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# Technical Release 10: Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment

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## Status

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| <b>Interpretations and Technical Bulletins</b> | None.         |
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| <b>Affected by</b>                             | None.         |

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## Summary

This technical release is intended to address important implementation questions regarding the consistent application of TB-2006-1 as it relates to asbestos cleanup costs associated with facilities and installed equipment. As federal agencies develop their approach to implementing SFFAS 6 and TB 2006-1 for recognition of cleanup cost associated with asbestos, it has become apparent that an implementation strategy is needed to ensure consistent reporting of asbestos cleanup liabilities. Many federal agencies continue to struggle with interpreting SFFAS 6 and Technical Bulletin 2006-1 and determining a cost effective standard implementation methodology. This guidance provides additional clarification of SFFAS 6 and TB 2006-1 and a framework for identifying assets containing asbestos, assessing the asset to collect information and/or develop key assumptions in applying acceptable methodologies to estimate asbestos cleanup costs for federal facilities and installed equipment.

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## Introduction

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### Purpose

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

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

<sup>2</sup> Includes those assets within general PP&E, heritage and stewardship categories

<sup>3</sup> Installed equipment "fixture" is defined in [GAO-01-179SP Appropriation Law-Vol. IV](#) (16-191) as those equipment items that are (1) permanently attached to the realty, or (2) if not permanently attached, (a) it is necessary and indispensable to the completion and operation of the building, or (b) the structure was designed and built for the purpose of housing the equipment.

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## Scope

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

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## Effective Date

5. This technical release is effective immediately.

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## Background

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### Overview

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

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<sup>4</sup> For the purpose of this document, real property is defined as federal facilities and installed equipment; and includes 1) real property acquired through capital leases, including leasehold improvements; and 2) real property owned by the reporting entity in the hands of others (e.g., state and local governments, colleges and universities, or federal contractors).

<sup>5</sup> TB 2006-1, Summary II

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7. As federal agencies continue to develop their approach to implementing SFFAS 6 and TB 2006-1 for recognition of cleanup costs associated with asbestos, it has become apparent that an implementation strategy is needed to ensure consistent reporting of asbestos cleanup liabilities. Many federal agencies continue to struggle with interpreting SFFAS 6 and TB 2006-1 while attempting to determine a cost-effective standard implementation methodology for identification and recognition of an estimated liability for asbestos cleanup.

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## Related Accounting Literature

8. The related accounting standards are as follows:
- a. SFFAS 5, *Accounting for Liabilities of the Federal Government*
  - b. SFFAS 6, *Accounting for Property, Plant, and Equipment*
  - c. TB 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*
  - d. TR 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*

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## Technical Guidance

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### Methodology for Identifying and Estimating Cleanup Costs Associated with Asbestos

9. The following methodology is for identifying and estimating cleanup costs associated with asbestos. The methodology, described below and illustrated in Diagram 1, was developed on the premise that federal entities must recognize a liability when a future outflow or other sacrifice of resources as a result of past transactions or events is "probable" and "reasonably estimable." How this approach will be executed is at the discretion of the individual federal agency.
10. The following steps may be taken to identify real property that may contain asbestos.
- a. Review inventory listing of all real property.

- b. Identify and eliminate all real property or group of real properties<sup>6</sup> on the list that are not expected to contain asbestos. Document the basis for elimination such as:
    - i. Asbestos survey results, or other records indicating the real property(ies) or group of real properties is not likely to contain asbestos (e.g., the manufacture date for items not likely to contain asbestos could be considered);
    - ii. Records indicating all asbestos was previously removed from the real property(ies); or
    - iii. Asset type is not likely to have asbestos or not required to be surveyed for asbestos (e.g., railroad tracks, power lines, airfield pavements, roads, sidewalks, and land<sup>7</sup>).
  - c. Property remaining on the list should be expected to contain asbestos.
11. Once steps have been taken to identify real properties that are expected to contain asbestos, each real property or group of real properties should be assessed to collect the information in paragraphs a and b below. For purposes of developing asbestos cleanup cost estimates, reasonable assumptions<sup>8</sup> can be made in some cases to make up for a lack of actual data.
- a. The scope of asbestos removal required at real property(ies) renovation, disposal or demolition by determining the:
    - i. Most likely method of real property renovation or demolition (e.g., use of heavy equipment, implosion/explosion, or manual methods); and

