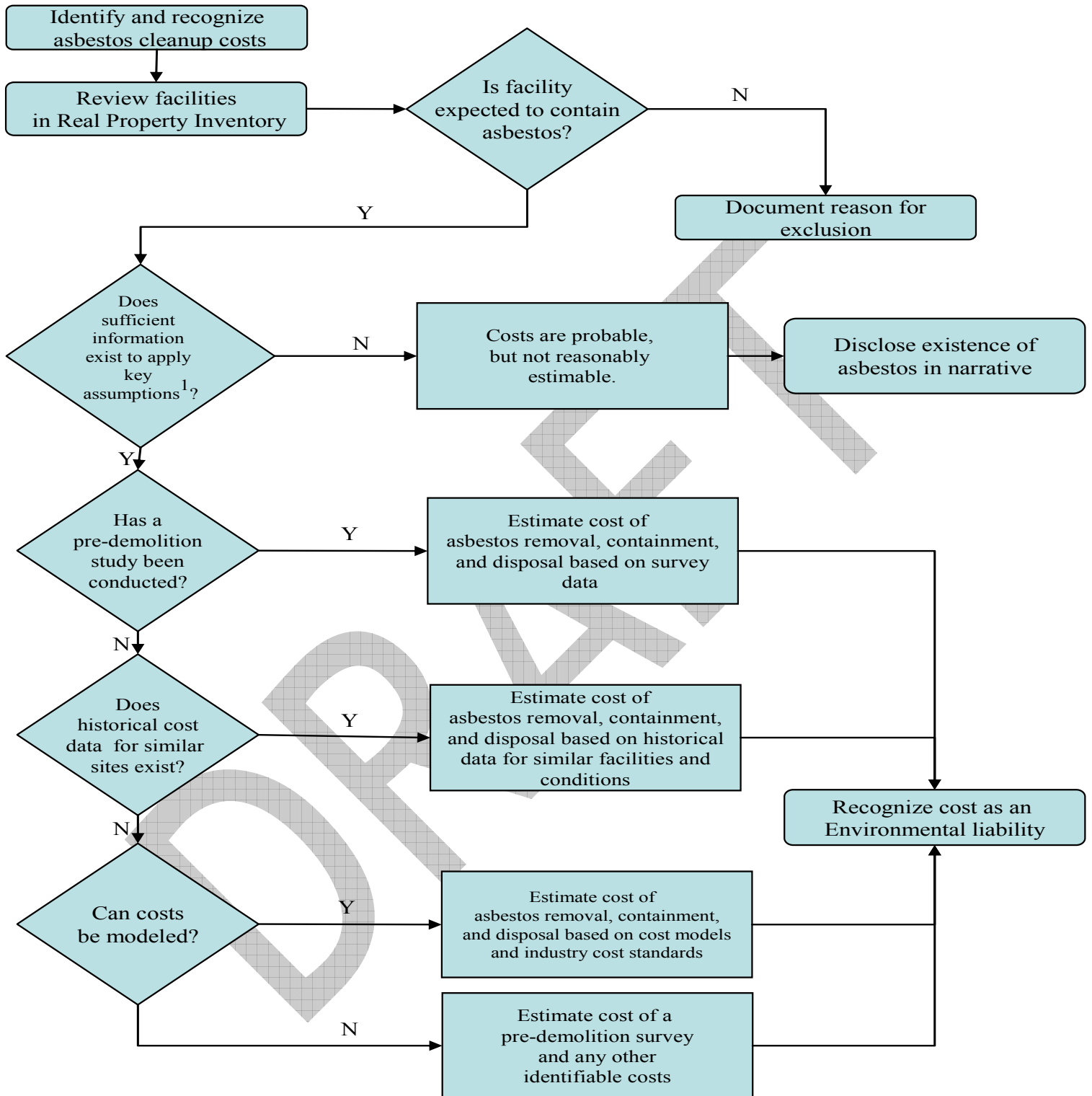
3. Estimate the future costs of removing asbestos¹:

¹ 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)

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- a. Employing the key assumptions, estimate the costs for asbestos removal, containment, and disposal using one of the following methods:
 - i. If a pre-demolition asbestos survey has been conducted, estimate asbestos removal, containment, and disposal costs based on survey data;
 - ii. If there is historical cost data for similar facilities with similar conditions, estimate liability based on similar facilities and historical costs at current year dollars;
 - iii. Estimate liability using an environmental cost model and information from industry specific cost estimation publications.
 - iv. When the key assumptions cannot be made and there is no comparable facility and/or condition, the costs for removal of asbestos would not be considered reasonably estimable at that time. The agency would recognize the cost of conducting a pre-demolition asbestos survey, plus any other identifiable associated costs according to the guidance in SFFAS 6, par. 104.

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General Approach to Identifying and Recognizing Asbestos Cleanup Costs



¹ – Key assumptions include renovation or demolition method, any non-standard costs and the quantity and quality of asbestos to be removed

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.

At the point that a Federal entity decides to estimate the asbestos cleanup liability for a given facility, the following considerations 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 requiring repair are suspected of containing asbestos.
- 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 apply:

- The asset is constructed prior to 1989 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 surveyed by the previous owner and disclosed as part of the acquisition documentation
- No pre-demolition study has been performed to determine the actual type, location, or extent of asbestos in the facility;
- There are assets that are similar in size, age and functionality, but there is no information about the type, location, or extent of asbestos in those assets;
- There are no current reliable factors or parameters to be applied to a relevant asbestos liability estimation model.

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 a pre-demolition study and any other identifiable associated cost, recognizing 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 facilities) to develop a reasonable estimate of asbestos cleanup costs.

Bases for Conclusion

1. Should both friable and non-friable asbestos be considered in determining the cleanup requirements?

It is rare to find asbestos, regardless of its type, amount, or condition (e.g., friable or non-friable) that does not require some degree of special handling during demolition, containment, or disposal depending on state and local regulations. During normal operations of a facility, even friable asbestos may remain in place so long as it is contained or managed in a manner that prevents fibers from being released into the air. Also, asbestos that is non-friable during normal operations of a facility often becomes friable during demolition. Thus, the distinction between friable and non-friable asbestos is not necessary for determining what will be required for recognition of asbestos cleanup liability.

2. Can experience with similar assets in age, size and function always provide a reasonable estimate for asbestos cleanup liability without performing a pre-demolition study?

The cost of conducting asbestos studies correlates well with facility size in terms of square footage; however, the cost of asbestos removal and disposal varies greatly among similar facilities in terms of age, size and function. For example, in the Navy and Marine Corps Asbestos Liability Pilot, facilities of similar age, function, and size were found to have widely varying levels of asbestos. This is likely due to varying levels of asbestos removal during renovation and repair activities over the years, as well as differences in the amounts of asbestos originally present. As a result of this high variability, it was concluded that the asbestos cleanup liability based on similar assets was best estimated as a value in the range of: 1) the cost of an asbestos study plus \$0; and 2) the cost of an asbestos study plus the asbestos removal/disposal cost estimated from relationships established for various categories including facility size, age, and function. When no value in the range of estimated values is more likely than the any other, the low end of the range should be recognized as the liability.

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

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