



**Federal Accounting Standards Advisory Board**

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**RECOGNITION AND MEASUREMENT OF  
ASBESTOS-RELATED CLEANUP COSTS**

***Technical Bulletin 2006-1***

September 28, 2006

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### ***THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD***

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

FASAB has authorized its staff to prepare FASAB Technical Bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board’s rules of procedure, as amended and restated through December 2003, and the procedures described in FASAB Technical Bulletin 2000-1, “*Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance.*” The provisions of Technical Bulletins need not be applied to immaterial items.

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

- ◆ “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- ◆ “Mission Statement: Federal Accounting Standards Advisory Board”, Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: [www.fasab.gov](http://www.fasab.gov).

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## Summary

- I. This technical bulletin clarifies the required reporting of liabilities and related expenses arising from asbestos-related cleanup costs. Standards issued by FASAB have precedence over other authoritative guidance for federal entities. This technical bulletin supplements any relevant federal standards, but is not a substitute for and does not take precedence over standards and interpretations issued by FASAB.
- II. Prior to this technical bulletin, 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., nonfriable 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.
- III. The primary effects of this technical bulletin are that:
  - a. Federal entities will (1) estimate both friable and nonfriable asbestos-related cleanup costs and (2) recognize a liability and related expense for those costs that are both probable and reasonably estimable, 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*.

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- b. Federal entities will disclose information related to friable and nonfriable 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.

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***Abbreviations***

CAA	Clean Air Act
CERCLA	Comprehensive Environmental Response Compensation and Liability Act
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
EPA	Environmental Protection Agency
FAS	Financial Accounting Standard (FASB)
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FIN	FASB Interpretation Number
GAAP	Generally Accepted Accounting Principles
IPA	Independent Public Accountant
NESHAP	National Emissions Standards for Hazardous Air Pollutants
NOA	Naturally Occurring Asbestos
PP&E	Property, Plant, and Equipment
RCRA	Resource Conservation Recovery Act
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
TR	Technical Release

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## ***Introduction***

1. The purpose of this technical bulletin is to clarify the responsibility of all federal entities to report liabilities and related expenses arising from asbestos-related cleanup costs. This technical bulletin clarifies and elaborates on, but does not change, guidance previously provided 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*.

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## ***Technical Guidance***

### Scope

- 2. What entities are affected by this technical bulletin?**
3. This guidance affects all federal entities that own buildings, facilities, ships, or other tangible property, plant, and equipment (PP&E) that contain any form of asbestos.
- 4. What accounting practices are addressed in this technical bulletin?**
5. This guidance clarifies the responsibility of all federal entities to report liabilities and expenses for asbestos-related cleanup costs and to disclose related information in the notes. Asbestos-related cleanup costs include cleanup costs related to both friable and nonfriable asbestos-containing material.
- 6. What is excluded from this technical bulletin?**
7. 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.
8. This guidance does not pertain to contaminants or asset retirement obligations other than asbestos.

### Background

- 9. What is asbestos?**
10. Asbestos is a widely used, mineral-based material that is resistant to heat and corrosive chemicals (see sample list of asbestos-containing materials at Appendix C: Asbestos-Containing Materials). Typically, commercial asbestos appears as a whitish, fibrous material which may release fibers that range in texture from coarse to silky; however, airborne fibers that can cause health damage may be too small to see with the naked eye.
11. Section 112 of the Clean Air Act (CAA) requires the U. S. Environmental Protection Agency (EPA) to develop and enforce regulations to protect the general public from exposure to airborne contaminants that are known to be hazardous to human health. Asbestos was one of the first hazardous air pollutants regulated under Section 112. On March 31, 1971, EPA identified asbestos as a hazardous pollutant, and on April 6, 1973, EPA first promulgated the Asbestos National Emissions Standards for Hazardous Air



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Pollutants (NESHAP) in 40 CFR Part 61. The purpose of the asbestos NESHAP is to protect the public from asbestos emissions from certain sources.

