
Statement of Federal Financial Accounting Standards 6: Accounting for Property, Plant, and Equipment

Status

Issued	November 30, 1995
Effective Date	For periods beginning after September 30, 1997.
Affects	None.
Affected by	<ul style="list-style-type: none">• SFFAS 10 rescinds paragraphs 27-28.• SFFAS 14 (<i>rescinded</i>) affects paragraphs 79-80, and 83-84.• SFFAS 16 (<i>rescinded</i>) amends paragraphs 59 and 60-63.• SFFAS 23 affects paragraphs 21 and 35 and rescinds paragraphs 46-56.• SFFAS 29 rescinds paragraphs 57-76 and amends paragraph 21.• SFFAS 32 amends paragraphs 45 and 107-111.• SFFAS 35 (<i>rescinded</i>) amends paragraphs 40 and 45.• SFFAS 42 rescinds paragraphs 77-84 and Appendix C.• SFFAS 50 amends paragraphs 25, 26, and 40.• SFFAS 54 rescinds paragraphs 20 and 29.• SFFAS 57 affects paragraph 26.• SFFAS 59 transitionally amends paragraphs 25-26, 35, 40, 44-45 and inserts paragraphs 20A-20D, 34A, and 45A-45B.• SFFAS 60 amends paragraph 18 and inserts paragraphs 19A and 26A.• Interpretation 9, <i>Cleanup Cost Liabilities Involving Multiple Component Reporting Entities</i>• TB 2006-1.• TB 2017-2.• SIG 6.1.
Related Guidance	<ul style="list-style-type: none">• TR 2, <i>Determining Probable and Reasonable Estimate for Environmental Liabilities in the Federal Government</i>• TR 7, <i>Clarification of Standards Relating to the National Aeronautics and Space Administration's Space Exploration Equipment</i>• TR 10, <i>Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment</i>• TR 11, <i>Implementation Guidance on Cleanup Costs Associated with Equipment</i>• TR 13, <i>Implementation Guide for Estimating the Historical Cost of General Property, Plant, and Equipment</i>• TR 14, <i>Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment</i>• TR 15, <i>Implementation Guidance for General Property, Plant, and Equipment Cost Accumulation, Assignment and Allocation</i>• TR 17, <i>Conforming Amendments to Technical Releases for SFFAS 50, Establishing Opening Balances for General Property, Plant, and Equipment</i>• TR 18, <i>Implementation Guidance for Establishing Opening Balances</i>

Summary

This statement contains accounting standards for Federally owned property, plant, and equipment (PP&E); and cleanup costs.

Property, Plant, And Equipment

The Federal Government's investment in PP&E exceeds \$1 trillion¹ and includes many types of PP&E used for many different purposes. "PP&E" is defined as follows:

Tangible assets that (1) have an estimated useful life of 2 or more years, (2) are not intended for sale in the ordinary course of business, and (3) are intended to be used or available for use by the entity.

The diversity among Federal PP&E creates a need for meaningful categories of PP&E with different accounting standards for each category. The categories of PP&E are:

- general PP&E are PP&E used to provide general government services or goods;
- heritage assets are those assets possessing significant educational, cultural, or natural characteristics; and
- stewardship land² (i.e., land other than that included in general PP&E).

Complete accounting standards for *general PP&E* are included in this document.

General PP&E

The general PP&E category consists of items that:

- could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but are used by the Federal entity to produce goods or services, or to support the mission of the entity; or

¹Department of the Treasury, Financial Management Service, *Consolidated Financial Statements of the United States Government*, prototype 1993, p. 23. The prototype statements provide gross historical cost investment amounts for all PP&E recorded by government entities. These amounts have not been audited.

²Land acquired for or in connection with *general PP&E* would be included in that category. Land not associated with general PP&E would be considered stewardship land.

-
- are used in business-type activities;³ or
 - are used by entities in activities whose costs can be compared to other entities (e.g., Federal hospitals compared with other hospitals).

General PP&E includes land acquired for or in connection with other general PP&E.⁴

General PP&E shall be reported in the basic financial statements: the balance sheet,⁵ and the statement of net cost.⁶ The acquisition cost of general PP&E shall be recognized⁷ as an asset. Subsequently, except for land which is a nondepreciable asset, that acquisition cost shall be charged to expense through depreciation.⁸ The depreciation expense shall be accumulated in a contra asset account—accumulated depreciation.

The Standards addressing internally-developed software have been amended by SFFAS 10, *Accounting for Internal Use Software*.⁹

In addition, the standard addresses donations, transfers, and retirements of general PP&E as well as disclosure¹⁰ requirements.

³Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue as defined in the Board's exposure draft on *Revenue and Other Financing Sources*.

⁴"Acquired for or in connection with other general PP&E" is defined as land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E, including not only land used as the foundation, but also adjacent land considered to be the general PP&E's common grounds.

⁵"Balance sheet" refers to the statement that reports on assets, liabilities, and net position of the entity at the end of the reporting period. This statement is referred to in OMB Bulletin 94-01, Form and Content of Agency Financial Statements, as the Statement of Financial Position.

⁶"Statement of Net Cost" refers to the statement providing information on the entity's flows of exchange revenues, expenses, gains, and losses. The Board presented this new statement in its Statement of Federal Financial Accounting Concepts 2, *Entity and Display*. In addition, the Board has exposed for comment a standard for reporting net costs and has provided an illustrative statement which might give effect to this standard in the ED on *Revenue and Other Financing Sources*, July, 1995.

⁷"Recognize" means to record an amount in entity accounts and to report a dollar amount on the face of the Statement of Net Costs or the Balance Sheet either individually or so that the amounts are aggregated with related amounts.

⁸"Depreciation" is the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage or residual value, over its estimated useful life.

⁹See SFFAS 10.

¹⁰"Disclosure" refers to reporting information in notes regarded as an integral part of the basic financial statements.

Federal Mission PP&E

The requirements contained herein have been rescinded because the Federal Mission PP&E category was replaced by the National Defense PP&E term in SFFAS 11, but then ND PP&E was rescinded by SFFAS 23.^{11, 12}

Heritage Assets and Stewardship Land

The requirements contained herein have been rescinded and replaced by SFFAS 29, *Heritage Assets and Stewardship Land*.

Deferred Maintenance

The Deferred Maintenance requirement contained herein have been rescinded and replaced by SFFAS 42, *Deferred Maintenance and Repairs*, Amending SFFAS 6, 14, 29, and 32. Information related to the condition and the estimated cost to remedy deferred maintenance of PP&E is to be reported as required supplementary information.

Cleanup Costs

Cleanup costs are the costs associated with hazardous waste removal, containment, or disposal. In some instances, the Federal Government incurs liabilities¹³ for cleaning up hazardous waste at sites or facilities it operates or has operated. Generally, cleanup cannot be, or is not, done until permanent or temporary closure or shutdown of sites or facilities. The Board has completed accounting standards for liabilities which address liabilities for environmental cleanup resulting from an accident, natural disaster, or other one-time

¹¹Footnotes 11 and 12 were rescinded with the removal of language relating to Federal Mission PP&E.

¹²Footnotes 11 and 12 were rescinded with the removal of language relating to Federal Mission PP&E.

¹³FASAB's Statement of Federal Financial Accounting Standards 5, *Accounting for Liabilities of the Federal Government*, recommends the following definition for liability: a probable future outflow or other sacrifice of resources as a result of past transactions or events. The standards require recognition, in general purpose Federal financial reports, of probable and measurable liabilities arising from past exchange transactions; government-related injuries or damage; or non-exchange amounts that, according to current law and applicable policy, are due and payable to the ultimate recipient. The standards also provide guidance for disclosures related to liabilities that are not both probable and measurable at the balance sheet date.

occurrence. Those liability standards do not address inter-period cost allocation when cleanup relates to operations that span many periods.

Therefore, the Board chose to provide additional guidance relative to cleanup costs in this standard. The additional standards in this statement provide for the timing of recognition of the liability and related operating expense.

For cleanup costs associated with general PP&E, probable¹⁴ and measurable cleanup costs shall be allocated to operating periods benefiting from operations of the general PP&E. This allocation shall be based on a systematic and rational method. For example, the estimated cost could be allocated to operating periods based on the expected physical capacity of the PP&E and the amount of capacity used each period. In addition, disclosure of the total estimated cost is required.

For cleanup costs associated with stewardship PP&E, probable and measurable liabilities shall be recognized when the stewardship PP&E is placed in service. Simultaneous to recognizing the liability, the related expense for cleanup cost shall be recognized.

¹⁴The term “probable” means that which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic but which is neither certain nor proven. For example, cleanup costs would be probable if (1) laws and regulations that have been approved as of the balance sheet date, regardless of the effective date of those laws and regulations, require cleanup or (2) compliance agreements (e.g., agreements with state or local authorities relating to the extent and the timing of remedial action) had been entered into by a Federal entity.

Table of Contents

	Page
Summary	2
Introduction	7
Property, Plant, And Equipment	10
Deferred Maintenance	25
Cleanup Costs	25
Appendix A: Basis For Conclusions	31
Appendix B: Illustrations Of Categories	49
Appendix C: Deferred Maintenance Illustration	53
Appendix D: Illustration of Cleanup Cost	54
Appendix E: Glossary [See Consolidated Glossary in Appendix E]	63

Chapter 1: Introduction

Purpose

1. The purpose of this statement is to provide accounting standards for Federally owned property, plant, and equipment (PP&E); deferred maintenance; and cleanup costs. This introduction provides information on:
 - the scope of the standards,
 - consideration of reporting objectives,
 - applicability of the standards,
 - capitalization threshold,
 - materiality, and
 - effective date.
2. Chapters 2, 3, and 4 present the accounting standards for PP&E, deferred maintenance, and cleanup costs, respectively.
3. Appendix A presents the Basis for Conclusions. This appendix provides the Board's rationale for the decisions made and responds to the major issues raised in comment letters.
4. Appendix B presents illustrations to aid in categorizing PP&E.
5. Appendix C provides an example of a deferred maintenance disclosure.
6. Appendix D illustrates cleanup cost accounting.
7. Appendix E is a glossary of terms used in this statement [Omitted. See Consolidated Glossary in "Appendix E: Consolidated Glossary" on page 1.]

Scope

8. This statement identifies and defines categories of PP&E and addresses recognition and measurement of, and disclosure requirements associated with property, plant, and equipment (as well as land), including accounting for deferred maintenance and cleanup costs. This statement does not address natural resources. However, the Board is undertaking a project to address accounting for natural resources.

Reporting Objectives

9. In drafting accounting standards for PP&E, the Board relied on the Statement of Federal Financial Accounting Concepts Number 1, *Objectives of Federal Financial Reporting*. Ultimately, all accounting standards taken as a whole will help meet the four reporting objectives expressed in the Objectives statement: budgetary integrity, operating performance, stewardship, and systems and controls. The focus of these standards is on the two reporting objectives most relevant to PP&E—operating performance and stewardship. These objectives and how they could be met through PP&E accounting are discussed under the headings (1) operating performance, and (2) stewardship.

Operating Performance

10. The Board believes that it can contribute to meeting the operating performance objective¹⁵ by measuring the cost associated with using property, plant, and equipment and including that cost in entity operating results. The Board first sought to identify PP&E costs that would be appropriate to include in operating expense. Then, from consideration of cost information required, the Board determined what balance sheet information would have to be reported.
11. To meet the operating performance objective, the Board seeks to provide accounting standards that will result in:
- relevant and reliable cost information for decision-making by internal users (e.g., program managers, budget examiners and officials),
 - comprehensive, comparable cost information for decision-making and program evaluation by Congress and the public, and
 - information to help assess the efficiency and effectiveness of asset management (e.g., condition of assets including deferred maintenance).