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<sup>6</sup> Real property may be sorted into groups by category, type, and/or locations. Examples of categories might include buildings, and other structures. Examples of types might include railroad tracks, power lines, and sidewalks. Locations may be facilities or sites recently built and known to be asbestos free. A combination of categories, types, and/or locations may also be used.

<sup>7</sup> In accordance with TB 2006-1, paragraph 6, this guidance regarding asbestos-related cleanup costs does not include naturally occurring asbestos (NOA) that can be found in soil, rocks and mines. NOA is contained in land, and land is considered to have an indefinite useful life. Therefore, NOA would appropriately be accounted for under the requirements of SFFAS 5.

<sup>8</sup> Assumptions include renovation or demolition method, the quantity and quality of asbestos to be removed (paragraphs 11. a and b) and other information that affects cost (e.g., asbestos survey, sampling, removal, and non-routine materials management). As additional information becomes available, the federal entity should reevaluate its key assumptions and make necessary adjustments to the cost estimate and liability.

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- ii. Federal, state and local regulatory requirements governing asbestos management to identify added costs to standard demolition (e.g., asbestos surveys, sampling, removal, and non-routine materials management). Regulatory requirements must be considered to identify additional cost considerations that may differ by location such as extent of asbestos surveys, sampling, removal, and non-routine materials management.
  - b. The amount, type, location, and expected condition of asbestos and asbestos containing materials in the real property or group of properties by referring to available records, to include records of comparable assets in the same asset class, reasonable surveys of the real property(ies) and/or real property construction information.
  - c. If the information above is either not available or not sufficient to support assumptions in lieu of actual data, yet the existence of asbestos has been identified in paragraph 10 above, then the removal of asbestos may be considered probable but not reasonably estimable at that time. The existence of asbestos and a statement that such an estimate cannot be made should be disclosed in the notes to the financial statements.<sup>9</sup> The agency should estimate and recognize any other identifiable costs (e.g., asbestos survey).
12. If sufficient information is available to develop a cleanup cost estimate or support key assumptions needed for the cost estimate, then one of the following estimating methodologies can be used for each real property or group of real properties to estimate cost of removal, containment or disposal.
- a. A property-specific cost estimate based on survey data (most accurate, if available); or
  - b. An extrapolation of historical cost or cost estimates for asbestos cleanup of similar real property(ies); or
  - c. A cost model<sup>10</sup> used for an individual real property or group of similar real properties and information from industry-specific cost estimation publications or standardized cost factors developed for each state; or
  - d. Other reasonable methodologies.

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<sup>9</sup> TB 2006-1, par. 49.

<sup>10</sup> A cost model is a framework upon which an estimating methodology is developed. The model may use mathematical equations to convert resource data into cost data and require users to enter a minimal amount of information to generate cleanup cost estimates.

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13. Once the estimated asbestos cleanup cost associated with the removal, containment or disposal of the real property has been determined, that cost should be recognized in accordance with SFFAS 6.<sup>11</sup>
  14. If the asbestos cleanup cost cannot be estimated using any of the methodologies in paragraph 12, the agency should estimate and recognize any other identifiable costs (e.g., asbestos survey) as outlined in TR 2 (*Section 2: Determining “Reasonably Estimable” Environmental Liabilities – (2.) Experience with Similar Site and /or Conditions*).
  15. In accordance with SFFAS 6, paragraph 96, “Estimates shall be revised periodically to account for material changes due to inflation or deflation and changes in regulations, plans and/or technology. New cost estimates should be provided if there is evidence that material changes have occurred; otherwise estimates may be revised through indexing.”<sup>12</sup> As additional information becomes available, key assumptions should be re-evaluated, cost estimate revised, and necessary adjustments made to the liability recognition.