12. Under the asbestos NESHAP, asbestos is categorized as either friable (any material containing more than 1 percent asbestos that, when dry, can be crumbled, pulverized, or reduced to powder by hand pressure) or nonfriable (any material containing more than 1 percent asbestos that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure). Friable asbestos poses more of an immediate health risk than nonfriable, but both forms must be properly contained and disposed of during repair, renovation, demolition, or other disturbance of the property. The terms friable and nonfriable are further defined in Appendix D: Definitions. From this point on in the document, the term asbestos or asbestos-containing materials will refer to both friable and nonfriable unless stated otherwise.
13. Exposure to asbestos can cause asbestosis (scarring of the lungs resulting in loss of lung function that often progresses to disability and to death); mesothelioma (cancer affecting the membranes lining the lungs and abdomen); lung cancer; and cancers of the esophagus, stomach, colon, and rectum.
- 14. What are cleanup costs?**
15. Cleanup costs are the costs of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E. (SFFAS 6, par. 85)
16. 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. (SFFAS 6, par. 86)
17. Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and postclosure costs. (SFFAS 6, par. 87)
- 18. What are asbestos-related cleanup costs?**
19. Asbestos-related cleanup costs are the costs of removing, containing, and/or disposing of (1) asbestos-containing materials from property, or (2) material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of associated PP&E.<sup>1</sup>

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<sup>1</sup> Temporary closure or shutdown would also include the scheduled closure or shutdown of PP&E in order to conduct cleanup activities.

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20. While the term “hazardous waste” used in SFFAS 6, Chapter 4, par. 86 was informed by consulting environmental laws such as the Resource Conservation Recovery Act (RCRA), the general use of the term in federal accounting standards should not be construed as limiting the application of the standards solely to those materials meeting the definition of “hazardous waste” under RCRA. While asbestos is not explicitly listed as “hazardous waste” under RCRA, asbestos is listed as a hazardous air pollutant under the CAA and as a hazardous substance under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Therefore, the term “hazardous waste” as defined in SFFAS 6 and referenced in paragraph 16 of this technical bulletin includes asbestos for purposes of proper accounting treatment.
- 21. Why is this guidance being issued?**
22. In March 2006, representatives from two CFO Act agencies informed FASAB staff that their independent public accountant (IPA) indicated that the agencies needed to reconsider their accounting for nonfriable asbestos for fiscal year 2006. The agencies noted that they had recognized an estimated liability for removal of asbestos posing an immediate health threat (i.e., friable), but had not prepared an estimate for the future removal of asbestos that does not pose an immediate health threat (i.e., nonfriable). The issue arose as a result of the Financial Accounting Standards Board’s (FASB) issuance of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47) in March 2005. Prior to FIN 47, organizations following FASB standards did not consistently recognize liabilities for nonfriable asbestos. The agencies cited this inconsistency as well as the inconsistency among all federal agencies as the basis for not recognizing liabilities for nonfriable asbestos.
23. FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 provides that the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, FIN 47 requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.
24. The issuance of FIN 47 prompted the agencies’ IPA to revisit the guidance in SFFAS 5; SFFAS 6, Chapter 4: Cleanup Costs; and TR 2. FASAB staff conducted a conference call with several of the IPA’s representatives, during which time the IPA’s representatives communicated their concern that, under existing guidance in SFFAS 5, SFFAS 6, and TR 2, federal entities are not consistently reporting liabilities for asbestos-related cleanup costs.

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## Federal Entities Should Estimate Asbestos-Related Cleanup Costs and Recognize a Liability and Related Expense for those Costs that are Probable and Reasonably Estimable

### General PP&E

#### *Cleanup Cost Estimates*

#### **25. Should federal entities estimate asbestos-related cleanup costs?**

26. Yes, federal entities should continue to follow the guidance contained in SFFAS 5, SFFAS 6, and TR 2 related to estimating obligations<sup>2</sup> for cleanup costs. Asbestos-related cleanup costs, as defined in paragraph 19, shall be estimated when the associated PP&E is placed in service. The estimate shall be included as part of the "estimated total cleanup cost." (SFFAS 6 par. 94)
27. The estimate shall contemplate: (a) the cleanup plan, including level of restoration to be performed, current legal or regulatory requirements,<sup>3</sup> and current technology; and (b) 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. (SFFAS 6 par. 95)
28. 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. (SFFAS 6 par. 96)
- #### **29. Are there any costs that may be excluded from the estimate of asbestos-related cleanup costs?**
30. Yes, 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

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<sup>2</sup> The term obligation is used in this bulletin with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.

<sup>3</sup> Laws and regulations approved as of the balance sheet date, regardless of the effective date of those laws and regulations, shall be considered.

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of the repair, renovation, removal, containment, or disposal process, such costs should be included in the estimate of asbestos-related cleanup costs.

