



Federal Accounting Standards Advisory Board

***Implementation Guidance on Asbestos Cleanup Costs Associated with
Facilities and Installed Equipment***

Federal Financial Accounting Technical Release

Exposure Draft

Written comments are requested by December 4, 2009

September 3, 2009

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Section III. I (3) of FASAB’s Rules of Procedure authorizes AAPC to issue technical releases related to existing federal accounting standards. Technical releases are intended to provide guidance on the specific application of Statements of Federal Financial Accounting Standards (SFFASs), Interpretations of SFFASs, and Technical Bulletins. AAPC’s technical releases are in the third category of authoritative guidance in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles*. AAPC may not amend existing standards or promulgate new standards.

Additional background information is available from the FASAB or its website:

- ◆ “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- ◆ “Mission Statement: Federal Accounting Standards Advisory Board”,

Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at:

www.fasab.gov

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
FAX – 202-512-7366

www.fasab.gov

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The Accounting and Auditing Policy Committee

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Department of the Treasury, the Office of Management and Budget (OMB), the Government Accountability Office (GAO) [formerly the General Accounting Office], the Chief Financial Officers' Council (CFOC), and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) [formally the President's Council on Integrity and Efficiency (PCIE)], as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee established by the Federal Accounting Standards Advisory Board (FASAB). The mission of the FASAB is to develop accounting standards after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information. The mission of the AAPC is to assist the federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues as they relate to the specific application of existing authoritative literature.

The AAPC is intended to address issues that arise in implementation, which are not specifically or fully discussed in Federal accounting and auditing standards. The AAPC's guidance is cleared by FASAB before being published.

Additional background information on the AAPC is available from the FASAB or its website:

- ◆ “Charter of the Accounting and Auditing Policy Committee”

- ◆ “Accounting and Auditing Policy Committee Operating Procedures”



Federal Accounting Standards Advisory Board

September 3, 2009

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Accounting and Auditing Policy Committee (AAPC or Committee) of the Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Federal Financial Accounting Technical Release entitled, *Implementation Guidance on Asbestos Cleanup Costs Associated with Federal Facilities and Installed Equipment*. Specific questions for your consideration appear on page 7 and are available for your use in Word format on the FASAB website at <http://www.fasab.gov/exposure.html>. However, you are welcome to comment on any aspect of this proposal. Your response would be more helpful to the Committee and the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by **December 4, 2009**.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to PayneW@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the specific date, time and location of the hearing will be published in the Federal Register and in the FASAB newsletter.

Wendy M. Payne
AAPC Chair

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Introduction

Purpose

1. In accordance with FASAB Technical Bulletin (TB) 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*:
 - Federal entities will (1) estimate both friable and non-friable asbestos-related cleanup costs and (2) recognize a liability and related expense for those costs that are both probable and reasonably estimable,¹ consistent with the current guidance in Statement of Federal Financial Accounting Standards (SFFAS) 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant, and Equipment, Chapter 4: Cleanup Costs*; and Technical Release (TR) 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.
 - Federal entities will disclose information related to friable and non-friable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements, consistent with SFFAS 5, SFFAS 6, and TR 2.
2. This technical release provides a framework for identifying assets containing asbestos, assessing the asset to collect information and/or develop key assumptions in applying acceptable methodologies to estimate asbestos cleanup costs for federal facilities and installed equipment,^{2,3} hereafter referred to as "real property" in this document.

Scope

3. The scope of this guidance is limited to federal real property⁴ that contains any form of asbestos. It provides additional clarification of SFFAS 6 and TB 2006-1 for identification and recognition of asbestos related cleanup costs, and provides a methodology for identifying and recognizing asbestos liabilities associated with federal properties.
4. Readers of this technical release should first refer to the hierarchy of accounting standards in SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles for Federal Entities, Including the Application of Standards Issued by the Financial Accounting Standards Board*. This technical release supplements the relevant accounting standards, but is not a substitute for and does not take precedence over the standards. This technical release clarifies, but does not change, guidance previously provided in SFFAS 5, SFFAS 6, FASAB TB 2006-1, and TR 2.

¹ The estimate shall be included as part of the "estimated total cleanup cost." (SFFAS 6 par. 94)

² Includes those assets within general PP&E, heritage and stewardship categories

³: Installed equipment "fixture" is defined in [GAO-01-179SP Appropriation Law-Vol. IV](#) (16-191) 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.

⁴ For the purpose of this document, real property is defined as federal facilities and installed equipment.