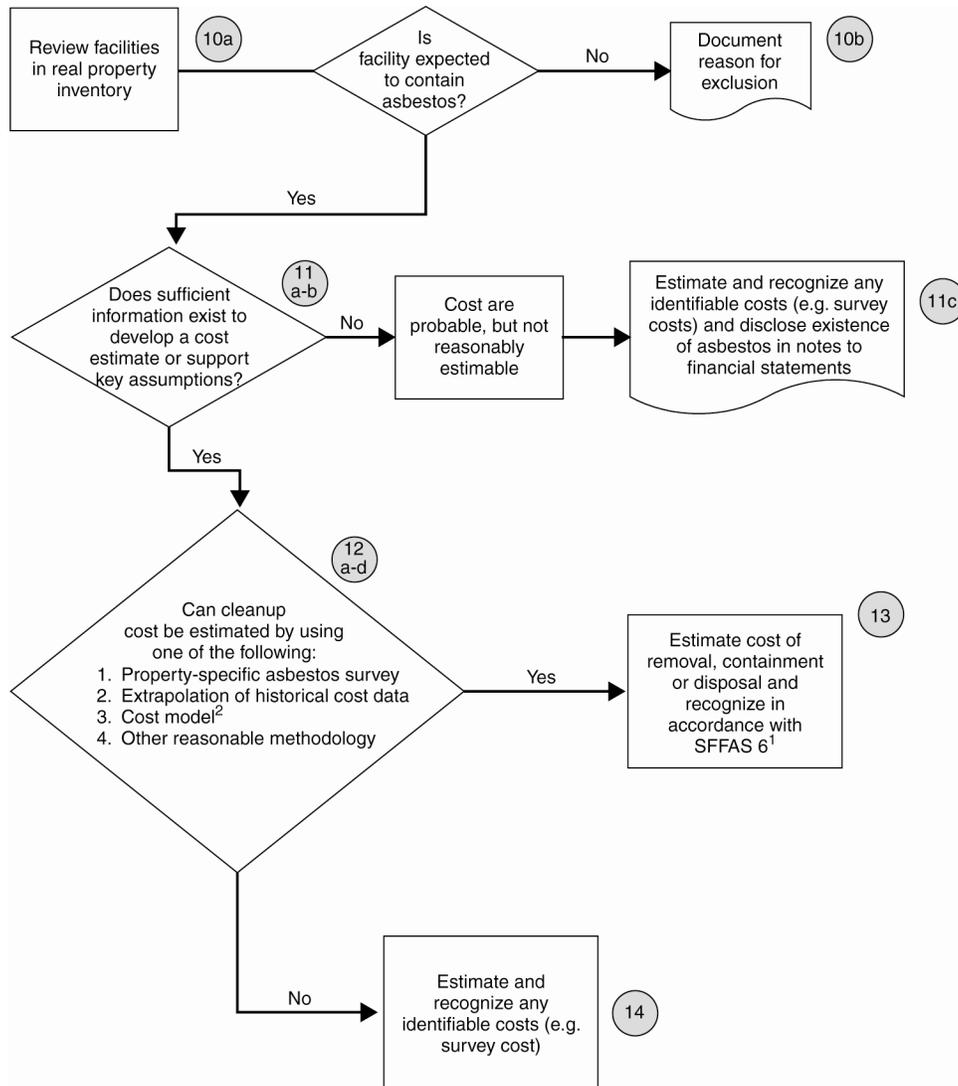
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<sup>11</sup> See paragraphs 98 and 101, and Technical Bulletin 2006-1, paragraph 37.

<sup>12</sup> TB 2006-1, paragraph 34: As reestimates are made, the cumulative effect of changes in total estimated asbestos-related cleanup costs related to current and past operations shall be recognized as expense and the liability adjusted in the period of the change in estimate (SFFAS 6 par. 99). In certain scenarios, such as when cleanup costs have been fully expensed, the reestimate may result in a credit to expense for that year.