¹⁵Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine:

- a. the costs of providing specific programs and activities and the composition of, and changes in, these costs.
- b. the efforts and accomplishments associated with Federal programs and the changes over time and in relation to costs.
- c. the efficiency and effectiveness of the government's management of its assets and liabilities.

Stewardship

12. The Board believes that Federal financial reporting can fulfill the stewardship objective¹⁶ if the Board provides standards that will result in reporting information on:
- asset condition;
 - changes in the amount and service potential of property, plant, and equipment;
 - cost of property, plant, and equipment where applicable; and
 - spending for acquisition of property, plant, and equipment versus non-capital spending.

Capitalization Thresholds

13. The Board believes that capitalization thresholds should be established by Federal entities rather than centrally by the Board. Because Federal entities are diverse in size and in uses of PP&E, entities must consider their own financial and operational conditions in establishing an appropriate capitalization threshold or thresholds. Once established, this threshold(s) should be consistently followed and disclosed in the financial reports.

Applicability

14. For guidance on the general applicability of this standard and all other Federal financial accounting standards please refer to Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display*.

Materiality

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

¹⁶Federal financial reporting should assist users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition have changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine:

- a. whether the government's financial position improved or deteriorated over the period.
- b. whether the future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.
- c. whether government operations have contributed to the nation's current and future well-being.

Effective Date

16. The Board recommends that the accounting standards presented in this proposed statement become effective for periods beginning after September 30, 1997. Earlier implementation is encouraged. In addition, under early implementation individual provisions of the accounting standards may be implemented before other provisions. For example, provisions for stewardship PP&E may be implemented before provisions for general PP&E.

Chapter 2: Property, Plant, And Equipment

Definitions

17. Property, plant, and equipment consists of tangible assets, including land, that meet the following criteria:
- they have estimated useful lives¹⁷ of 2 years or more;
 - they are not intended for sale in the ordinary course of operations; and
 - they have been acquired or constructed with the intention of being used, or being available for use by the entity.
18. Property, plant, and equipment also includes:
- Leasehold improvements
 - Property owned by the reporting entity in the hands of or leased to others (e.g., state and local governments, colleges and universities, or Federal contractors);
 - Land rights that do not meet the definition of a lease;¹⁸ and
 - Contracts or agreements that transfer ownership.^{18A}

¹⁷ Useful life is the normal operating life in terms of utility to the owner. (adapted from Kohler's Dictionary for Accountants)

¹⁸ "Land rights" are interests and privileges held by the entity in land owned by others, such as easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.

^{18A} See SFFAS 54, par. 25.

19. Property, plant, and equipment excludes items (1) held in anticipation of physical consumption such as operating materials and supplies¹⁹ and (2) the Federal entity has a reversionary interest in.²⁰

19A. Property, plant, and equipment also excludes lease assets and land rights that meet the definition of a lease under SFFAS 54, *Leases*.

20. Rescinded by SFFAS 54.^{21, 22, 23, 24}

20A. Acres of land held for disposal or exchange include land for which the entity has satisfied the statutory disposal authority requirements specific to the land in question.^{24.1} Disposal includes conveyances of federal land to non-federal entities not limited to sale, transfer, exchange, lease, public-private partnership, and donation or any combination thereof.

20B. Commercial use land sub-category includes land or land rights that are predominantly used to generate inflows of resources (such inflows may be derived from the land itself or activities performed on the land and regardless of whether the use or activity is intended to produce a profit) from non-federal third parties, usually through special use permits, right-of-way grants, and leases. Such inflows may arise from exchange or non-exchange activities and may or may not be considered dedicated collections. Examples include revenue or inflows derived from

- concession arrangements;
- grants for a specific project such as electric transmission lines, communication sites, roads, trails, fiber optic lines, canals, air rights, flumes, pipelines, reservoirs and dams;
- land sales or land exchanges;
- leases;
- permits for public use such as commercial filming and photography, advertising displays, agriculture, recreation residences and camping, recreation facilities, temporary use permits for construction equipment storage and assembly yards, well pumps, and other such uses;

¹⁹Accounting for operating materials and supplies is addressed in Statement of Federal Financial Accounting Standards No. 3 *Accounting for Inventory and Related Property*.

²⁰The Federal Government sometimes retains an interest in PP&E acquired with grant money. In the event that the grant recipient no longer uses the PP&E in the activity for which the grant was originally provided the PP&E reverts to the Federal Government.

²¹⁻²⁴Footnotes 21-24 were rescinded by SFFAS 54.

^{24.1} Entity decisions to identify and classify land as held for disposal or exchange often require public participation and diverse clearances, such as environmental and economic impact studies, surveys, and appraisals.

-
- forest product sales such as timber, or sales arising from national forests and grasslands; and/or
 - public-private partnerships.

20C. Conservation and preservation land sub-category includes land or land rights that are predominantly used for conservation or preservation purposes. Conservation and preservation, although closely linked, are distinct terms. Each term involves a certain type or degree of protection. Specifically, conservation is generally associated with the protection and proper use of natural resources, whereas preservation is associated with the protection of buildings, objects, and landscapes from use. Examples of land conserved or preserved for significant natural, historic, scenic, cultural, and recreational resources include the following:

- National parks
- Geological resource sites
- Wildlife and plant life refuges
- Archeological resource sites
- Local Native American or ethnic cultural sites

20D. Operational land sub-category includes land or land rights predominantly used for general or administrative purposes. For example, the following functions performed by entities would be included in this sub-category:

- Military functions include preparing for the effective pursuit of war and military operations short of war; conducting combat, peacekeeping, and humanitarian military operations; and supporting civilian authorities during civil emergencies.
- Scientific functions include conducting and managing research, experimentation, exploration, and operations (including the development of commercial capabilities). Broad scientific fields of study generally include (1) physical sciences (physics, astronomy, chemistry, geology, metallurgy), (2) biological sciences (zoology, botany, genetics, paleontology, molecular biology, physiology), and (3) social sciences (psychology, sociology, anthropology, economics).
- Nuclear functions include managing or regulating the use of nuclear energy, power plants, radioactive materials, radioactive material shipments, nuclear storage, and nuclear reactor decommissioning.
- Other related functions include those that are administrative or other mission related in nature. For example, land used for readiness and training, office building locations, storage, or vacant properties fall under this category.

Standards And Categories

21. The following paragraphs provide recognition and measurement principles, and disclosure requirements for general PP&E. For standards relating to heritage assets, multi-use heritage assets and stewardship land, see SFFAS 29, *Heritage Assets and Stewardship Land*.
22. In determining which category PP&E should be placed in, it will be necessary to identify the “base unit”²⁵ of PP&E against which the category definitions will be applied. For example, units as large as entire facilities or as small as computers could be categorized. In determining the level at which categorization takes place, an entity should consider the cost of maintaining different accounting methods for property and the usefulness of the information, the diversity in the PP&E to be categorized (e.g., useful lives, value, alternative uses), the programs being served by the PP&E, and future disposition of the PP&E (e.g., transferred to other entities or scrapped).²⁶

General Property, Plant, and Equipment

23. General property, plant, and equipment is any property, plant, and equipment used in providing goods or services. General PP&E typically has one or more of the following characteristics:
 - it could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but is used to produce goods or services, or to support the mission of the entity, or
 - it is used in business-type activities,²⁷ or

²⁵“Base unit” refers to the level of detail considered in categorizing PP&E. Generally, the base unit is the smallest or least expensive item of property to be categorized. The term “base unit” may be used by others to have a different meaning—the meaning intended in this standard is limited to that specified above.

²⁶The concept described here is intended for PP&E categorization purposes only. However, for the purpose of record keeping, greater detail may be necessary to maintain accountability for PP&E so that assets can be safeguarded against loss, theft, misappropriation, etc. Categorizing PP&E with less detail considered does not necessarily mean that (1) accounting systems or (2) property records must follow the same level of detail.

²⁷Business-type activity is defined as a significantly self-sustaining activity which finances its continuing cycle of operations through collection of exchange revenue as defined in the Board’s exposure draft on *Revenue and Other Financing Sources*.

-
- it is used by entities in activities whose costs can be compared²⁸ to those of other entities performing similar activities (e.g., Federal hospital services in comparison to other hospitals).
24. For entities operating as business-type activities, all PP&E shall be categorized as general PP&E whether or not it meets the definition of any other PP&E categories.
25. Land and land rights acquired for or in connection with other general PP&E²⁹ shall be included in general PP&E unless the reporting entity made the election to implement the provisions of paragraph 40.f.i.. In some instances, general PP&E may be built on existing Federal lands. In this case, the land cost would often not be identifiable. In these instances, general PP&E shall include only land and land rights with an identifiable cost that was specifically acquired for or in connection with construction of general PP&E.

Asset Recognition

26. **All general PP&E** shall be recorded at cost. Although the measurement basis for valuing general PP&E remains historical cost, reasonable estimates may be used to establish the historical cost of general PP&E, in accordance with the asset recognition and measurement provisions herein. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. For example, the cost of acquiring property, plant, and equipment may include:
- amounts paid to vendors;
 - transportation charges to the point of initial use;
 - handling and storage costs;
 - labor and other direct or indirect production costs (for assets produced or constructed);
 - engineering, architectural, and other outside services for designs, plans, specifications, and surveys;
 - acquisition and preparation costs of buildings and other facilities;
 - an appropriate share of the cost of the equipment and facilities used in construction work;
 - fixed equipment and related installation costs required for activities in a building or facility;
 - direct costs of inspection, supervision, and administration of construction contracts and construction work;
 - legal and recording fees and damage claims;

²⁸The Board is not making a recommendation that cost comparisons actually be made. Nor is it suggesting that costs can be easily compared for a Federal and non-Federal entity. If the activities are somewhat comparable then one should presume that a cost comparison **could** be made.

²⁹"Acquired for or in connection with other general PP&E" is defined as land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E, including not only land used as the foundation, but also adjacent land considered to be the general PP&E's common grounds.

-
- fair value of facilities and equipment donated to the government; and
 - interest costs paid.³⁰

26A. The cost of general PP&E acquired through a contract or agreement that transfers ownership shall be equal to the amount that would otherwise be recognized as a lease asset at the commencement of the lease term (see SFFAS 54, par. 49).

27. ... [See SFFAS 10 for revised standards regarding internally-developed software]^{31, 32, 33}

28. ... [See SFFAS 10 for revised standards regarding internally-developed software]³⁴

29. Rescinded by SFFAS 54.³⁵

30. The cost of general PP&E acquired through donation, devise,³⁶ or **judicial process** excluding forfeiture (See paragraph 33) shall be estimated fair value at the time acquired by the government.

31. The cost of general PP&E **transferred from other Federal entities** shall be the cost recorded by the transferring entity for the PP&E net of accumulated depreciation or amortization. If the receiving entity cannot reasonably ascertain those amounts, the cost of the PP&E shall be its fair value at the time transferred.

32. The cost of general PP&E acquired through **exchange**³⁷ shall be the fair value of the PP&E surrendered at the time of exchange.³⁸ If the fair value of the PP&E acquired is more readily determinable than that of the PP&E surrendered, the cost shall be the fair value of PP&E acquired. If neither fair value is determinable the cost of the PP&E acquired shall be the cost recorded for the PP&E surrendered net of any accumulated depreciation or

³⁰"Interest costs" refers to any interest paid by the reporting entity directly to providers of goods or services related to the acquisition or construction of PP&E.

³¹Footnote 31 was rescinded by SFFAS 10.

³²Footnote 32 was rescinded by SFFAS 10.

³³Footnote 33 was rescinded by SFFAS 10.

³⁴Footnote 34 was rescinded by SFFAS 10.

³⁵Footnote 35 was rescinded by SFFAS 54.

³⁶A will or clause of a will disposing of property.