### *Liabilities*

- 31. Should federal entities recognize a liability for asbestos-related cleanup costs?**
32. Yes, federal entities should recognize a liability for asbestos-related cleanup costs if the liability is deemed to be both probable<sup>4</sup> and reasonably estimable. If the item is deemed to be probable, but not reasonably estimable, it should be disclosed in the notes to the financial statements, consistent with SFFAS 5, SFFAS 6, and TR 2.
33. For assets placed in service after implementation of this technical bulletin, accumulation of the liability shall begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation [either permanently or temporarily]. (SFFAS 6 par. 98)
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.
35. As asbestos-related cleanup costs are paid, payments shall be recognized as a reduction in the liability for asbestos-related cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities. (SFFAS 6 par. 100)

### *Expenses*

- 36. Should federal entities recognize the related expenses for asbestos-related cleanup costs?**
37. Yes, a portion of estimated total asbestos-related cleanup costs shall be recognized as expense during each period that general PP&E is in operation. This shall be accomplished in a systematic and rational manner based on use of the physical capacity of the associated PP&E whenever possible. 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. (SFFAS 6 par. 97)

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<sup>4</sup> Per SFFAS 5, par. 33, probable is defined as "that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic."

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38. For assets placed in service after the effective date of this technical bulletin, recognition of the expense shall begin on the date that the PP&E is placed into service, continue in each period that operation continues, and be completed when the PP&E ceases operation [either permanently or temporarily]. (SFFAS 6 par. 98)
- 39. Are federal entities required to account for liabilities related to general PP&E that are already in service at the date of implementation of this technical bulletin in the same manner as assets placed in service after implementation of this technical bulletin?**
40. No, two implementation approaches have been provided for liabilities related to general PP&E that are already in service at the date of implementation of this technical bulletin: (1) 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 recognized in a systematic and rational manner based on use of the physical capacity of the associated PP&E, whenever possible. (2) In situations where the related PP&E has been in service for a substantial portion of its estimated useful life, management may instead elect to recognize the estimated total cleanup cost as a liability upon implementation of this technical bulletin (this approach may only be used if costs are not intended to be recovered primarily through user charges). (SFFAS 6 pars. 104 and 97)
41. The offsetting charge for any liability for asbestos-related cleanup costs related to general PP&E in service at the date of implementation shall be made to net position of the entity. The amount of the adjustment shall be shown as a “change in accounting principle” in any statement of changes in net position that may be required. (SFFAS 6 par. 105 and SFFAS 21, *Reporting Correction of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, pars. 12-13)

Stewardship PP&E (Heritage Assets and Stewardship Land)

- 42. How should federal entities report asbestos-related cleanup costs related to stewardship PP&E (Heritage Assets and Stewardship Land)?**
43. Consistent with the treatment of the acquisition cost of stewardship PP&E (i.e., expensing in the period placed in service), the total estimated asbestos-related cleanup costs shall be recognized as expense in the period that the stewardship asset is placed in service and a liability established. (SFFAS 6 par. 101)
44. The liability shall be adjusted when the estimated total asbestos-related cleanup costs are reestimated. Adjustments to the liability shall be recognized in expense as part of “changes in estimated cleanup costs from prior periods.” (SFFAS 6 par. 102) In certain

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scenarios, such as when cleanup costs have been fully expensed, the reestimate may result in a credit to expense for that year.

45. As asbestos-related cleanup costs are paid, payments shall be recognized as a reduction in the liability for asbestos-related cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities. (SFFAS 6 par. 103)
46. For stewardship PP&E that are in service at the date of implementation of this technical bulletin, the liability for asbestos-related 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 “change in accounting principle” in any statement of changes in net position that may be required. The amounts involved shall be disclosed. (SFFAS 6 par. 106 and SFFAS 21 pars. 12-13)

### Note Disclosures

**47. With regard to asbestos-related cleanup costs, what should federal entities disclose in the notes to the financial statements?**

48. Entities should disclose the following:
  - a. The sources (applicable laws and regulations) of asbestos-related cleanup requirements. The U.S. government-wide financial statements need not disclose the sources of cleanup requirements. (SFFAS 6 par. 107 and SFFAS 32, *Consolidated Financial Report of the United States Government Requirements: Implementing Statement of Federal Financial Accounting Concepts 4 “Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government,”* par. 12d)
  - b. The method for assigning estimated total asbestos-related cleanup costs to current operating periods (e.g., physical capacity versus passage of time). The U.S. government-wide financial statements need not disclose the method for assigning estimated cleanup costs to current operating periods. (SFFAS 6 par. 108 and SFFAS 32 par. 12e)
  - c. For asbestos-related cleanup costs associated with general PP&E, the unrecognized portion of estimated total asbestos-related cleanup costs (i.e., the estimated total asbestos-related 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. (SFFAS 6 par. 109 and SFFAS 32 pars. 12f and 25)