**Diagram 1: General Approach to Determining, Estimating and Recognizing Asbestos Cleanup Costs**

(Circles correlate to Sections of document)



<sup>1</sup>In accordance with the requirements of SFFAS 6, pars. 97 & 101, and TR2.

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

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

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## Appendix A: Basis for Conclusions

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### Background

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

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### Recognition versus Disclosure of Asbestos Cleanup Costs

- A4. An asbestos cost estimate is developed in accordance with the methodology outlined in TR 2 once the existence of the asbestos is determined. If the asbestos is probable, the entity must determine whether the costs can be reasonably estimated. Asbestos cost estimates

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rely on information such as the amount, type, and condition of asbestos in the property, the disturbance activity, and the federal, state and local asbestos regulations. This information is not always available due to: a) absence of environmental or legal driver to track the existence of asbestos; b) asbestos embedded in materials not visible through observation; and c) changes in regulatory restrictions on the use of asbestos in materials. For purposes of developing asbestos cleanup cost estimates, assumptions can be made in some cases to make up for a lack of actual data. When reasonable assumptions and associated estimates (i.e. supported by industry best practices) cannot be made, the presence of asbestos and the inability to reasonably estimate an amount of the total cleanup costs should be disclosed in the agency's notes to the financial statements.

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## Asbestos Cleanup Cost Estimation Approach

A5. Cost estimates for future asbestos cleanup are dependent on information that is often not discovered until closer to initiation of a renovation or demolition project. As a result, cost estimates may be based on key assumptions that become more accurate as an asbestos cleanup project is planned. Thus, the methodology presented offers several options for developing cost estimates depending on the availability of asbestos information (i.e., cost model for individual or grouped properties, extrapolation of historical costs, property-specific cost estimate based on survey data). The methodology incorporates refinement of the cost estimate as better and relevant information becomes available over the life of the asset. Once a renovation or disposal project is planned and detailed asbestos surveys are conducted as dictated by environmental regulation, environmental liabilities should more accurately reflect future asbestos cleanup costs.

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## Reasonable Cost Estimate

A6. Management is responsible for making the accounting estimates included in the financial statements. Estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. Management's judgment is normally based on its knowledge and experience about past and current events and its assumptions about conditions it expects to exist and courses of action it expects to take. An entity's internal control may reduce the likelihood of material misstatements of accounting estimates. The entity should consider the following factors when developing a reasonable cost estimate:

1. Accumulation of relevant, sufficient, and reliable data on which to base an accounting estimate.
2. Preparation of the accounting estimate by qualified personnel.

3. Adequate review and approval of the accounting estimates by appropriate levels of authority, including:
  - Review of sources of relevant factors
  - Review of development of assumptions
  - Review of reasonableness of assumptions and resulting estimates. Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data
  - Consideration of the need to use the work of specialists
  - Consideration of changes in previously established methods to arrive at accounting estimates
  - Consideration of changes in the business or industry that may cause other factors to become significant to the assumptions
4. Comparison of prior accounting estimates with subsequent results to assess the reliability of the process used to develop estimates.
5. Consideration by management of whether the resulting accounting estimate is consistent with the operational plans of the entity.
- A7. The AAPC released the exposure draft (ED), *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment* on September 3, 2009. Upon release of the ED, notices and/or press releases were provided to: The Federal Register, the *FASAB News*, the *Journal of Accountancy*, *AGA Today*, the *CPA Journal*, *Government Executive*, the *CPA Letter*, and committees of professional associations commenting on past exposure drafts.
- A8. Nine letters were received from the following sources:

|                                  | FEDERAL<br>(Internal) | NON-FEDERAL<br>(External) |
|----------------------------------|-----------------------|---------------------------|
| Users, academics, others         |                       | 2                         |
| Auditors                         |                       |                           |
| Preparers and financial managers | 7                     |                           |

- A9. AAPC received a comment on the exposure draft requesting clarification on whether removal of asbestos could be classified as part of normal operations, when performed