³⁷This paragraph applies only to exchanges between a Federal entity and a non-Federal entity. Exchanges between Federal entities shall be accounted for as transfers (See paragraph 31.)

amortization. Any difference between the net recorded amount of the PP&E surrendered and the cost of the PP&E acquired shall be recognized as a gain or loss. In the event that cash consideration is included in the exchange, the cost of general PP&E acquired shall be increased by the amount of cash consideration surrendered or decreased by the amount of cash consideration received.

33. The cost of general PP&E acquired through **forfeiture** shall be determined in accordance with Statement of Federal Financial Accounting Standards No. 3, ***Accounting for Inventory and Related Property*** (SFFAS 3).³⁹ Amounts recorded for forfeited assets based on SFFAS 3 shall be recognized as the cost of general PP&E when placed into official use.
34. PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity.⁴⁰ In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

Expense Recognition

35. Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E. Depreciation expense shall be recognized on all general PP&E,⁴¹ except land and land rights of unlimited duration.⁴²
 - Estimates of useful life of general PP&E must consider factors such as physical wear and tear and technological change (e.g., obsolescence).
 - Various methods can be used to compute periodic depreciation expense so long as the method is systematic, rational, and best reflects the use of the PP&E.

³⁸If entity enters into an exchange in which the fair value of the PP&E acquired is less than that of the PP&E surrendered, the PP&E acquired shall be recognized at its cost as described in paragraph 32 and subsequently reduced to its fair value. A loss shall be recognized in an amount equal to the difference between the cost of the PP&E acquired and its fair value.

³⁹SFFAS 3 requires that forfeited real and personal property be valued at market value less an allowance for any liens or claims from a third party.

⁴⁰Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery. For PP&E acquired by a contractor on behalf of the entity (e.g., the entity will ultimately hold title to the PP&E), PP&E shall also be recognized upon delivery or constructive delivery whether to the contractor for use in performing contract services or to the entity.

⁴¹Software and land [See SFFAS 10 for standard regarding internally developed software] rights, while associated with tangible assets, may be classified as intangible assets by some entities. In this event, they would be subject to amortization rather than depreciation. "Amortization" is applied to intangible assets in the same manner that depreciation is applied to general PP&E—tangible assets.

⁴²Land rights that are for a specified period of time shall be depreciated or amortized over that time period.

-
- Any changes in estimated useful life or salvage/residual value shall be treated prospectively. The change shall be accounted for in the period of the change and future periods. No adjustments shall be made to previously recorded depreciation or amortization.
 - A composite or group depreciation methodology,^{42a} whereby the costs of PP&E are allocated using the same allocation rate, is permissible.
36. Depreciation expense shall be accumulated in a contra asset⁴³ account—accumulated depreciation. Amortization expense shall be accumulated in a contra asset account—accumulated amortization.
 37. Costs which either extend the useful life of existing general PP&E, or enlarge or improve its capacity shall be capitalized and depreciated/amortized over the remaining useful life of the associated general PP&E.
 38. In the period of disposal, retirement, or removal from service, general PP&E shall be removed from the asset accounts along with associated accumulated depreciation/amortization. Any difference between the book value of the PP&E and amounts realized⁴⁴ shall be recognized as a gain or a loss in the period that the general PP&E is disposed of, retired, or removed from service.
 39. General PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the PP&E and its expected net realizable value shall be recognized as a gain or a loss in the period of adjustment. The expected net realizable value shall be adjusted at the end of each accounting period and any further adjustments in value recognized as a gain or a loss. However, no additional depreciation/amortization shall be taken once such assets are removed from general PP&E in anticipation of disposal, retirement, or removal from service.

^{42a}The composite methodology is a method of calculating depreciation that applies a single average rate to a number of heterogeneous assets that have dissimilar characteristics and service lives. The group methodology is a method of calculating depreciation that applies a single, average rate to a number of homogeneous assets having similar characteristics and service lives.

⁴³A contra asset account is an account which partially or wholly offsets an asset account. On financial statements they may be either merged or appear together.

⁴⁴For example, amounts realized may include cash received for scrap materials or fair value of items received in exchange for PP&E removed from service.

Implementation Guidance

40. Alternative Methods for Establishing Opening Balances.^{44A} The following guidance is applicable for the reporting period when the reporting entity is presenting financial statements, or one or more line items addressed by this Statement, following generally accepted accounting principles (GAAP) promulgated by FASAB either (1) for the first time or (2) after a period during which existing systems could not provide the information necessary for producing such GAAP-based financial statements without use of the alternative methods. The following should be considered in establishing opening balances:
- a. The alternative methods for establishing opening balances may be applied for the reporting period in which the reporting entity, taken as a whole, makes an unreserved assertion^{44B} that its financial statements, or one or more line items addressed by this Statement, are presented fairly in accordance with GAAP. The alternative methods provided in this Statement should also be applied to correct subsequently discovered errors in general PP&E that were valued under an alternative method.
 - b. The application of these alternative methods based on the second condition specified in paragraph 40 is available to each reporting entity only once per line item.
 - c. A reporting entity that meets either condition in paragraph 40 and elects to apply any of the alternative methods available in establishing opening balances is subject to the reporting requirements under paragraph 13 of Statement of Federal Financial Accounting Standards 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*.
 - d. Alternative Valuation Method. Deemed cost^{44C} is an acceptable valuation method for opening balances of general PP&E. Because the reporting entity may have multiple

^{44A} Opening balances are account balances that exist at the beginning of the reporting period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

^{44B} An unreserved assertion is an unconditional statement.

^{44C} Deemed cost is an amount used as a surrogate for initial amounts that otherwise would be required to establish opening balances.

component or subcomponent reporting entities^{44D} using various valuation methods simultaneously, deemed cost should be based on one, or a combination, of the following valuation methods:^{44E}

- i. Replacement cost^{44F}
- ii. Estimated historical cost (initial amount). Reasonable estimates may be based on:
 - 1. cost of similar assets at the time of acquisition;
 - 2. current cost of similar assets discounted for inflation since the time of acquisition (that is, deflating current costs to costs at the time of acquisition by general price index); or
 - 3. other reasonable methods, including latest acquisition cost and estimation methods based on information such as, but not limited to, budget, appropriations, engineering documents, contracts, or other reports reflecting amounts to be expended.
- iii. Fair value^{44G}
- e. Establishing in-service dates.
 - i. In some cases, the in-service date must be estimated. In estimating the year that the base unit was placed in service, if only a range of years can be identified, then the midpoint of the range is an acceptable estimate of the in-service date.

^{44D} SFFAS 47, *Reporting Entity*, provides that “component reporting entity” is used broadly to refer to a reporting entity within a larger reporting entity. Examples of component reporting entities include organizations such as executive departments and agencies. Component reporting entities would also include subcomponents that may themselves prepare general purpose federal financial reports (GPFFRs). One example is a bureau that is within a larger department that prepares its own standalone GPFFR.

^{44E} The methods are not listed in order of preference.

^{44F} Replacement cost is the amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life (Statement of Federal Financial Accounting Concepts (SFFAC) 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*, par. 46).

^{44G} Fair value is the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale (SFFAC 7, par. 38).

-
- ii. It is not necessary to separately identify the in-service date for material improvements ^{44H} included in the opening balances of a base unit. All improvements included in the opening balances at deemed cost may be treated as if they were placed in-service at the date the base unit was placed in-service.
 - f. Alternative methods for land and land rights. A reporting entity should choose among the following alternative methods for establishing an opening balance for land and land rights. Because a reporting entity may have multiple component or subcomponent reporting entities selecting different alternative methods, a reporting entity should establish an opening balance based on one, or a combination, of these alternative methods. However, application of a particular alternative method must be consistent within each individual subcomponent reporting entity prior to consolidation into the larger component reporting or reporting entity.
 - i. The reporting entity may exclude land and land rights from the opening balance of general PP&E. If this alternative method is applied, the reporting entity should expense future land and land right acquisitions.
 - ii. Land and land rights may be recognized in opening balances based on the provisions of the alternative valuation method (deemed cost) provided in paragraph 40.d.
 - g. Once established using alternative methods, opening balances are considered consistent with GAAP.
 - h. Component Reporting Entity Disclosures:
 - i. A component reporting entity electing to apply deemed cost in establishing opening balances for general PP&E should disclose this fact and describe the methods used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. Financial statements or, as applicable, reports on line items of subsequent periods need not repeat this disclosure, unless the financial statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required.
 - ii. A component reporting entity electing to apply the provisions of paragraph 40.f.i. to land and land rights should disclose this fact and describe the alternative methods used in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements, or one or more line items, are presented fairly in accordance with GAAP. A component reporting entity electing to exclude land and land rights from its general PP&E opening balances must

^{44H} Material improvements are costs which either extend the useful life of existing general PP&E or enlarge or improve its capacity.

disclose, with a reference on the balance sheet to the related disclosure, the number of acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period. A reporting entity electing to exclude land and land rights from its general PP&E opening balance should continue to exclude future land and land rights acquisition amounts and provide the disclosures. In the event different alternative methods are applied to land and land rights (as permitted by paragraph 40.f.) by subcomponent reporting entities consolidated into a larger reporting entity, the alternative method adopted by each significant subcomponent should be disclosed.

i. Financial Report of the U.S. Government Disclosures

- i. When a component reporting entity elects to apply deemed cost, the U.S. government-wide financial statements should disclose this fact, the identity of the component reporting entity, and a reference to the component reporting entity's financial report. Subsequent financial statements need not repeat this disclosure unless the financial statements for which deemed cost was applied in establishing opening balances are presented for comparative purposes. No disclosure of the distinction or breakout of the amount of deemed cost of general PP&E included in the opening balance is required.
- ii. When a component reporting entity elects to apply the provisions of paragraph 40.f.i. to land and land rights, the U. S. government-wide financial statements should disclose this fact, the number of acres held at the end of each reporting period, an explanation of the election, the identity of the component reporting entity, and a reference to the component reporting entity's financial report.

41. Accumulated depreciation/amortization shall be recorded based on the estimated cost and the number of years the PP&E has been in use relative to its estimated useful life. Alternatively, the PP&E may be recorded at its estimated net remaining cost⁴⁵ and depreciation/amortization charged over the remaining life based on that net remaining cost.
42. For general PP&E that would be substantially depreciated/amortized had it been recorded upon acquisition based on these standards, materiality and cost-benefit should be weighed heavily in determining estimates. Consideration should be given to:
 - recording only improvements made during the period beyond the initial expected useful life of general PP&E, and
 - making an aggregate entry for whole classes of PP&E (e.g., entire facilities rather than a building by building estimate).

⁴⁵*Net remaining cost* is the original cost of the asset less any accumulated depreciation/amortization to date.

-
43. In recording existing general PP&E, the difference in amounts added to asset and contra asset accounts shall be credited (or charged) to Net Position of the entity. The amount of the adjustment shall be shown as a “prior period adjustment” in the statement of changes in net position. For published financial statements presenting prior year information, no prior year amounts shall be restated.
44. In the period that these standards are implemented, disclosure of the adjustments, by major class⁴⁶ of PP&E, made to general PP&E and accumulated depreciation/amortization is required.

Disclosure Requirements

45. The following are minimum G-PP&E disclosure requirements:

- the cost, associated accumulated depreciation, and book value by major class;
- the use and general basis of any estimates used;
- the estimated useful lives for each major class;
- the method(s) of depreciation for each major class;
- capitalization threshold(s) including any changes in threshold(s) during the period; and
- restrictions on the use or convertability of G-PP&E.

The above listed disclosure requirements for G-PP&E and G-PP&E land are not applicable to the U.S. Government-wide financial statements. SFFAS 32 provides for disclosure applicable to the U.S. Government-wide financial statements for these activities.

45A. The following [RSI information: FY 2022-2025] [disclosures: FY 2026]^{46.1} should be provided regarding G-PP&E land and permanent land rights:

- a. A concise statement defining an entity's federal land, and explaining how land relates to the mission of the entity.
- b. A brief description of the entity's policies for land. Policies for land are the goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of land consistent with statutory requirements, prohibitions, and limitations governing the entity and the land.