Technical Guidance

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Effective Date

5. This technical release is effective immediately.

Request for Comments

6. Q1. Do you agree or disagree with the methodology outlined for identifying real property containing asbestos (paragraph 16)? Please provide the rationale for your answer.
7. Q2. Do you agree or disagree with the assessment to be applied to those facilities expected to contain asbestos (paragraph 17)? Please provide the rationale for your answer. Do you believe additional or different assessments should be applied? If so, please specify.
8. Q3. Do you agree or disagree with the list of estimating methodologies proposed to estimate the cost of removal, containment or disposal of real property or group of real properties (paragraph 18)? Please provide the rationale for your answer. Do you believe additional methodologies should be included? If so, please specify.
9. Q4. Do you agree or disagree with the example of practice for evaluating asbestos cleanup costs associated with real property repair and renovation (Appendix B)? Please provide the rationale for your answer.
10. Q5. Do you agree or disagree with the example of practice for evaluating asbestos cleanup costs associated with real property demolition (Appendix B)? Please provide the rationale for your answer.
11. Q6. Do you believe additional technical guidance related to asbestos cleanup costs associated with facilitates and installed equipment is needed in this proposal? Please provide the rationale for your answer.

Background

Overview

12. Prior to Technical Bulletin 2006-1, "most federal entities had recognized liabilities for the removal of asbestos that posed an immediate health threat (i.e., friable asbestos), but many federal entities had not prepared an estimate of cleanup costs for the future removal of asbestos that did not pose an immediate health threat (i.e., non-friable asbestos). Therefore, it was determined that additional guidance was needed to clarify that entities need to estimate all asbestos-related cleanup costs and not just those costs related to asbestos that requires immediate cleanup."⁵

⁵ Technical Bulletin 2006-1, Summary II

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13. As federal agencies continue to develop their approach to implementing SFFAS 6 and TB 2006-1 for recognition of cleanup cost associated with asbestos, it has become apparent that an implementation strategy is needed to ensure consistent reporting of asbestos cleanup liabilities. Many federal agencies continue to struggle with interpreting 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.

Related Accounting Literature

14. The related accounting standards are as follows:

Federal Accounting Standards Advisory Board (FASAB) Accounting Standards:

- a. SFFAS 5, *Accounting for Liabilities of the Federal Government*
- b. SFFAS 6, *Accounting for Property, Plant, and Equipment*
- c. Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*
- d. Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*

Technical Guidance

Methodology for Identifying and Estimating Cleanup Costs Associated with Asbestos

15. The following methodology is for identifying and estimating cleanup costs associated with asbestos. The methodology, described below and illustrated in Diagram 1, was 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." How this approach will be executed is at the discretion of the individual federal agency.
16. The following steps may be taken to identify real property containing asbestos.
- a. Review inventory listing of all owned real property.
 - b. Identify and eliminate all real property or group of real properties not expected to contain asbestos from the list. Document the basis for elimination such as:
 - i. Asbestos survey results, or other records indicating the real property(ies) is not likely to contain asbestos;
 - ii. Records indicating all asbestos was previously removed from the real property(ies); or

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- iii. Asset type is not likely to have asbestos or not required to be surveyed for asbestos (e.g., railroad tracks, power lines, airfield pavements, roads, sidewalks, and land).
17. Once steps have been taken to identify real properties containing asbestos, each real property or group of real properties expected to contain asbestos should be assessed to collect the information in paragraphs a and b below. For purposes of developing asbestos cleanup cost estimates, assumptions⁶ can be made in some cases to make up for a lack of actual data.
- a. The scope of asbestos removal required at real property(ies) renovation, disposal or demolition by determining the:
 - i. Most likely method of real property renovation or demolition (e.g., use of heavy equipment, implosion/explosion, or hand methods); and
 - 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. The amount, type, location, and expected condition of asbestos and asbestos containing materials in the real property or group of properties by referring to available records, reasonable surveys of the real property(ies) and/or real property construction information.
 - c. If the information above is not available or sufficient to support assumptions in lieu of actual data, yet the existence of asbestos has been identified in 16 above, then the removal of asbestos may 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.⁷
18. If sufficient information is available to develop a cleanup cost estimate or support key assumptions needed for the cost estimate, then use one of the following estimating methodologies for each real property or group of real properties to estimate cost of removal, containment or disposal.
- a. A property-specific cost estimate based on survey data (most accurate, if available); or
 - b. An extrapolation of historical costs for asbestos cleanup of similar real property(ies); or

⁶ Assumptions include renovation or demolition method, any non-standard costs and the quantity and quality of asbestos to be removed (paragraphs a and b above). As additional information becomes available, the federal entity should reevaluate its key assumptions and make necessary adjustments to the cost estimate and liability.