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during maintenance, repairs or alterations that occur over the life of the building, and therefore the cost of removal could be accounted for as an operating expense and not a liability. Although the building maintenance and repair occurs periodically over the life of an asset, any asbestos contained in a specific asset may not be periodically removed and/or contained at every scheduled repair and/or maintenance activity. Therefore, the removal of asbestos should not be accounted for as a routine operating expense. Further, in accordance with TB 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, paragraph 30, "it is possible for certain types of nonfriable asbestos-containing material to remain nonfriable indefinitely; therefore, the estimate does not need to include nonfriable asbestos-containing roofing, flooring, siding, and other materials that when repaired, renovated, removed, contained, disposed of, or otherwise disturbed do not become friable and do not require additional costs above and beyond normal repair, renovation, removal, containment, or disposal costs to prevent them from becoming friable. However, if there are additional costs incurred to prevent the nonfriable asbestos-containing material from becoming friable or if it could potentially become friable as part of the repair, renovation, removal, containment, or disposal process, such costs should be included in the estimate of asbestos-related cleanup costs."

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## Appendix B: Illustrations -- Examples of Practice

The examples shown in this appendix are for illustrative purposes only. The explanations and illustrations are presented to show how the standards may be applied but are not standards themselves. These illustrations are general in nature and may not apply to specific cases that appear similar but have unique circumstances.

The following examples illustrate the estimation of asbestos-related clean up costs associated with future repair/renovation or demolition projects at the time the asset is placed in service

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

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

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

- An asbestos survey performed on the real property that requires repair indicates that the blown-in attic insulation and the ceiling tiles contain asbestos.
  - A review of the federal and state requirements indicate that regardless of renovation or demolition method, the attic insulation and ceiling tiles will likely require removal in accordance with asbestos regulations.
  - There is cost information available for removing, containing, and disposing of similar asbestos-containing materials.
- b. Based on the information above and in accordance with TR 2, since asbestos containing materials are present, the probability requirement of recognizing a cleanup liability is satisfied. Also, since there is information about the cost of removal, containment and disposal of the asbestos, the cost associated with asbestos cleanup is reasonably estimable. The federal entity must estimate the asbestos-related cleanup costs to be incurred while conducting the repair or renovation, plus the cost of cleaning up the asbestos remaining in the real property at the time of demolition, where reasonably estimable. These estimated costs would then be recognized as a liability according to the guidance in SFFAS 6, paragraph 104.

II. Evaluating Asbestos Cleanup Costs Associated with Real Property Demolition:

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

- c. At the acquisition date, the following is determined:
- There is no evidence or certification that the asset is asbestos-free. As some construction material utilized at the time the asset was built had been found to contain asbestos, it is therefore probable that asbestos may be present in the real property being assessed;
  - The condition of materials suspected to contain asbestos was not surveyed by the previous owner;
  - No asbestos survey or other assessment has been performed to estimate the type, location, or extent of asbestos in the real property;
  - There are no assets that are similar in size, age and functionality that could be used to obtain information about the type, location, or extent of asbestos in the similar assets;
  - There are no current reliable factors or parameters to be applied to a relevant asbestos liability estimation model; and

- It is not possible to determine the extent of the existence of asbestos without destroying or weakening the existing structure or disturbing potential asbestos, which would be undesirable.
- d. Based on the information above and in accordance with TR 2, the presence of asbestos in the real property satisfies the probability requirement of liability recognition. However, the cost of removal, containment, and disposal of the asbestos is not reasonably estimable at this time. The existence of asbestos and a statement that such an estimate cannot be made should be disclosed. In this case, the federal entity must estimate a liability for conducting an asbestos survey and any other identifiable associated cost, recognize that liability in accordance with the guidance in SFFAS 6, paragraph 104, and disclose information about the real property in the notes to the financial statement. Also, as relevant information about the real property and its asbestos become available, the federal entity should reconsider its key assumptions and use an acceptable estimation technique (i.e., cost model or similar real property) to develop a reasonable estimate of asbestos cleanup costs.