⁴⁶“Major classes” of general PP&E shall be determined by the entity. Examples of major classes include buildings and structures, furniture and fixtures, equipment, vehicles, and land.

^{46.1} Unless otherwise noted, [RSI information: FY 2022-2025] [disclosure: FY 2026] requirements are limited to the G-PP&E land category and are not required for each of the three subcategories of conservation and preservation land; operational land; and commercial use land.

-
- c. Land and permanent land rights should be assigned to one of three subcategories based on predominant use^{46.1a} and reported in estimated acres of land. The three subcategories are commercial use land; conservation and preservation land; and operational land. Where land and permanent land rights have more than one use, the predominant use of the land should be used to sub-categorize the land^{46.1b}. The following information should be presented by sub-category of land use:
 - i. Acres of land. The estimated number of acres at the beginning of each reporting period among the three sub-categories and the estimated number of acres at the end of each reporting period for land and permanent land rights should be provided.
 - d. If applicable, the amount of estimated acres held for disposal or exchange and their predominant use. For purposes of this Statement, land is considered held for disposal or exchange when the entity has satisfied the statutory disposal authority requirements specific to the land in question.
 - e. Land rights information should include a general description of the different types of rights acquired by the entity, whether such rights are permanent or temporary, and amounts paid during the year to maintain such rights.

45B. The financial statement balance sheet should reference a note that [presents RSI information: FY 2022-2025] [discloses: FY 2026] required at paragraph 45A (a through e) about G-PP&E land and permanent land rights but no asset dollar amount should be shown. Existing display and disclosures^{46.2} should continue during the transition period through fiscal year 2025 and cease in fiscal year 2026 when superseded by the transition of the RSI information to note disclosures. If general PP&E land and stewardship land are presented in separate notes to the financial statements, include cross references between the notes.

... [paragraphs 46-56 and accompanying heading were rescinded by SFFAS 23, par. 9]^{47,48, 49,50,51}

^{46.1a} Predominant Use of land. Predominant use is the major or primary current use of an asset during the reporting period and does not include incidental or infrequent uses of the asset. Moreover, predominant use can change between reporting periods. An asset's predominant use should be consistent with the entity's authorizing legislation but may not always be consistent with the original intent or reason why the asset was initially acquired.

^{46.1b} Aggregation and assignment of land. The level of aggregation of land and permanent land rights used to determine predominant use should be determined by the preparer considering the entity's mission, types of land use and how it manages the assets.

^{46.2}For G-PP&E land and land rights, existing disclosures are those that are in effect prior to the amendments contained in paragraph 45A. They include disclosures required by paragraph 40.h for those entities electing an alternative method for land and land rights and, if applicable, the minimum G-PP&E disclosure requirements as required by paragraph 45.

⁴⁷[Footnote 47, was rescinded by SFFAS 23, par. 9]

⁴⁸[Footnote 48, was rescinded by SFFAS 23, par. 9]

Heritage Assets

... [paragraphs 57-65 were rescinded by SFFAS 29, par. 11]^{52,53,54}

Stewardship Land

... [paragraphs 66-76 were rescinded by SFFAS 29, par. 30]^{55,56,57}

⁴⁹[Footnote 49, was rescinded by SFFAS 23, par. 9]

⁵⁰[Footnote 50, was rescinded by SFFAS 23, par. 9]

⁵¹[Footnote 51, was rescinded by SFFAS 23, par. 9]

⁵²[Footnote 52 was rescinded by SFFAS 29.]

⁵³[Footnote 53 was rescinded by SFFAS 29.]

⁵⁴[Footnote 54 was rescinded by SFFAS 29.]

⁵⁵[Footnote 55 was rescinded by SFFAS 29.]

⁵⁶[Footnote 56 was rescinded by SFFAS 29.]

⁵⁷[Footnote 57 was rescinded by SFFAS 29.]

Chapter 3: Deferred Maintenance

Paragraphs 77 through 84 were rescinded by SFFAS 42^{58,59,60,61,62,63,64,65}

Chapter 4: Cleanup Costs

Definition

85. Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste (see paragraph 86) from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E.
86. Hazardous waste is a solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed.
87. Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and postclosure costs.

⁵⁸[Footnote 58 was rescinded by SFFAS 42.]

⁵⁹[Footnote 59 was rescinded by SFFAS 42.]

⁶⁰[Footnote 60 was rescinded by SFFAS 42.]

⁶¹[Footnote 61 was rescinded by SFFAS 42.]

⁶²[Footnote 62 was rescinded by SFFAS 42.]

⁶³[Footnote 63 was rescinded by SFFAS 42.]

⁶⁴[Footnote 64 was rescinded by SFFAS 42.]

⁶⁵[Footnote 65 was rescinded by SFFAS 42.]

Scope

88. This standard applies only to cleanup costs from Federal operations known to result in hazardous waste which the Federal Government is required by Federal, state and/or local statutes and/or regulations that have been approved as of the balance sheet date, regardless of the effective date, to cleanup (i.e., remove, contain or dispose of).⁶⁶ These cleanup costs meet the definition of liability provided in Statement of Recommended Accounting Standards no. 5, *Accounting for Liabilities of the Federal Government* (SRAS no. 5).
89. However, due to the nature of the liability and the timing associated with cleanup costs, additional guidance is provided in this standard on the recognition of cleanup costs over the life of the related PP&E. Guidance is required since cleanup can not occur until the end of the useful life of the PP&E or at regular intervals during that life.
90. This standard is intended to supplement the accounting requirements for liabilities in SRAS no. 5. SRAS no. 5 defines liabilities as a “probable future outflow or other sacrifice of resources as a result of past transactions or events.” Further, SRAS no. 5 requires recognition of liabilities that are probable and measurable. Measurable means that an item has a relevant attribute that can be quantified in monetary units with sufficient reliability to be reasonably estimable.
91. The recognition and measurement standards provided in this standard are subject to the criteria for recognition of liabilities included in SRAS no. 5. That is, liabilities shall be recognized when three conditions are met:
- a past transaction or event has occurred,
 - a future outflow or other sacrifice of resources is probable,⁶⁷ and
 - the future outflow or sacrifice of resources is measurable.⁶⁸

⁶⁶Accounting for environmental liabilities such as cleanup costs is currently undergoing change—due to both improved measurement techniques and increased attention from the accounting community. The Board will monitor these changes and revisit these standards as needed.

⁶⁷Probable means that the future confirming event or events is more likely than not to occur.

⁶⁸The unit of analysis for estimating liabilities can vary based on the reporting entity and the nature of the transaction or event. The liability recognized may be the estimation of an individual transaction or event; or a group of transactions and events. For example, an estimate of the cleanup costs could be made on a facility by facility basis, or an entity by entity basis.

-
92. SRAS no. 5 also provides for disclosure of liabilities that do not meet all of the above criteria; these standards apply to cleanup costs as well.
93. Other cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards and are not subject to the recognition guidance provided in this standard. This guidance does not apply to these other types of cleanup since the cleanup effort is not deferred until operation of associated PP&E ceases either permanently or temporarily.⁶⁹
-

Recognition And Measurement

Estimation Methods

94. Cleanup costs, as defined above, shall be estimated when the associated PP&E is placed in service. The estimate shall be referred to as the “estimated total cleanup cost.” There are two approaches to recognizing this total—one applies to general PP&E and another to stewardship PP&E.
95. The estimate shall contemplate:
- the cleanup plan, including
 - level of restoration to be performed,
 - current legal or regulatory requirements,⁷⁰ and
 - current technology; and
 - current cost which is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period.
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.

⁶⁹Cleanup may be deferred for other reasons, such as availability of resources. However, this type of deferral does not affect the recognition of the liability.

⁷⁰Laws and regulations approved as of the balance sheet date, regardless of the effective date of those laws and regulations, shall be considered.

Cleanup Cost for General PP&E

97. A portion of estimated total 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 (e.g., expected usable landfill area) whenever possible. If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability.
98. Recognition of the expense and 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.
99. As reestimates (see paragraph 96) are made, the cumulative effect of changes in total estimated 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.
100. As cleanup costs are paid, payments shall be recognized as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities.

Cleanup Cost for Stewardship PP&E

101. Consistent with the treatment of the acquisition cost of stewardship PP&E (i.e., expensing in the period placed in service), the total estimated cleanup cost shall be recognized as expense in the period that the stewardship asset is placed in service and a liability established.
102. The liability shall be adjusted when the estimated total cleanup costs are reestimated as described in paragraph 96. Adjustments to the liability shall be recognized in expense as "changes in estimated cleanup costs from prior periods."
103. As cleanup costs are paid, payments shall be recognized as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities.

Implementation Guidance

104. Two implementation approaches have been provided for liabilities related to general PP&E in service at the effective date of this standard:

- A liability shall be recognized for the portion of the estimated total cleanup cost that is attributable to that portion of the physical capacity used or that portion of the estimated useful life that has passed since the PP&E was placed in service. The remaining cost shall be allocated as provided in paragraphs 97 through 99.
- If costs are not intended to be recovered primarily through user charges, management may elect to recognize the estimated total cleanup cost as a liability upon implementation. In addition, in periods following the implementation period, any changes in the estimated total cleanup cost shall be expensed when reestimates occur and the liability balance adjusted. The provisions for cost allocation provided in paragraphs 97 through 99 shall not apply under this implementation method.

105. The offsetting charge for any liability recognized upon implementation shall be made to Net Position of the entity. The amount of the adjustment shall be shown as a “prior period adjustment” in any statement of changes in net position that may be required. No amounts shall be recognized as expense in the period of implementation. The amounts involved shall be disclosed and to the extent possible the amount associated with current and prior periods should be noted.

106. For stewardship PP&E that are in service at the effective date of this standard, the liability for cleanup costs shall be recognized and an adjustment made to the Net Position of the entity. The amount of the adjustment shall be shown as a “prior period adjustment” in any statement of changes in net position that may be required. The amounts involved shall be disclosed.

Disclosure Requirements

107. The sources (applicable laws and regulations) of cleanup requirements. The U.S. government-wide financial statements need not disclose the sources of cleanup requirements.

108. The method for assigning estimated total cleanup costs to current operating periods (e.g., physical capacity versus passage of time). The U.S. government financial statements need not disclose the method for assigning estimated cleanup costs to current operating periods.

109. For cleanup cost associated with general PP&E, the unrecognized portion of estimated total cleanup costs (e.g., the estimated total cleanup costs less the cumulative amounts charged to expense at the balance sheet date). SFFAS 32 provides for disclosure requirements for the U.S. government-wide financial statements regarding the unrecognized portion of estimated total cleanup cost associated with general PP&E.

110. Material changes in total estimated cleanup costs due to changes in laws, technology, or plans shall be disclosed. In addition, the portion of the change in estimate that relates to

prior period operations shall be disclosed. The U.S. government-wide financial statements need not disclose material changes in total estimated cleanup costs due to changes in laws, technology, plans, or the portion of the change in estimate that relates to prior period operations.

111. The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations. The U.S. government-wide financial statements need not disclose the nature of estimates and information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations.

<p>The provisions of this Statement need not be applied to information if the effect of applying the provision(s) is immaterial. Refer to Statement of Federal Financial Accounting Concepts 1, <i>Objectives of Federal Financial Reporting</i>, chapter 7, titled <i>Materiality</i>, for a detailed discussion of the materiality concepts.</p>
--

Appendix A: Basis For Conclusions

112. This appendix summarizes significant considerations by the Board in reaching the conclusions in this statement. In the following paragraphs, the Board's considerations in developing these standards as well as positions on specific issues raised in alternative views, comment letters, and during public hearings are explained. The Board relied extensively on input from a task force on Capital Expenditures as well as a small working subgroup on Physical Property. These paragraphs include reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. Within the text of the Statements, the authoritative sections are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

113. This appendix addresses each of the three standards in sequence.

Property, Plant, And Equipment

Background

114. Before addressing specific issues resolved following issuance of the exposure draft, this section provides a broad basis for the main provisions of the standard on investments in PP&E. The Federal Government makes many expenditures that can be characterized as investments or investment-type expenditures. These include expenditures for Federally owned PP&E.