⁷ Technical Bulletin 2006-1, par. 49.

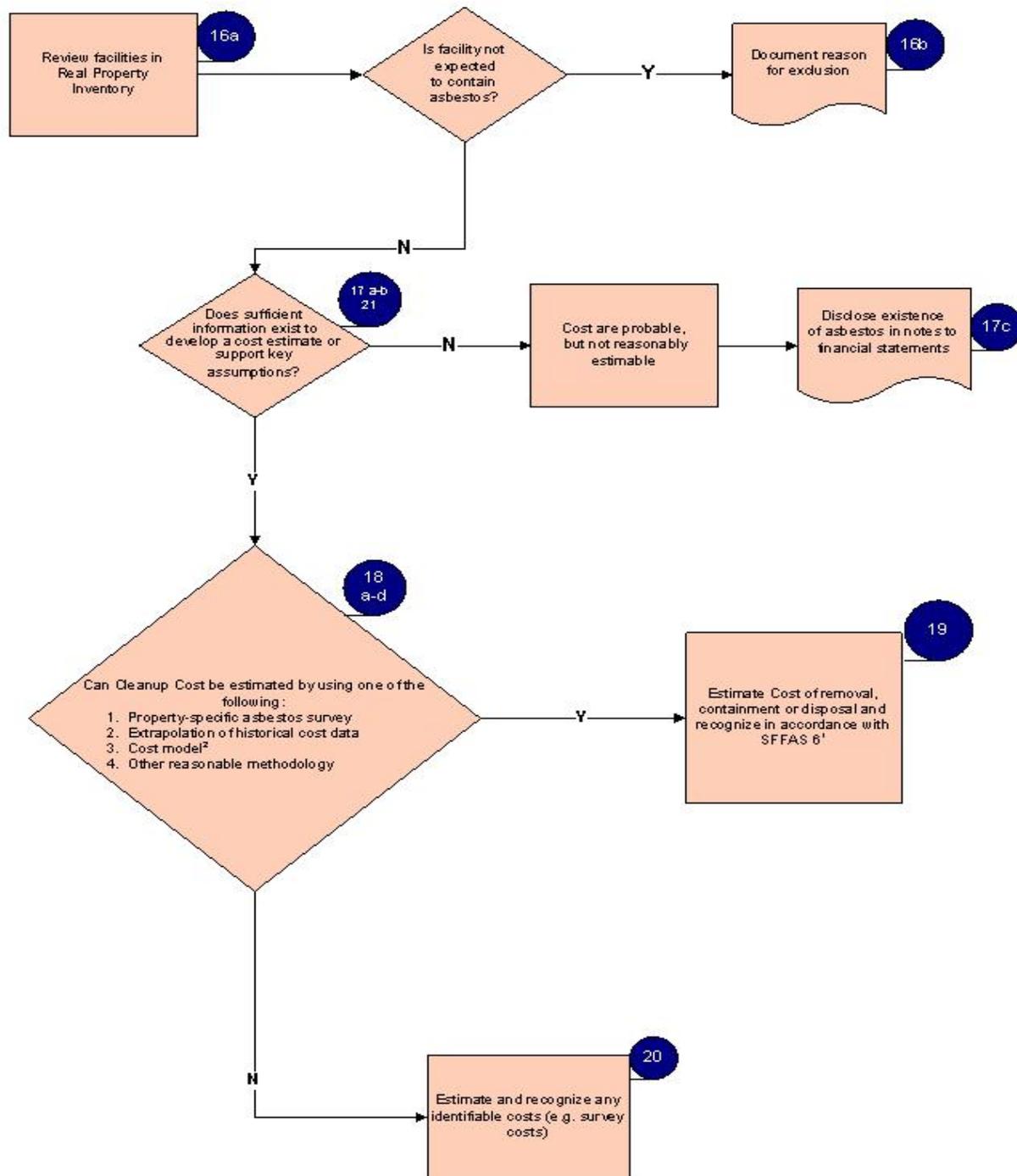
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- c. A cost model⁸ used for an individual real property or group of similar real properties and information from industry specific cost estimation publications or standardized cost factors developed for each state; or
 - d. Other reasonable methodologies.
- 19. Once the estimated asbestos cleanup cost associated with the removal, containment or disposal of the real property has been determined, that cost should be recognized in accordance with SFFAS 6.⁹
 - 20. If the asbestos cleanup cost can not be estimated using any of the methodologies in paragraph 18, the agency should estimate and recognize any other identifiable costs (e.g. asbestos survey) as outlined in SFFAS 6, paragraph 104.
 - 21. In accordance with SFFAS 6, paragraph 96, "Estimates shall be revised periodically to account for material changes due to inflation or deflation and changes in regulations, plans and/or technology. New cost estimates should be provided if there is evidence that material changes have occurred; otherwise estimates may be revised through indexing."¹⁰ As additional information becomes available, re-evaluate key assumptions, revise cost estimate, and make necessary adjustments to the liability recognition.