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- d. Material changes in total estimated asbestos-related 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. (SFFAS 6 par. 110 and SFFAS 32 par. 12g)
  - e. 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. (SFFAS 6 par. 111 and SFFAS 32 par. 12h)
49. For asbestos-related cleanup costs that are deemed to be probable but not reasonably estimable, the entity should disclose the presence of asbestos in its facilities and the inability to reasonably estimate an amount of the total cleanup costs.<sup>5</sup> SFFAS 32, par. 25, provides for disclosure requirements related to cleanup costs for the U.S. government-wide financial statements.

### *Effective Date*

50. This technical bulletin is effective for reporting periods beginning after September 30, 2009. Earlier adoption is encouraged.

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

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<sup>5</sup> For example, asbestos may be contained within walls, flooring, or roofing and is inaccessible without destroying or weakening the existing structure or disturbing the asbestos, which would be undesirable. Without experience with a similar site and/or conditions, it may not be possible for the entity to reasonably estimate the cost to remove and dispose of the asbestos contained therein.

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## ***Appendix A: Basis for Conclusions***

The Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB technical bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's rules of procedure, as amended and restated through December 2003, and the procedures described in FASAB Technical Bulletin 2000-1, "*Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance.*" The provisions of technical bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this technical bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

- A1. In March 2006, a representative from one of the CFO Act agencies informed FASAB staff that its IPA requested that the agency reconsider its accounting for nonfriable asbestos-related cleanup costs for fiscal year 2006. The agency contacted FASAB due to the extensive work that would be required to estimate its liability for nonfriable asbestos-related cleanup costs and the implications for other federal agencies. The agency estimates that it has approximately 3,300 – 6,000 facilities that contain nonfriable asbestos that are not already included as part of its material environmental disposal liability calculation.
- A2. FASAB staff was also contacted by a second CFO Act agency regarding the same issue. This second agency, which utilizes the same IPA as the first agency, stated that it was planning to prepare an estimate of its fiscal year 2006 asbestos liability for both friable and nonfriable asbestos-related cleanup costs absent guidance from the FASAB to the contrary.
- A3. FASAB staff contacted the IPA directly and spoke with its representatives about the rationale for requesting the agencies to estimate a liability for nonfriable asbestos-related cleanup costs. The IPA representatives stated that the agencies had previously cited the inconsistency in reporting of these liabilities by federal entities and organizations that followed FASB standards as the basis for not recognizing a liability for nonfriable asbestos-related cleanup costs. The IPA representatives also stated that the issuance of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), prompted it to revisit this obligation that federal entities have for future cleanup of asbestos because FIN 47 eliminated some of the inconsistency that the agencies had cited and required entities that follow FASB standards to recognize a liability for nonfriable asbestos. In addition, the IPA representatives questioned whether existing FASAB pronouncements<sup>6</sup> would already require that both friable and nonfriable costs be recognized in the financial statements. The IPA representatives also stated that they

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<sup>6</sup> SFFAS 5, SFFAS 6, and TR 2



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believe there is a divergence in practice across the federal government, with some agencies reporting a liability for both friable and nonfriable asbestos-related cleanup costs in past years, while others have recognized only liabilities for friable cleanup costs.