115. Accounting for expenditures for PP&E as well as for the existing stock of PP&E is a significant undertaking because the Federal Government owns substantial amounts of diverse PP&E. Federal PP&E includes approximately 650 million acres of land, buildings containing over 1.5 billion square feet of floor space, many different forms of equipment, and military hardware.

116. These are used for a wide range of purposes; including, among others, operating, defense, conservation, and heritage purposes. Some of these purposes relate to the Federal Government's responsibility to provide for the Nation's common defense and general welfare. Specific types of PP&E are used by the Federal Government to meet this

responsibility. Other types of PP&E are held and used for operating purposes that are not unlike those of non-federal entities.

117. Some Federal operations are similar to profit-seeking enterprises and can be described as business-type activities. However, these business-type activities account for a small portion of the investment in PP&E. The majority of the investment in PP&E is used to provide government services and goods where user charges are not the primary source of revenues.
118. The Board found that a single accounting method for such diverse Federal PP&E would not meet the objectives established in its *Objectives of Federal Financial Reporting*. Therefore, the Board identified categories of PP&E and set different accounting methods for each category.

Categories Required

119. The PP&E standards incorporate the following categories:

- general PP&E are PP&E used to provide general government services;
- Federal mission PP&E are PP&E that are an integral part of the output of certain unique Federal Government missions;
- heritage assets are those assets possessing significant educational, cultural, or natural characteristics; and
- stewardship land⁷¹ is land other than that included in general PP&E.

120. The latter three categories of assets are referred to as stewardship PP&E. The term “stewardship PP&E” is used simply to refer to those categories of PP&E to be reported on a stewardship report.

General PP&E

121. General PP&E are items used to provide general government services; including PP&E that:

- could be used for alternative purposes (e.g., by other Federal programs, state or local governments, or non-governmental entities) but is used to produce goods or services, or to support the mission of the entity, or
- is used in business-type activities, or

⁷¹Note that land acquired for or in connection with general PP&E would be included in that category. All other land would be subject to stewardship reporting and is referred to throughout this document as stewardship land.

- is used by entities whose costs can be compared to other entities (e.g., Federal hospital services in comparison to other hospitals).

122. Allocation of the cost of general PP&E, excluding land, among accounting periods is essential to assessing operating performance. The Board's concepts statement, *Objectives of Federal Financial Reporting*, focuses on relating cost to accomplishments in reporting an entity's operating performance. Cost information is of fundamental importance both to program managers in operating their activities efficiently and effectively and to executive and congressional decision makers in deciding on resource allocation. General PP&E will be capitalized and depreciated to provide this information.

Stewardship PP&E

123. For stewardship PP&E,⁷² the predominant reporting objective is stewardship. This is in contrast to general PP&E, for which the Board is concerned with providing information to assess operating performance and, therefore, provided for depreciation accounting. The most relevant information is about the existence of stewardship PP&E and that information can be provided through a new type of reporting—supplementary stewardship reporting.

124. For stewardship PP&E, the Board believes that allocation of historical cost to operating expense for each period would not contribute to the measurement of entity operating performance. Prior to issuing its *Objectives* statement, the Board conducted a user needs study and met with representatives of a wide variety of user groups. Most users specifically indicated that depreciating stewardship PP&E such as weapons systems would not provide meaningful information for assessing the entity's operating performance. The Board believes that its standards should address the needs of users and the Board has found that users do not need information which includes depreciation expense on this category of PP&E.

125. The Board noted in its *Objectives* statement that the government's responsibility for the nation's common defense and general welfare is unique and that, in some cases, the most relevant measures of performance are nonfinancial.⁷³ Despite the preference for nonfinancial performance measures for stewardship PP&E, the government must demonstrate that it is being an appropriate "steward" for these assets. To meet the stewardship objective, the government must be able to answer basic questions such as:

- What and where are the important assets?
- Is the government effectively managing and safeguarding its assets?

⁷²The term "stewardship PP&E" is used to refer collectively to federal mission PP&E, heritage assets, and stewardship land.

⁷³*Objectives*, paragraph 54.

126. Answers to these questions can be provided through supplementary stewardship reporting. The stewardship information provided would not necessarily have the same measurement basis as information shown on the balance sheet. Information could include value, quantity, and capacity depending on the category being reported on. These types of information are not typically found in balance sheet reporting. (Also, see discussion of deferred maintenance in paragraph 171 through 181 regarding other information that users consider relevant.)
127. The Board is addressing supplementary stewardship reporting in another standard. The information to be provided for stewardship PP&E is proposed in detail in that standard. Each of the stewardship PP&E categories are discussed further in the following paragraphs.

Federal Mission PP&E

128. Federal mission PP&E are specific PP&E acquired to provide a unique good or service for which there is not necessarily a periodic output against which to match costs. For example, the existence of and readiness of weapons systems supports national defense regardless of their actual combat use on a period by period basis. Also, space exploration equipment is used in long-term research efforts which may or may not produce an output each period but which nevertheless benefits the nation in the long run.
129. The standard specifically identifies weapons systems and space exploration equipment as Federal mission PP&E as well as providing a list of characteristics of Federal mission PP&E. The Board articulated characteristics of Federal mission PP&E because it recognizes that there are other types of PP&E, or PP&E may be developed in the future, that are similar to these two items. To be categorized as Federal mission PP&E an item shall meet at least one characteristic from each of the following two types of characteristics.
130. Characteristics related to the use of Federal mission PP&E are that it:
- has no expected nongovernmental alternative uses; or
 - is held for use in the event of emergency, war or natural disaster; or
 - is specifically designed for use in a program for which there is no other program or entity (Federal or non-Federal) using similar PP&E with which to compare costs.
131. Characteristics related to the useful life are that it:
- has an indeterminate or unpredictable useful life⁷⁴ due to the manner in which it is used, improved, retired, modified, or maintained; or
 - is at a very high risk of being destroyed during use or of premature obsolescence.

⁷⁴This may be evidenced by the ability (1) to retire the PP&E and later return it to service, or (2) to continually upgrade the PP&E to maintain its usefulness. In addition, PP&E that is held for "one-time" use, such as a warhead, has an indeterminate life.

132. The cost of Federal mission PP&E acquired during the period be shown on the operating statement.

Heritage assets

133. Heritage assets are held for their cultural, architectural, or aesthetic characteristics. Users have identified nonfinancial information as being relevant for these assets. For assessing operating performance, the Board believes that relevant cost information is provided through reporting of periodic maintenance cost since heritage assets are intended to be preserved as national treasures. It is anticipated that they will be maintained in reasonable repair and that there will be no diminution in their usefulness over time.

134. In addition to assets held purely for heritage purposes (e.g., the Washington Monument), the Federal Government uses heritage assets in its day-to-day operations. For example, many Federal office buildings, such as the Old Executive Office Building, have monumental characteristics. The Board considered whether these multi-use heritage assets would be more appropriately categorized as general PP&E.

135. Despite their heritage characteristics, these assets serve a function that could otherwise be served by assets that do not possess heritage characteristics. Therefore, the standards provide that costs of reconstruction, renovation, or improvements that are directly associated with supporting operations be treated in a manner consistent with general PP&E. The Board based this decision on the need to measure cost for operations and to compare cost between entities.

Stewardship Land

136. The Federal Government owns vast amounts of land and its use of land is diverse. In some instances Federal land is integral to the ownership of general PP&E. For example, the cost of land upon which an office building is sited is integral to the cost of that building. Land acquired for or in connection with general PP&E will be recognized on the balance sheet to provide a more comprehensive measure of the assets devoted to general government operations. However, since land is not a depreciating asset, depreciation expense will not be recognized on land included in general PP&E.

137. Most Federal land is not directly related to general PP&E. For example, the national parks and forests are not used to support general PP&E. The Board concluded that land other than that acquired for or in connection with other general PP&E should not be reported on the balance sheet. This is consistent with the Board's treatment of heritage assets in that much of the government's land is held for the general welfare of the nation and is intended to be preserved and protected.

Issues

138. Following issuance of the ED, the Board specifically considered several issues related to the PP&E standard. These issues are addressed in the sequence that they appear in the standard.

Definitions

139. The Board asked respondents to comment on the appropriateness of the definitions of PP&E, general PP&E, Federal mission PP&E, heritage assets, and stewardship land. Respondents raised issues on the overall definition of PP&E including (1) internally-developed software, (2) land rights, (3) capitalization threshold, and (4) reversionary interests in property. These four issues are discussed below. An issue raised regarding the Federal mission PP&E definition is also addressed below.

Internally-developed Software

140. The ED proposed that internally-developed software be excluded from PP&E—in effect, that it be expensed when incurred. In making this proposal, the Board pointed to concerns affecting the objectivity/accuracy of any capitalized cost for internally-developed software in general PP&E.⁷⁵ The Board was concerned that costs could be overcapitalized thus understating expense for the period and that it would be difficult to provide for the removal or write-off of costs related to unsuccessful projects and/or cost overruns. Given these practical concerns and the expectation that costs for software development efforts would not fluctuate dramatically since they related to continuous agency efforts, the Board proposed that these costs be expensed.⁷⁶
141. Many respondents supported the Board's view. They noted that, among other problems, it would be difficult to distinguish new development efforts from ongoing system maintenance. In fact, some respondents commented that software undergoes continuous improvement and updating.
142. On the other hand, the majority of respondents objected to the exclusion of these costs from PP&E. Many argued that internally-developed software met the overall definition of PP&E and that accounting could accommodate the problems of cost overruns and unsuccessful efforts. Many suggested that costs be held in a work-in-process account and any

⁷⁵Internally-developed software may be a component of general PP&E or stewardship PP&E.

⁷⁶In fact, the majority of private-sector entities do not capitalize the cost of internally-developed software. The Financial Accounting Standards Board has not developed guidance on this issue.

unsuccessful efforts subsequently written off in the period deemed unsuccessful. In addition, many believed that cost overruns were appropriate to include in the cost of the asset.

143. Ultimately, the Board made two changes to the PP&E definitions— they removed the statement excluding internally-developed software from PP&E and they added a provision for recognition of internally-developed software as a component of general PP&E under certain circumstances. Since the Board's concern was with the potential for overcapitalization of these costs, they found that it was not necessary to exclude the costs from the PP&E categories for which costs would not be capitalized. Therefore, any internally-developed software costs appropriately classified as an item of stewardship PP&E may be included in those categories.
144. For internally-developed software costs that would be categorized as general PP&E, the Board placed several restrictions on the capitalization of costs. To be capitalized, it must be intended that the costs be recovered through charges to users. In addition, only certain costs may be capitalized after it has been established that the software project is likely to be successful. Once capitalized, the costs can not be amortized over a period longer than five years.
145. In addition to internally-developed software, the Board discussed accounting for contractor-developed software. In principle, the Board's consensus was that the same accounting should be provided for contractor-developed software as for internally-developed software. However, the Board believed that this proposal should be exposed for comment prior to establishing a standard to that effect. Therefore, the standards do not provide specific provisions restricting the capitalization of contractor-developed software.

Land Rights

146. The Board received a request to address restrictive easements acquired by a Federal agency. This agency acquires restrictive easements limiting the use of land adjoining the agency's own property. The Board considers these easements a "land right." Land rights are interests and privileges held by an entity in land owned by others.
147. The Board provided for the recognition of land rights as part of PP&E since they are generally associated with other items of PP&E actually owned by the entity. In addition, where land rights are for a limited period of time and are includable in the general PP&E category, the Board provided for depreciation of the cost.