⁸ A cost model is a framework upon which an estimating methodology is developed. The model may use mathematical equations to convert resource data into cost data and require users to enter a minimal amount of information to generate cleanup cost estimates.

⁹ See paragraphs 98 and 101, and Technical Bulletin 2006-1, paragraph 37.

¹⁰ 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.

Diagram 1: General Approach to Determining, Estimating and Recognizing Asbestos Cleanup Costs for each Property or Group of Properties
(Blue circle ■ correlates to sections of document)



1 – In accordance with the requirements of SFFAS 6, pars. 97, 101, and 104

2 – A cost model is a framework upon which an estimating methodology is developed. The model may use mathematical equations to convert resource data into cost data and require users to enter a minimal amount of information to generate cleanup cost estimates.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

Background

- A1. In January 2008, the Accounting and Audit Policy Committee (AAPC), established the General Property, Plant, & Equipment (G-PP&E) Task Force to assist in developing implementation guidance for federal G-PP&E as it relates to SFFAS 6, *Accounting for PP&E*, SFFAS 23, *Eliminating the Category National Defense Property Plant, & Equipment*, and other related G-PP&E Guidance developed by the FASAB. The task force includes federal agency representatives who are experiencing G-PP&E implementation issues and those who have G-PP&E implementation best practices to share with the federal community.
- A2. The AAPC G-PP&E task force was divided into four subgroups that will each address a set of related issues. Each subgroup meets separately on a regular basis to discuss its set of issues and report back to the full task force on its progress towards the development of implementation guidance. The four subgroups are:
- G-PP&E Acquisition
 - G-PP&E Use
 - G-PP&E Disposal
 - G-PP&E Records Retention
- A3. This proposed guidance was developed by the Disposal subgroup. The subgroup included members from the following federal agencies:
- Department of Defense
 - Department of Energy
 - Department of the Interior
 - Government Accountability Office
 - General Services Administration
 - National Aeronautics and Space Administration

Recognition versus Disclosure of Asbestos Cleanup Costs

- A4. 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 the agency's financial statements.

Asbestos Cleanup Cost Estimation Approach

A5. 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 properties, extrapolation of historical costs, property-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.

Appendix B: Illustrations -- Examples of Practice

I. Evaluating Asbestos Cleanup Costs Associated with Real Property Repair or Renovation:

A federal entity recognizes the potential to repair or renovate real property during the course of its operating life. For real property containing asbestos, the asbestos 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 real property, the following considerations may apply:
 - An asbestos survey performed on the real property indicates that the blown-in attic insulation and the ceiling tiles located in a portion of the real property that requires repair contain 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 asbestos containing materials are 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 real property 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, paragraph 104.

II. Evaluating Asbestos Cleanup Costs Associated with Real Property 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:
 - There is no evidence or certification that the asset is asbestos free. As similar real property constructed at the same time has been found to contain asbestos, it is therefore probable that asbestos may be present in the real property being assessed;
 - 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 real property;

Appendix B: Illustrations

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- 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 extent of 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 real property 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 survey and any other identifiable associated cost, recognize that liability in accordance with the guidance in SFFAS 6, paragraph 104, and disclose information about the real property in the notes to the financial statement. Also, as relevant information about the real property 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 real property) to develop a reasonable estimate of asbestos cleanup costs.

Appendix C: Abbreviations

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Appendix C: Abbreviations

AAPC	Accounting and Auditing Policy Committee
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
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

AAPC General PP&E Task Force

Donjette L Gilmore, Department of Defense, Task Force Chairperson (AAPC Member)
Daniel Fletcher, Department of the Interior, Task Force Chairperson (AAPC Member)

Alaleh Amiri, Department of Defense, Disposal Subgroup Leader

Task Force Member Agencies

Department of Agriculture
Department of Commerce
Department of Defense
Department of Energy
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Department of State
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D. James Sturgill
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FASAB Staff
Monica R. Valentine

Federal Accounting Standards Advisory Board
441 G Street NW, Suite 6814
Mail Stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
FAX 202-512-7366
www.fasab.gov