- A4. The agencies and the IPA representatives requested that the FASAB reconfirm existing guidance or issue new guidance on whether federal entities are required to recognize a liability for future cleanup of nonfriable asbestos.
- A5. FIN 47, which was issued in March 2005, clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 states that the obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Accordingly, FIN 47 requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.
- A6. FIN 47 states that “uncertainty about whether performance will be required does not defer the recognition of an asset retirement obligation because a legal obligation to stand ready to perform the retirement activities still exists, and it does not prevent the determination of a reasonable estimate of fair value because the only uncertainty is whether performance will be required.”<sup>7</sup> Application of FIN 47 clarifies that performance need not be probable and, therefore, may result in the recognition of more asset retirement obligations than if the determination were based on probability of performance. FIN 47 is effective no later than the end of the fiscal year ending after December 15, 2005.
- A7. FIN 47, Appendix A, examples 3 and 4, contain specific examples that apply to cleanup of asbestos. Whether the facilities were acquired before or after the environmental regulations were put into place, the underlying requirement is the same. With regard to asbestos, Appendix A of FIN 47, states “Although the timing of the performance of the asset retirement activity is conditional on the factory undergoing major renovations or being demolished, existing regulations create a duty or responsibility for the entity to remove and dispose of asbestos in a special manner, and the obligating event occurs when the regulations are put in place [or the entity acquires the factory].” FIN 47 specifically states, “Although the entity may decide to abandon the factory and thereby defer settlement of the obligation for the foreseeable future, the ability to defer settlement does not relieve the entity of the obligation. The asbestos will eventually need to be removed and disposed of in a special manner, because no building will last forever.”
- A8. Accounting for cleanup costs is specifically addressed in SFFAS 6, Chapter 4, as well as TR 2. The standards for cleanup costs in SFFAS 6 supplement the accounting requirements for liabilities in SFFAS 5, which requires that liabilities shall be recognized

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<sup>7</sup> FIN 47, par. 5a.

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when three conditions are met: a past transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. SFFAS 6, Chapter 4, requires that cleanup costs be estimated and charged to expense during each period that general property, plant, and equipment is in operation. TR 2 is intended to assist federal entities in determining probable and reasonably estimable liabilities related to their environmental cleanup responsibilities.

- A9. SFFAS 6 addresses cleanup costs from federal operations known to result in hazardous waste. SFFAS 6 provides guidance when cleanup occurs at the end of the useful life of the PP&E or at regular intervals (scheduled phase cleanup) during that life. SFFAS 5 applies to all environmental liabilities not specifically covered in SFFAS 6, including cleanup resulting from accidents or where cleanup is an ongoing part of operations. TR 2 offers guidance on determining probable and reasonably estimable for environmental liabilities. The estimation of a liability for asbestos-related cleanup costs is not explicitly addressed by SFFAS 5, SFFAS 6, or TR 2, but staff believes it is covered under the requirements of these pronouncements.
- A10. One key notion contained in FIN 47 that is not stated as explicitly in either SFFAS 6 or TR 2 is the notion that “no building will last forever”; it would be hard to support a claim that the federal government will be able to maintain a building forever without having to eventually cleanup the asbestos contained therein. The federal government is subject to the same laws and regulations regarding control and abatement of air pollution as nongovernmental entities.<sup>8</sup> Therefore, if one were to agree that the notion of probability of settlement applies to infinity rather than the foreseeable future, it is probable (more likely than not) that the federal government will be required to meet any legal obligations at some point in the future for the cleanup of asbestos in all of its facilities, whether they are sold, renovated, or demolished or collapse. Based on SFFAS 5 and 6 and TR 2, the question then becomes whether the federal liability for cleanup of asbestos is reasonably estimable.
- A11. TR 2, Section 2, provides guidance on determining “reasonably estimable” environmental liabilities. This guidance recommends completion of a remedial investigation/feasibility study upon which to base an estimate and/or experience with similar site and/or conditions. Estimated costs should be based on the cleanup plan, assuming current technology and current cost. These costs can include the costs to remove, contain, and/or dispose of the hazardous waste requiring cleanup. The SFFAS 5 measurement attribute – settlement cost (best represented by the current cost to cleanup) – differs significantly from the FIN 47 measurement attribute – fair value. Fair value incorporates the effects of uncertainty. Staff believes that settlement cost is more difficult to measure since it does not allow for different outcomes, each of which may be just as likely as the others.

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<sup>8</sup> Toxic Substances Control Act (15 USC 2619) and Clean Air Act (42 USC 7418)