Capitalization Threshold

148. Many respondents requested that the Board provide a capitalization threshold as an element of the PP&E definition. The Board addressed this issue in developing the ED. At that time, the Board carefully considered whether to take a prescriptive approach by setting a threshold or to permit entities the latitude to establish a threshold suited to their particular operating environment. The Board believes that Federal entities are sufficiently diverse that one threshold would not be suitable for all entities. For example, Title 2's \$5,000 threshold would be immaterial for defense department operations but perhaps not for a smaller entity such as the Small Business Administration.
149. Instead of setting a specific threshold, the Board has adopted a materiality approach—just as is done in private sector accounting. Each entity would establish its own threshold as well as guidance on applying the threshold to bulk purchases. The Board believes that permitting management discretion in establishing capitalization policies will lead to a more cost-effective application of the accounting standards.

Reversionary Interests in PP&E

150. The Board also received a request to address reversionary interests in PP&E. In some instances, the Federal Government provides grants to state and local governments for the acquisition of PP&E. If the state or local government eventually decides that it no longer needs to use the PP&E for the purpose specified in the original grant there is often a provision that the PP&E must revert to Federal ownership. In these cases, the Federal Government maintains a reversionary interest in PP&E. In essence, these are contingent assets and should not be recognized on the balance sheet. The Board elected to specifically exclude these items from PP&E.

Federal Mission PP&E

151. Some respondents indicated that the term “Federal mission PP&E” had broader implications than intended by its definition. It was suggested that some may assume any PP&E used to meet an agency's mission would fit this category (e.g., essentially all Federally owned PP&E).
152. The Board agreed that it was possible that a mere reading of the term “Federal mission PP&E” could lead to broader application of the category than permitted under the standard. However, the Board found that there was no brief term that would effectively communicate the nature of the PP&E properly includable in this category. The Board believes that the characteristics provided as well as the illustrations included in Appendix B of this document will clearly establish the appropriate use of this category. In addition, the Board has

incorporated in the standard a cautionary footnote regarding loose interpretations drawn from the term “Federal mission PP&E.”

Depreciation

153. The exposure draft posed several questions related to depreciation accounting for general PP&E. Briefly, the questions addressed:

- usefulness of depreciation expense for the assessment of operating performance,
- an alternative view suggesting that depreciation accounting be limited to business-type activities,
- usefulness of the allocation of depreciation expense to responsibility segments, and
- cost/benefit of allocating depreciation expense to programs

154. Overall, the respondents supported the Board’s proposal to require depreciation accounting on all general PP&E. Many indicated that depreciation accounting would improve performance measurement by producing comprehensive, comparable cost information. In addition, operating expenses would not be overstated in periods that assets were purchased and understated in other periods.

155. A few respondents supported the alternative view that would limit depreciation accounting to business-type activities. They argued that depreciation was only necessary where expenses were to be matched to revenues. This view is contrary to the operating performance objective and would not support development of cost information to associate with performance measures.

156. The Board did not make any changes to its requirements to apply depreciation accounting to general PP&E.

Multi-use Heritage Assets

157. The ED addressed renovation, reconstruction, improvement, and rebuilding costs for multi-use heritage assets (e.g., monumental style office buildings). Under the ED’s proposal, any costs not directly associated with the heritage nature of the asset would be capitalized and depreciated as general PP&E. The ED also provided that abnormally high costs due to the heritage features of the assets (e.g., replacement of a specialized roofing material versus a modern day equivalent) be treated as heritage asset costs.

158. Respondents indicated that it would be very difficult to apply the proposed standards. Difficulties would include segregating the cost associated with preserving the heritage assets and supporting operations as well as identifying abnormal costs. In response to these concerns, the Board modified the treatment of multi-use heritage assets. The

standard now provides that only renovation, reconstruction, and improvement costs directly attributable to operations be capitalized as general PP&E.

Current Value

159. The ED included an alternative view espousing the use of current value accounting for Federal Government PP&E. This view was not supported by the respondents. The majority of respondents believed that current values would be difficult and costly to obtain, and subject to manipulation. Many indicated that current values were often useful to decision makers and should be provided on an as needed basis rather than incorporated in the basic financial statements.

Federal Mission PP&E

160. Overall, the reaction to the Federal mission PP&E category was favorable. Respondents indicated that they would not have difficulty applying the category descriptions. However, the Board received the following specific requests for major revisions in the Federal mission PP&E category:

- to retain the definition but include Federal mission PP&E on the balance sheet and apply depreciation accounting to these assets, and
- to make use of the category optional (e.g., managers would be free to use the general PP&E category for PP&E that would otherwise qualify as Federal mission PP&E).

Depreciate Federal Mission PP&E

161. The Board did not adopt the first proposal—to apply depreciation accounting to Federal mission PP&E. While there may be management uses of this information, no persuasive examples of management uses have been identified. The Board remains convinced that depreciation accounting for these unusual items of PP&E would not provide meaningful information—a view that is supported by the Board's 1992 user needs study. Further, the Board wishes to note that nothing precludes management from developing depreciation information through cost finding means if it desires to do so for particular management purposes.

Make the Federal Mission PP&E Category Permissive

162. It was proposed that classification of PP&E as Federal mission be permissive rather than mandatory. Two reasons were given for this proposal:

- some PP&E is used as both Federal mission and general PP&E (for example, office facilities located at nuclear weapons production plants), and

- entity management should be free to decide that depreciation information on Federal mission PP&E is useful.

163. It was suggested that adopting this proposal would allow agencies to classify property as best suits their needs. The Board discussed this proposal at length. Some Board members were favorably inclined to permit entity managers to exercise judgment regarding the accounting treatment of Federal mission PP&E. However, the majority of the Board members believed that making the category optional would be inappropriate.

164. These members argued that (1) the user needs study supported their belief that historical cost depreciation on these types of items was not useful, (2) it would not be appropriate to give entities the latitude to use different accounting methods for similar assets, and (3) it would not be cost-beneficial to permit entities to make item by item judgments on appropriate accounting treatment. The members noted that, in connection with the proposal to require depreciation accounting for Federal mission PP&E (See paragraph 161), they had not been able to identify any management uses of depreciation information on Federal mission PP&E. The Board was concerned that entities may make unsupported, and costly, decisions regarding the election to categorize items as general or Federal mission PP&E. While entities can use cost finding to determine depreciation expense for internal purposes if they so desire, the Board does not believe that depreciation of Federal mission PP&E would be useful for general purpose financial reports.

165. The Board decided that use of the Federal mission PP&E category would remain mandatory for PP&E exhibiting the designated characteristics. The Board did add guidance in the standard regarding the selection of the base unit to be used in categorizing PP&E (See paragraph). One respondent had proposed that this guidance be added and stated that it would aid entities in establishing the level of detail necessary to properly categorize PP&E. For example, should PP&E be categorized on a site by site basis or by a smaller unit such as building by building. As with the capitalization threshold, the Board has indicated the factors that should enter into the selection of a base unit but has ultimately left the actual selection up to management.

Other PP&E Meeting the Characteristics

166. The Board posed a question in the ED regarding the classification of **nuclear weapons production facilities** and **military base facilities** as Federal mission PP&E.⁷⁷ This question was posed because of a discussion among the Board members as to whether these items would or would not meet the Federal mission PP&E definition.

⁷⁷FASAB Exposure Draft, *Accounting for Property, Plant, and Equipment*, February 28, 1995, page 19, paragraph 71, Item IC.

167. The majority of the respondents indicated that nuclear weapons production facilities meet the current characteristics of Federal mission PP&E—confirming the initial reaction of the Board members. One respondent did indicate that these facilities could be converted to other uses—as had munitions plants following World War II—however, the Board believes that the cost of such a conversion would be so great as to make it improbable in the near term. The Board has not elected to add this as another specifically identified item that qualifies as Federal mission PP&E because it is a good illustration of the purpose and application of the characteristics developed. In addition, the Board prefers not to engage in an exercise of listing all items that qualify since the absence of certain items may lead practitioners to assume that an item was specifically excluded.
168. The majority of respondents indicated that military base facilities would not as a group meet the definition of Federal mission PP&E and that the category should not be expanded to accommodate these assets. Many respondents pointed out that military base facilities have alternative uses and are currently being reviewed for just that purpose. The Board agrees with these views and has not modified the definition to permit inclusion of military base facilities in the category.

Audit of Federal Mission PP&E

169. Several respondents expressed concern regarding the level of audit coverage applicable to Federal mission PP&E. Although the ED did not specifically address supplementary stewardship reporting for those categories of PP&E removed from the balance sheet, there was concern that removing these categories would lessen the audit coverage. Respondents noted that military weapons systems and space exploration equipment represented a substantial investment. They were concerned that the changes could lead to poor tracking systems for these items as well as weak internal controls over them. Other respondents pointed out that the key information is the existence and condition of these assets rather than the historical cost of the items. In addition, they suggested that devoting audit resources to verifying historical cost dollar amounts would detract from auditing more important existence and condition information.
170. The Board responded with the following points:
- auditing standards are beyond the scope of the Board’s responsibilities,
 - Board members representing the Government Accountability Office (GAO) and the Office of Management and Budget (OMB) indicated that the audit coverage would be appropriately addressed in their work on Federal audit requirements,
 - accounting standards should be established based on information needs not audit concerns, and

-
- the ED on supplementary stewardship reporting will include a statement to the effect that the Board expects that the responsible parties will produce audit requirements to satisfy concerns of the respondents.
-

Deferred Maintenance

171. The deferred maintenance standard was well received by the majority of respondents. The Board addressed the issue in part due to the many state and local governments as well as national groups that concerned over the deteriorating condition of government owned PP&E. A report of the U.S. Advisory Commission on Intergovernmental Relations (ACIR), High Performance Public Works,⁷⁸ notes that maintenance competes for funding with other government programs and is often underfunded. Contributing to this underfunding is the fact that the consequences of underfunding maintenance are often not immediately reported. The consequences include increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations.

172. The ACIR recommended that entities disclose information on:

- the condition of assets,
- the cost of unfunded maintenance,
- the consequences of unfunded maintenance, and
- the uncertainty in estimates of unfunded maintenance.

173. The Capital Expenditures task force also recognized that deferred maintenance was an issue for Federal PP&E and requested that the Board address it. The policies and initiatives related to deferred maintenance at three Federal agencies⁷⁹ were reviewed and it was found that Federal agencies are developing systems to report on deferred maintenance. Although the systems are different, the goals of the systems are consistent—to provide reliable information on the condition of PP&E and to estimate the cost of correcting deficiencies.

174. Under these accounting standards, deferred maintenance information will be incorporated in the financial reports despite the differences in measurement among the agencies. The Board believes that deferred maintenance is a cost—a cost that management, at whatever

⁷⁸U.S. Advisory Commission on Intergovernmental Relations, High Performance Public Works: A New Federal Infrastructure Investment Strategy for America, November 1993.

⁷⁹These agencies are the Department of Energy, the Department of the Navy, and the National Aeronautics and Space Administration.

level, has elected not to fund. However, the Board found that deferred maintenance is not sufficiently measurable to be recognized in the accounting systems.

175. However, to highlight the reality that the cost remains despite being unfunded, the standards provide that deferred maintenance be disclosed by placing a line item on the statement of net cost with a note reference in lieu of a dollar amount on the financial statements. This recommendation is consistent with the findings of the Board's user needs study; that information on the cost of deferred maintenance is important to users. In addition, due to the measurement differences between entities, the disclosure requirements are flexible.
176. The standards provide two alternatives for estimating amounts to be disclosed—condition assessment surveys and life cycle cost analyses. Condition assessment surveys would provide disclosure of the estimated cost to return the PP&E to its desired condition. Life cycle cost analyses would highlight differences between planned maintenance and actual maintenance.
177. Both of these methods will be under the control of entity program managers since deferred maintenance is dependent on the purpose for which PP&E is held and on judgment regarding what condition PP&E should be in to meet that purpose. Entities are permitted flexibility in
(1) setting standards for maintenance requirements and (2) establishing cost beneficial methods to estimate the cost of deferred maintenance.
178. The proposed standards require disclosure of information on the condition of PP&E, estimates of the cost of deferred maintenance, and methods used to assess deferred maintenance. The standards apply to both PP&E reported on the balance sheet and the stewardship report.
179. In response to the ED, two opposing suggestions were raised—(1) recognize the amounts as a liability, and (2) remove the information from the notes.

Recognition

180. A few respondents, including two appearing at the public hearing, suggested that the Board provide for recognition of the liability associated with deferred maintenance. The Board does not believe that deferred maintenance can or should be recognized as a liability because it is not sufficiently measurable to be recognized. Deferred maintenance reporting is in an evolutionary phase with Federal agencies currently developing a variety of systems to assess deferred maintenance. Measurement can not be described at this time as consistent or comparable. The deferred maintenance standard will remain as drafted. However, if and when government maintenance standards (e.g., minimum acceptable condition and

standard repair costs) are set, the Board will revisit the accounting and consider requiring recognition of the liability and the cost.

Remove From Notes

181. A few respondents requested that the Board provide for deferred maintenance information through required supplemental information to lessen the audit burden associated with the information. The Board—as was the case with Federal mission PP&E—does not believe that audit coverage should govern the placement of information in the annual reports. Deferred maintenance information is considered important because it ensures that readers are informed of the condition of Federally owned PP&E. If there is a need to reduce the audit coverage, the Board believes that GAO and OMB can best address this need.

Cleanup Cost

182. The Board elected to address cleanup costs from long-term Federal operations as one of the costs associated with PP&E. For example, the Federal Government operates nuclear facilities and is required by law to cleanup any hazardous materials upon closing the facilities. This obligation meets the Board's definition of liability.⁸⁰ However, because the cleanup of these types of facilities would not occur until operations cease, additional guidance is needed to determine when and how to recognize these costs and liabilities.

183. The guidance in this standard builds on the accounting standards developed for liabilities. These standards were published in the Board's statement entitled *Accounting for Liabilities of the Federal Government* (liabilities standard). The liabilities standard includes:

- the liability definition,
- recognition criteria, and
- disclosure requirements.

184. The liabilities standard is applicable to cleanup costs. For example, if cleanup costs are not both probable and measurable the disclosure requirements in the liabilities standard would apply. The standards in this statement address cleanup cost accounting including:

- allocating cleanup costs to operating periods,
- estimating cleanup costs to be paid far in the future (e.g., using a current cost approach), and
- recognizing changes in estimates prior to actual cleanup.

⁸⁰FASAB, Recommended Accounting Standard No. 5, *Accounting for Liabilities*, September 1995.

185. Because of the differences in accounting for the costs of general PP&E and stewardship PP&E, the Board developed different methods for allocating cleanup costs to operating periods depending on the category of the related PP&E.

Cleanup of General PP&E

186. The Board concluded that the liability for cleanup costs related to the operation of general PP&E would be recognized in a systematic and rational manner over the periods that the associated general PP&E is in use. This approach is consistent with the requirement to depreciate general PP&E. In addition, the Board requires disclosure of the estimate of total cleanup costs.

Cleanup Of Stewardship PP&E

187. For cleanup costs related to stewardship PP&E, the Board concluded that the total estimated liability for cleanup cost would be recognized at the time that the stewardship PP&E is placed in service. This is consistent with the treatment of the acquisition cost of the stewardship PP&E which is recognized as a cost of operations in the period that the PP&E is placed in service.

Estimating Cleanup Costs

188. With regard to estimating cleanup cost, the Board concluded that the estimate would be based on the current cost to perform the cleanup. Current cost should be based on existing laws, technology and management plans. An alternative to current cost would have been to estimate costs in the future, factoring in expected inflation, and discounting this amount to current dollars. The Board did not believe that this approach offered any greater degree of accuracy in return for the additional effort involved in making the estimate.

189. As with all estimates, the estimates of cleanup costs will change over time. These changes will be due to inflation as well as to changes in laws and technology.

190. For cleanup costs associated with general PP&E, changes in estimates related to current and prior period operations be recognized as an expense in the period of the change. For example, if a facility with a capacity to produce 100 tons of material has produced 60 tons of material, then 60% of the change in estimate should be recognized as expense in the year that the estimate changes.

191. For cleanup costs associated with stewardship PP&E, the total change in estimate be recognized in the period of the change.

Cleanup Cost Issues

192. Respondents to the ED were supportive of the Board's efforts to address cleanup costs. However, several suggested that the Board's treatment of the liability associated with general PP&E—recognizing it incrementally over the life of the PP&E—was inconsistent with its definition of a liability. In some cases, respondents argued, the cleanup liability is incurred at the time the PP&E is placed in service. These respondents suggested that the Board provide for full recognition of the liability if an amount is reasonably measurable at that time.
193. The Board did not adopt this suggestion. While the Board recognizes that in fact the liability may be incurred at the date that general PP&E is put in service, the actual recognition of the liability is problematic in a double entry accounting system. Generally, the recognition of a liability, a credit account, generates a concurrent recognition of either an expense (e.g., accounts payable for fuel bills is offset by fuel expense) or an asset (e.g., a capital lease liability is offset by an asset—PP&E), both typically debit accounts. In this case, the cleanup cost is not appropriately includable in operating expense of the period that the PP&E is placed in service. This would create a need for a balance sheet debit to offset the liability.
194. The Board does not believe that it would be appropriate to recognize an asset to offset the cleanup liability. Although some argue cleanup cost is a deferred cost of associated PP&E, the Board does not believe that these costs meet the asset definition and finds that recognition of cleanup cost as a component of PP&E would significantly overstate assets.
195. Other respondents expressed the opposite position, suggesting that it is not appropriate to recognize cleanup costs until they are budgeted for. This approach is not only inconsistent with the definition of a liability but would keep users of the financial statements in the dark as to the magnitude of Federal commitments for environmental cleanup.
196. The Board believes that the standards it has developed will contribute to meeting the operating performance and stewardship reporting objectives of Federal financial reporting. The cleanup cost standards have not been modified for either of these recommendations.
197. One modification that was made relates to implementation of the standard. Implementation is a significant issue given the magnitude of the Government's existing facilities and its obligations for cleanup of those facilities. One Board member requested that the implementation guidance related to cleanup of general PP&E provide an alternative method. It was suggested that provision of a second method would lower the cost of implementing the standard in situations where the related PP&E had been in service for a substantial portion of its estimated useful life.

-
198. The second method would be to recognize the entire estimated total cleanup cost as a liability upon implementation. In periods following implementation, entities electing this method would recognize any changes in the estimated total cleanup cost as expense for that period in lieu of the pro-rata amount of the estimated total cleanup cost. This method could be applied only by entities not seeking to recover their costs through user charges.
199. The Board adopted this recommendation in light of the large number of Federal facilities that will be affected by this standard and the cost of implementing the standard.

Appendix B: Illustrations Of Categories

200. In developing categories for Federal mission PP&E, Heritage Assets and Stewardship Land (See paragraphs 46, 57, and 66), the Board sought input from Federal agencies, the Standard General Ledger Issues Resolution Committee (SGLIRC), and other subgroup members. The Board found that there were many cases where similar assets could fit more than one category.
201. For example, aircraft and ships are used by law enforcement agencies as well as by the Department of Defense. Under the proposed categories, only those used by the Department of Defense would meet the criteria for Federal mission PP&E. The illustrations provided are intended to clarify the application of the categories to actual assets.

Illustration 1: Federal Mission Property, Plant, And Equipment

- 202-213 ... [The category Federal Mission, property, plant, and equipment was rescinded by SFFAS 23, par. 9]⁸¹

Illustration 2: Heritage Assets

214. Many assets are clearly heritage assets. For example, the National Park Service manages the Washington Monument, the Lincoln Memorial and the Mall. However, other assets, particularly Federal office buildings, have historical, cultural or architectural significance as well as being used for general operations.
215. The Board has found that these multi-use heritage assets should still be categorized as heritage assets. Any costs to maintain the assets themselves should be treated as heritage assets. However, any costs that are operational in nature (e.g., reconfiguring of office space or modernized communications wiring) should be classified as general PP&E. Costs of these types of improvements or renovations would then be capitalized and depreciated—providing useful information for performance measurement.
216. For assets that are used solely for heritage purposes (e.g., the Washington Monument), the Board believes that the cost of operation, maintenance, and other periodic expenses

⁸¹... [The category Federal Mission, property, plant, and equipment was rescinded by SFFAS 23, par. 9]

combined with deferred maintenance disclosures, are sufficient to assess operating performance. Allocating the cost of heritage assets to accounting periods through depreciation would not enhance the information available for performance assessment.

217. Following are examples of general PP&E that exhibit characteristics of heritage assets.

Illustration 2A: Major Office Building

218. A Federal agency constructed a central office building in 1950 to house its headquarters personnel. The building was subsequently placed on the historical registry but continued to serve as headquarters' office space.

219. Public tours are available and educational exhibits are provided in the hallways. However, public access is restricted to guided tours. The majority of floor space is devoted to offices, meeting rooms, cafeterias, and storage.

220. The building is currently undergoing major renovations. The cost of these renovations should be capitalized and depreciated over their expected useful lives only to the extent that the work is tied to operations rather than to preserving the building. Additional information on the heritage nature of the asset would be provided through stewardship reporting.

Illustration 2B: New Office Building

221. A Federal facility previously used for industrial purposes (e.g., production of equipment parts) is being renovated and remodeled to serve as office space. The brick facade is being preserved because of its historic significance. Office space is being constructed inside of the brick facade.

222. The building can be viewed by visitors to the Federal facility, however, access to the office space will be restricted.

223. The original cost of the brick facade should not be included in the cost of the new office building. The cost of new construction should be capitalized and depreciated as part of general PP&E and none should be treated as a heritage asset. Additional information on the heritage nature of the existing brick facade, if material, would be provided through stewardship reporting.

Illustration 2C: Library Of Congress

224. The Library of Congress is undergoing restoration and renovation. This includes:

-
- restoring artwork and architectural features,
 - installing wiring for workstations, and
 - building office space.

225. Expenditures for restoration of heritage aspects of the buildings should be treated as a period cost for heritage assets. However, expenditures for operational aspects of the renovation should be categorized as general PP&E. Additional information on the heritage nature of the asset would be provided through stewardship reporting.

Illustration 3: Land

226. The proposed standard provides that land acquired for or in connection with other general PP&E be included in that category. For example, the cost of land on which facilities are located would be included in general PP&E. Other land would be subject to stewardship reporting.

227. The following illustrations cover two potential issues associated with land. First, identifying land associated with general PP&E. Second, identifying land improvements as general PP&E or PP&E subject to stewardship reporting.

Illustration 3A: Military Uses Of Land

228. In general, land used for military bases would be considered general PP&E. However, in some cases, land is used by the military as a site for missile silos, testing grounds or firing ranges. Land used for these purposes meets the definition of stewardship land. The Board believes that period-by-period cost information related to holding land for defense purposes is not relevant to assessing operating performance.

Illustration 3B: Roads On Public Lands

229. Public lands have various types of roads to provide access. These types include:

- rough dirt roads created from years of use,
- dirt roads created by non-Federal land users (e.g., oil & gas exploration crews) and then abandoned, and
- roads created by Federal entities to provide access (e.g., gravel & paved roads).