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- A12. In the case of estimating asbestos-related cleanup costs in federal facilities, consideration needs to be given to the reasonable availability of relevant and reliable data upon which to base an estimate, the needs of the report users, the objective of reporting such information, and the materiality involved.
- A13. As noted in paragraph 5, asbestos-related cleanup costs includes cleanup costs related to both friable and nonfriable asbestos-containing material. Under the asbestos NESHAP, friable asbestos is currently required by law to be removed, contained, and properly disposed of in the context of a demolition or renovation of a covered facility. There is no immediate requirement for the federal government to remove nonfriable asbestos in good condition that is not currently posing a health threat. However, the future repair, removal, renovation, demolition or other disturbance of asbestos-containing material may cause the asbestos to become friable and, because of limitation on the life of PP&E other than land, it is inevitable that these actions will occur. Thus, the event triggering the liability is the existence of asbestos in federal property, plant, and equipment, not a legal requirement to remove, contain, or dispose of the asbestos. Therefore, the accounting treatment for asbestos provided for in this technical bulletin is based on the best estimate of the costs that will be incurred in the future for removal, containment, or disposal of asbestos that exists in federal property, plant, and equipment as of the reporting date. The ability of the federal government to sell the federal property, plant, and equipment or otherwise dispose of it in the future without incurring any asbestos-related cleanup costs may affect measurement of the liability but does not negate the existence of the liability as of the reporting date.
- A14. It is important to note that the requirement to estimate a liability for asbestos-related cleanup costs and the requirement to actually perform asbestos-related cleanup are two completely separate requirements. It is not within the scope or the intent of accounting standard-setters to establish what asbestos-related cleanup will be required and when. This must be determined by reference to applicable law. Furthermore, this technical bulletin does not intend to imply that recognizing a liability for asbestos-related cleanup costs in any way reflects a judgment about the legal obligation of the federal government for asbestos-related cleanup. The purpose of this technical bulletin is to provide guidance that will result in the more consistent and timely recognition of an accounting liability.
- A15. In the past, some federal entities have cited the inconsistency in reporting of asbestos-related liabilities by federal entities and organizations that followed FASB standards as the basis for not recognizing a liability for nonfriable asbestos-related cleanup costs. Therefore, the effective date of this technical bulletin – for reporting periods beginning after September 30, 2009 – is established to allow federal entities the time to complete remedial investigation/feasibility studies or take similar steps in order to comply with this guidance. Earlier adoption is encouraged.
- A16. A draft concepts statement, *Definition and Recognition of Elements of Accrual-Basis Financial Statements*, is currently under consideration by the Board and was issued as an exposure draft in early June 2006. This concepts statement proposes new definitions of
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five elements of accrual-basis financial statements – asset, liability, revenue, expense, and net position. These new definitions, if issued as final, would be used as the building blocks for new standards issued by the Board in the future. However, since the concepts statement will go through extensive due process before being finalized and subsequently used to develop new standards, this technical bulletin is being issued under the existing standards for the federal government. If changes are made to the cleanup standards in the future, the consideration of asbestos-related cleanup costs would be incorporated into the new standards accordingly.

A17. The exposure draft, Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, was issued June 1, 2006 with comments requested by June 30, 2006. Upon release of the exposure draft, notices and press releases were provided to The Federal Register, *FASAB News*, *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, *Government Accounting and Auditing Update*, the CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, the Federal Financial Managers Council, and committees of professional associations generally commenting on exposure drafts in the past. To encourage responses, reminder notices were provided to the FASAB Listserv on June 20th and June 29th.

A18. Eleven comment letters were received from the following sources:

	<b>FEDERAL (Internal)</b>	<b>NON- FEDERAL (External)</b>
Users, academics, others	1	3
Auditors	0	1
Preparers and financial managers	6	0

A19. In addition to the official count in paragraph A18, two federal agencies wrote that they had reviewed the exposure draft and determined that it required no changes or did not have a major impact to their current reporting practices.

A20. The Board considered responses to the exposure draft at its July 27, 2006 board meeting. The majority of the respondents agreed with the proposed guidance. Specific concerns raised by respondents related to asbestos being considered a hazardous waste, the lack of legal requirements to remove nonfriable asbestos in good condition, applicability of the technical bulletin to naturally occurring asbestos and other contaminants, and the issue of liability recognition versus note disclosure. Most concerns raised by respondents related to definition and scope of the proposed guidance. Clarifying language was added to address these concerns.

A21. Several respondents that were strongly opposed to the proposed guidance argued that because there is no legal requirement to cleanup nonfriable asbestos, it is not appropriate to estimate a liability for nonfriable asbestos. The Board has agreed that

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while legal enforceability may provide additional evidence that a liability exists, it is not a prerequisite. The guidance in this technical bulletin is requiring that the entity estimate the economic impact that the existence of asbestos has on the financial position of the entity. Therefore, if asbestos is present in any form in an entity's PP&E at year-end, the entity is required to estimate the costs that will be incurred at any point in the future to comply with all related laws and regulations regarding the asbestos already in existence as of the reporting date. The entity is only required to prepare a best estimate of costs that will eventually be incurred. The entity is not required to estimate costs for cleanup of asbestos that will never occur (e.g., nonfriable asbestos that will never become friable). Language was added to clarify the intent of the guidance.

- A22. One respondent to the exposure draft stated that the technical bulletin should make a distinction between the treatment of cleanup costs for heritage assets and multi-use heritage assets. Based on a review of existing standards, it was noted that SFFAS 6 (as originally pronounced) provided for capitalization of certain costs related to multi-use heritage assets as general PP&E. In addition, SFFAS 6, Chapter 4, Cleanup Costs, differentiated between stewardship PP&E and general PP&E for purposes of estimating cleanup costs but did not specifically reference multi-use heritage assets. Although not explicitly stated, staff believes that it was the intent of the previous Board that the cleanup cost standards for general PP&E apply to all assets classified as general PP&E, including multi-use heritage assets.
- A23. The Board has reviewed this technical bulletin, and a majority of its members do not object to its issuance.

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## ***Appendix B: Illustration of Asbestos-Related Cleanup Costs***

This appendix illustrates one method of complying with the guidance in this technical bulletin.<sup>9</sup> The example shown in this appendix is for illustrative purposes only. Applying this technical bulletin may require consideration of estimated cost components other than those shown here.

### ***Example of Accounting for Asbestos-Related Cleanup Costs***

- B1. A federal facility (general PP&E) was placed in operation in 1970. While the federal entity had previously recognized cleanup costs for friable asbestos, no recognition of nonfriable asbestos-related cleanup cost was made under past accounting policy. At the end of 2006, the entity adopts the accounting policies presented in this technical bulletin.

The following assumptions apply:

- The facility has an expected useful life of 50 years;
- The containment and removal of asbestos is required by state, local and Federal laws when the site is renovated, repaired, permanently or temporarily closed down, or otherwise disturbed; and,
- 2006 cost estimates are based on current cost for 2006.

#### RECOGNITION OF LIABILITY AMOUNTS FOR 2006 (Dollars in thousands)

##### Estimated Total Cleanup Cost Based on Current Cost in 2006

The federal entity estimates the following total cleanup costs related to the containment and removal of nonfriable asbestos in its facility:

Inspection	\$ 1,000
Sampling and Testing	10,000
Feasibility Study	5,000
Containment of Asbestos During Removal	12,000
Disposal of Asbestos	<u>20,000</u>
TOTAL ESTIMATED CLEANUP COST	<u>\$48,000</u>

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<sup>9</sup> The formulas used in this illustration are taken from SFFAS 6, Appendix D – *Illustration of Cleanup Cost*.

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Calculation of Liability Amount to be Recognized upon Implementation

At the end of 2006, the estimated total cleanup costs were \$48 million. The following calculations show the amounts that should have been recognized at the end of 2006 if the technical bulletin had been in effect since the facility began operation on October 1, 1970:

(a x b/c) – d = I where,

a = total cleanup cost estimated as of end of period

b = cumulative capacity used at end of period<sup>10</sup>

c = total estimated capacity<sup>11</sup>

d = amount previously recognized as expense – beginning of period

I = liability to be recognized at the end of 2006

$$(\$48,000 \times 36/50) - \$0 = I$$

$$\$48,000 \times .72 - \$0 = I$$

$$\$34,560 = I$$

Dr. Change in Accounting Principle	\$34,560
Cr. Cleanup Liability	\$34,560

To recognize estimated cleanup liability.

**SUMMARY:**

<b>Financial Statement</b>	<b>2006</b>
Change in Accounting Principle	\$34,560
Liability	\$34,560

**Note regarding the second implementation approach:**

If the entity elects to use the second implementation approach from paragraph 40 (recognition of the full liability amount upon implementation of the technical bulletin), the following entry would be made:

Dr. Change in Accounting Principle	\$48,000
Cr. Cleanup Liability	\$48,000

This approach can only be used if the related PP&E has been in service for a substantial portion of its estimated useful life and costs are not intended to be recovered primarily through user charges.

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<sup>10</sup> If 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.

<sup>11</sup> If recognition is based on the passage of time, the estimated useful life of the associated asset shall be substituted.