230. Some of these roads are maintained while others merely exist until natural conditions overtake them.

-
231. Under private sector accounting, permanent improvements to land are included in the cost of land on the balance sheet. Typically, the cost of clearing and establishing the road bed is considered a permanent improvement because, with routine maintenance, it will remain indefinitely. Any pavement or gravel that must be replaced periodically would be considered depreciable PP&E. For a Federal entity, if the road could be categorized as general PP&E this practice would be appropriate since the period-by-period cost of assets is relevant for assessing operating performance.
232. For land subject to stewardship reporting, the cost of establishing the roadbed would be expensed in the year incurred since the land improved by the roadbed is not capitalized on the balance sheet. On the other hand, the paved and gravel roads are general PP&E because they are operational and the period-by-period cost is essential for assessing operating performance. The cost of pavement or gravel would be capitalized and depreciated. Decisions about the quality of the road conditions (e.g., how often roads are repaved) are an element of operating performance and of the cost of providing government services.

Appendix C: Deferred Maintenance Illustration

Par. 233 and the related illustrations were rescinded by SFFAS 42.

Appendix D: Illustration Of Cleanup Cost

234. This appendix illustrates one method of complying with the standards proposed for cleanup costs. The examples shown in this appendix are for illustrative purposes only. There are many types of cleanup that may be accounted for under this proposed standard (e.g., nuclear facilities, landfills, or laboratories). Applying this proposed standard may require consideration of estimated cost components other than those shown here.

235. The computations are based on a formula allocating the estimated total cleanup costs (i.e., the total amount to be spent in the future to accomplish cleanup) to accounting periods. In identifying the amount to be expensed for the period, the formula considers the cumulative amounts:

- of capacity used at the end of the accounting period; and
- recognized as expense in prior accounting periods.

236. The components of the formula are defined below:

a = total cleanup cost estimated as of end of period

b = cumulative capacity used at end of period⁸²

c = total estimated capacity⁸³

d = amount previously recognized as expense-beginning of period

e = cleanup expense recognized in the current period

237. To calculate the appropriate expense amount, the following formula is used:

$$(a \times b/c) - d = e$$

238. Simply put, the end of period estimated total cleanup cost (a) is multiplied by the percentage of capacity used up at the end of that period (b/c) to arrive at the portion of cleanup cost that has been generated by operations through the end of the period. Theoretically, that amount of expense has been incurred and should be recognized. Amounts recognized as expense in prior periods (d) should be deducted to arrive at the current period expense amount (e). If this is the first period, the deduction for expense recognized in prior periods (d) is zero.

⁸²If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

⁸³If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

Illustration 1: Hazardous Waste Disposal Site

Operating Assumptions

239. The hazardous waste disposal site will begin accepting waste in 1995. The following assumptions apply:

- the site capacity is 100,000 cubic yards of waste
- it is estimated that the site will accept waste for ten years at an average rate of 10,000 cubic yards per year
- after the site is closed the following cleanup efforts are required by state, local and Federal laws:
 - site closure & sealing
 - thirty year monitoring
 - remediation
- 1995 cost estimates are based on current cost for 1995
- 1996 cost estimates are based on 1996 costs adjusted for inflation at a rate of 1.0%
- 1997 cost estimates are based on current costs for 1997 and include new technology and changes in monitoring requirements

RECOGNITION OF EXPENSE AND LIABILITY AMOUNTS FOR 1995 (Dollars in thousands)

Estimated Total Cleanup Cost⁸⁴ based on Current Cost in 1995

1. Site Closure and Sealing Cost:

Facilities for monitoring operations	\$100
Sealing site	750
Erosion and control facilities	500

2. Monitoring Cost (for a period of 30 years):

Inspection	3,000
Sampling & Testing	2,250
Maintenance of facilities	300

⁸⁴This estimate includes any costs of any cleanup efforts required during the thirty year cleanup period. While these activities will not occur until the associated PP&E is closed, the costs are estimated at the current cost to conduct similar efforts.

3. Remediation Cost:	
Projected remediation based on statistical studies	<u>500</u>
 TOTAL ESTIMATED CLEANUP COST	 \$7,400

Calculation of Annual Expense and Accrued Liability Amounts

This proposed standard would require that a portion of the estimated total cleanup costs be recognized as an expense and as a liability each period that the site operates. During 1995, the site accepts 15,000 cubic yards of waste. The following calculations show the amounts required to be recognized:

$$\begin{aligned}
 (a \times b/c) - d &= e \\
 (\$7,400 \times 15,000/100,000) - 0 &= e \\
 \$7,400 \times .15 &= e \\
 \$1,110 &= e
 \end{aligned}$$

where:

a = total cleanup cost estimated as of end of period
 b = cumulative capacity used at end of period⁸⁵
 c = total estimated capacity⁸⁶
 d = amount previously recognized as expense-beginning of period
 e = cleanup expense recognized in the current period

The following journal entry would be required:

Dr. Cleanup expense	\$1,110
Cr. Cleanup liability	\$1,110

To recognize estimated cleanup costs.

RECOGNITION OF EXPENSE AND LIABILITY AMOUNTS FOR 1996 (Dollars in thousands)

Estimated Total Cleanup Cost based on Current Cost in 1996

⁸⁵If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

⁸⁶If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

1. Site Closure and Sealing Cost:

Facilities for monitoring operations	\$ 101
Sealing site	758
Erosion and control facilities	505

2. Monitoring Cost (for a period of 30 years):

Inspection	3,030
Sampling & Testing	2,273
Maintenance of facilities	303

3. Remediation Cost:

Projected remediation based on statistical studies	<u>505</u>
--	------------

TOTAL ESTIMATED CLEANUP COST	\$7,475
------------------------------	---------

Calculation of Annual Expense and Accrued Liability Amounts

During 1996, the estimated total cleanup costs were adjusted for inflation of 1.0% and site accepted 10,000 cubic yards of waste. The following calculations show the amounts required to be recognized:

$$\begin{aligned}
 (a \times b/c) - d &= e \\
 (\$7,475 \times 25,000/100,000) - \$1,110 &= e \\
 \$7,475 \times .25 - \$1,110 &= e \\
 \$759 &= e
 \end{aligned}$$

where:

a = total cleanup cost estimated as of end of period
 b = cumulative capacity used at end of period⁸⁷
 c = total estimated capacity⁸⁸
 d = amount previously recognized as expense-beginning of period
 e = cleanup expense recognized in the current period

⁸⁷If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

⁸⁸If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

The following journal entry would be required:

Dr. Cleanup expense	\$759	
Cr. Cleanup liability		\$759

To recognize estimated cleanup costs.

In addition, the proposed standard would require that any material changes in the estimate due to changes in laws, technology, or cleanup plans be disclosed. However, there is no indication that material changes occurred.

RECOGNITION OF EXPENSE AND LIABILITY AMOUNTS FOR 1997 (Dollars in thousands)

Estimated Total Cleanup Cost Based on Current Cost in 1997

1. Site Closure and Sealing Cost:

Facilities for monitoring operations	\$ 115
Sealing site	740
Erosion and control facilities	500

2. Monitoring Cost (for 30 years):

Inspection	2,250
Sampling & Testing	1,300
Maintenance of facilities	300

3. Remediation Cost:

Projected remediation based on statistical studies	<u>400</u>
--	------------

TOTAL ESTIMATED CLEANUP COST	\$5,605
------------------------------	---------

Calculation of Annual Expense and Accrued Liability Amounts

During 1997, a new estimate of total cleanup costs was prepared and the site accepted 10,000 cubic yards of waste. The following calculations show the amounts required to be recognized:

$$(a \times b/c) - d = e$$

$$(\$5,605 \times 35,000/100,000) - (\$1,110 + 759) = e$$

$$\$5,605 \times .35 - \$1,869 = e$$

$$\$1,962 - \$1,869 = e$$

$$\$93 = e$$

where:

a = total cleanup cost estimated as of end of period

b = cumulative capacity used at end of period⁸⁹

c = total estimated capacity⁹⁰

d = amount previously recognized as expense-beginning of period

e = cleanup expense recognized in the current period

The following journal entry would be required:

Dr. Cleanup expense	\$93
Cr. Cleanup liability	\$93

To recognize estimated cleanup costs.

In addition, the proposed standard would require that material changes in estimated cleanup costs be disclosed and that amounts attributable to prior period operations be disclosed. One means of calculating this amount is to segregate the amount recognized as cleanup expense for the current period between "changes in estimated cleanup cost from prior periods" and "current period cleanup cost." These two amounts would be disclosed.

Changes in estimated cleanup costs from prior periods are:

$$f = (a \times b1/c) - d$$

$$f = (\$5,605 \times 25,000/100,000) - (\$1,110 + 759)$$

$$f = \$5,605 \times .25 - \$1,869$$

$$f = \$1,401 - \$1,869$$

$$f = \$(-468)$$

⁸⁹If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

⁹⁰If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

where:

a = total cleanup cost estimated as of end of period

b1 = cumulative capacity used at beginning of period⁹¹

c = total estimated capacity⁹²

d = amount previously recognized as expense at beginning of period

f = changes in estimated cleanup cost from prior periods

Current period cleanup costs are:

$g = e - f$

$g = \$ 93 - \$ (468)$

$g = \$ 561$

where:

e = cleanup cost recognized in the current period

f = changes in estimated cleanup cost from prior periods

g = current period cleanup costs

SUMMARY:

FINANCIAL STMT.	1995	1996	1997
Operating expense	\$1,110	\$ 759	\$ 93
Liability	\$1,110	\$1,869	\$1,962

Illustration 2: Nuclear Facility Qualifying As General PP&E

Operating Assumptions

240. A nuclear facility was placed in operation in 1981. No recognition of cleanup cost was made under past accounting policy. At the end of 1995, the entity adopts the accounting policies presented in this proposed standard.

⁹¹If recognition of the costs is based on the passage of time rather than physical capacity, the cumulative amount of time passed since the associated PP&E began operating shall be substituted.

⁹²If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

The following assumptions apply:

- the entity has an expected useful life of thirty years
- after the site is closed the following cleanup efforts are required by state, local and Federal laws:
 - site closure & sealing
 - thirty year monitoring
 - remediation
- 1995 cost estimates are based on current cost for 1995

RECOGNITION OF LIABILITY AMOUNTS FOR 1995 (Dollars in thousands)

Estimated Total Cleanup Cost Based on Current Cost in 1995

1. Site Closure and Sealing Cost:

Facilities for monitoring operations	\$1,000
Sealing site	3,000

2. Monitoring Cost (for 30 years):

Inspection	6,000
Sampling & Testing	3,000
Maintenance of facilities	600

3. Remediation Cost:

Projected remediation based on statistical studies	2,000
--	-------

TOTAL ESTIMATED CLEANUP COST	\$15,600
------------------------------	----------

Calculation of Liability Amount To be Recognized Upon Implementation

At the end of 1995, the estimated total cleanup costs was \$15,600,000. The following calculations show the amounts that should have been recognized as of the end of 1995 if the proposed standard had been in effect since the facility began operating on October 1, 1980:

$$\begin{aligned}
 (a \times b/c) - d &= I \\
 (\$15,600 \times 15/30) - \$0 &= I \\
 \$15,600 \times .5 - \$0 &= I \\
 \$7,800 &= I
 \end{aligned}$$

where:

a = total cleanup cost estimated as of end of period

b = number of years of operation

c = estimated useful life

d = amount previously recognized as expense-beginning of period

l = liability to be recognized at the end of 1995

Dr. Net Position	\$7,800
------------------	---------

Cr. Cleanup liability	\$7,800
-----------------------	---------

To recognize estimated cleanup liability.

No expense is recognized in the year of implementation.

SUMMARY:

FINANCIAL STMT.	1995
Prior Period Adjustment	\$7,800
Liability	\$7,800

Appendix E: Glossary

See Consolidated Glossary in “Appendix E: Consolidated Glossary”.