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Calculation of Annual Expense and Accrued Liability Amounts

In years 2007 through 2020, the following calculation shows the amount to be recognized annually:

$$\begin{aligned}(a \times b/c) &= I \\ (\$48,000 \times 1/50) &= I \\ (\$48,000 \times .02) &= I \\ \$960 &= I\end{aligned}$$

Dr. Cleanup Expense	\$960	
Cr. Cleanup Liability		\$960

To recognize estimated cleanup liability.

If the facility is renovated prior to 2020 (estimated end of useful life), the difference in the recognized liability and the total amount of the cleanup costs would be recognized as expense in the period of cleanup.

Payment of Cleanup Costs

One of the following entries would be made when cleanup costs are eventually incurred and subsequently paid, based on actual cleanup costs:

If cleanup costs equal outstanding liability (i.e., \$48,000):

Dr. Cleanup Liability	\$48,000	
Cr. Fund Balance with Treasury		\$48,000

If cleanup costs are less than outstanding liability (i.e., \$43,000):

Dr. Cleanup Liability	\$48,000	
Cr. Fund Balance with Treasury		\$43,000
Cr. Cleanup Expense		\$ 5,000

If cleanup costs are more than outstanding liability (i.e., \$50,000):

Dr. Cleanup Liability	\$48,000	
Dr. Cleanup Expense	\$ 2,000	
Cr. Fund Balance with Treasury		\$50,000



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## ***Appendix C: Asbestos-Containing Materials***

Note: The following list does not include every product/material that may contain asbestos. It is intended as a general guide to show which types of materials may contain asbestos.

### Sample List of Potential Asbestos-Containing Materials

Cement Pipes	Elevator Brake Shoes
Cement Wallboard	HVAC Duct Insulation
Cement Siding	Boiler Insulation
Asphalt Floor Tile	Breaching Insulation
Vinyl Floor Tile	Ductwork Flexible Fabric Connections
Vinyl Sheet Flooring	Cooling Towers
Flooring Backing	Pipe Insulation (corrugated air-cell, block, etc.)
Acoustical Plaster	Heating and Electrical Ducts
Decorative Plaster	Electrical Panel Partitions
Textured Paints/Coatings	Electrical Cloth
Ceiling Tiles and Lay-in Panels	Electric Wiring Insulation
Spray-Applied Insulation	Chalkboards
Blown-in Insulation	Roofing Shingles
Fireproofing Materials	Roofing Felt
Taping Compounds (thermal)	Base Flashing
Packing Materials (for wall/floor penetrations)	Thermal Paper Products
High Temperature Gaskets	Fire Doors
Laboratory Hoods/Table Tops	Caulking/Putties
Laboratory Gloves	Adhesives
Fire Blankets	Wallboard
Fire Curtains	Joint Compounds
Elevator Equipment Panels	Vinyl Wall Coverings
Construction Mastics (floor tile, carpet, ceiling tile, etc.)	Spackling Compounds

Source: Environmental Protection Agency at <http://www.epa.gov>.

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## ***Appendix D: Definitions***

**Category I nonfriable asbestos-containing material (ACM)** – refers to asbestos-containing packings, gaskets, resilient floor covering, and asphalt roofing products containing more than 1 percent asbestos as determined using the method specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy. (40 CFR § 61.141)

**Category II nonfriable ACM** – refers to any material, excluding Category I nonfriable ACM, containing more than 1 percent asbestos as determined using the methods specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure. (40 CFR § 61.141)

**Friable ACM** – refers to material containing more than 1 percent asbestos as determined using the method specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy, that, when dry, can be crumbled, pulverized, or reduced to powder by hand pressure. If the asbestos content is less than 10 percent as determined by a method other than point counting by polarized light microscopy (PLM), the asbestos content is verified by point counting using PLM. (40 CFR § 61.141)

**Nonfriable ACM** – refers to any material containing more than 1 percent asbestos as determined using the method specified in appendix E, subpart E, 40 CFR part 763, section 1, Polarized Light Microscopy, that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure. (40 CFR § 61.141)

**Regulated ACM** – refers to (a) Friable ACM, (b) Category I nonfriable ACM that has become friable, (c) Category I nonfriable ACM that will be or has been subjected to sanding, grinding, cutting, or abrading, or (d) Category II nonfriable ACM that has a high probability of becoming or has become crumbled, pulverized, or reduced to powder by the forces expected to act on the material in the course of demolition or renovation operations regulated by this subpart. (40 CFR § 61.141)