

**VOLUME 4, CHAPTER 13: “ENVIRONMENTAL LIABILITIES”****SUMMARY OF MAJOR CHANGES**

All changes are denoted by **blue font**.

Substantive revisions are denoted by a \* preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue and underlined font**.

The previous version dated April 2008 is archived.

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
Various	Updates references and web links.	Update
130101.B	Adds reference to newly published Federal Accounting Standards Advisory Board (FASAB) Technical Releases (TR) 10, 11, 14, and Technical Bulletin (TB) 2011-2 (dated September 22, 2011).	Add
130101.C	Adds reference to chapter covering financial reporting.	Add
030102	Adds Audit Readiness/Internal Procedures: In promoting audit readiness, this paragraph requires DoD components to establish internal operating procedures and/or guidance in line with the overarching policy cited in this volume.	Add
130103	Deletes current liabilities definition and formula section since this current/non-current environmental liability reporting is not required.	Delete
130103.A	Adds clarifying sentence on routine costs from Statement of Federal Financial Accounting Standard (SFFAS) No. 6.	Add
130103.F	Adds definition for Permanent Removal from Service.	Add
130103.G	Adds definition for Removal from Service.	Add
130103.I	Adds definition for Routine Hazardous Waste Disposal.	Add
130202.B	Adds estimates of certified third-party damage claims that are probable or reasonably possible should be reported.	Add
130202.D.4 130202.D.5	Updates effective dates for recognition and measurement of asbestos-related cleanup costs to 2012.	Update
130202.E.5	Adds requirement for cleanup costs liability to be recognized in full for General Property, Plant, and Equipment (G-PP&E) assets permanently removed from service as required by FASAB TR 14.	Add

<b>PARAGRAPH</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
130202.E.6	Clarifies Components that report Base Closure and Realignment Commission (BRAC) assets on their financial statement also report the associated environmental liability.	Update
130202.E.6	Clarifies definition of an overseas environmental liability.	Update
130202.E.8	Updates guidance for FASAB Technical Bulletin 2006-1 (as amended by TB 2011-2), and TR 10.	Update
130202.F.2	Adds Defense Environmental Restoration Program (DERP) requirement to report single-point cleanup cost estimates.	Add
130204.D	Clarifies disclosure requirements for changes in cost estimates. References audit requirement for tracking actual costs to estimates. Removes discussion of current/non-current liabilities.	Update

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## CHAPTER 13

ENVIRONMENTAL LIABILITIES

## 1301 GENERAL

## 130101. Purpose

A. This chapter prescribes the accounting policy for measuring, recognizing, and disclosing environmental liabilities and the procedures to record Department of Defense (DoD) environmental liabilities. General accounting principles and policy for liabilities are in Chapter 8. The policies and procedures prescribed in this chapter apply to all environmental liabilities regardless of the funding source or whether the funding is available.

B. This chapter implements applicable provisions of:

1. Statements of Federal Financial Accounting Standards ([SFFAS 5](#)), “Accounting for Liabilities of the Federal Government;”

2. [SFFAS 6](#), “Accounting for Property, Plant, and Equipment,” paragraphs 38, 39, 93, 97 and 98.

3. [SFFAS 23](#), “Eliminating the Category National Defense Property, Plant and Equipment;”

4. [Statement on Auditing Standards \(SAS\) Number 57/AU Section 342](#), “Auditing Accounting Estimates;”

5. Federal Accounting Standards Advisory Board (FASAB) [Technical Bulletin 2006-1](#), “Recognition and Measurement of Asbestos-Related Cleanup Costs,” amended by FASAB under [Technical Bulletin 2011-2](#), “Extended Deferral of Effective Date of Technical Bulletin 2006-1; [Federal Financial Accounting and Auditing Technical Release Number 2](#), “Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government;”

\* 6. [Federal Financial Accounting Technical Release 10](#), “Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment;”

\* 7. [Federal Financial Accounting Technical Release 11](#), “Implementation Guidance on Cleanup Costs Associated with Equipment.”

\* 8. [Federal Financial Accounting Technical Release 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment (PP&E).”

\* C. This chapter does not address [roles and responsibilities in the preparation of financial reports](#), budget formulation for environmental liabilities, describe different types of Property, Plant, and Equipment (PP&E) or provide technical environmental guidance.

1. Refer to Volumes 2A and 2B for guidance on budget formulation.

2. Refer to Chapter 6 for descriptions of the different types of PP&E discussed in this chapter.

\* 3. Refer to [Volume 6A, Chapter 3](#) for guidance on roles and responsibilities in the preparation of financial reports.

4. Refer to the following management guidance issued by the Office of the Deputy Under Secretary of Defense (Installation and Environment) for technical guidance: [“Management Guidance for the Defense Environmental Restoration Program”](#) and [“Guidance for Recognizing, Measuring, and Reporting Environmental Liabilities not Eligible for Defense Environmental Restoration Program Funding.”](#)

130102. Audit Readiness/Internal Procedures

Each DoD Component shall develop and implement internal operating procedures and/or guidance to implement this overarching policy in a manner that ensures accurate, timely, and relevant reporting of financial data.

130103. Definitions

\* A. [Environmental Cleanup, Closure, and/or Disposal Costs](#). For financial statement reporting purposes, the term “environmental cleanup costs” includes costs associated with restoration of environmental sites funded under the Defense Environmental Restoration Program (DERP), corrective actions, and environmental costs associated with the future closure of operations, including closure and disposal of PP&E. [Cleanup costs as defined in the SFFAS 6, paragraph 85](#), include researching and determining the existence of hazardous waste, removing, containing, and/or disposing of hazardous waste from personal or real property and/or personal or real property that consists of hazardous waste at the time of shutdown or disposal, and [material and/or property that consists of hazardous waste at permanent or temporary closure or shutdown of associated PP&E](#). [Consistent with SFFAS 6](#), cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs related to DoD operations that result in hazardous waste. [Cleanup costs do not include costs associated with ongoing operations \(i.e., “routine” hazardous waste removal and disposal\)](#).

B. [Environmental Liabilities](#). For financial reporting purposes, a DoD environmental liability is a future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events. A DoD environmental liability exists when: (1) contamination is present or likely to be present; (2) environmental cleanup, closure, and/or disposal is required by lease contracts, federal, state, and/or local statute, regulation, or other legal agreement; and (3) the

operations that created the liability are DoD related. An environmental liability may also exist if environmental contamination is not DoD related, but DoD enters into a binding agreement that formally accepts financial responsibility for cleanup, closure, and/or disposal.

C. Environmental Site. An environmental site is a real property asset or combination of assets with a discrete location(s) for which there is an environmental issue that requires evaluation. Environmental sites must be reviewed to determine if future environmental work required at the site meets the definition of environmental liability.

D. Equipment. Equipment is personal property that is functionally complete for its intended purpose, durable, and nonexpendable. Equipment generally has an expected service life of 2 years or more; is not intended for sale; does not ordinarily lose its identity or become a component part of another article when put into use; has been acquired or constructed with the intention of being used. This definition includes Military or General Equipment. The DoD-recognized Item Unique Identifier (IUID), if available, should be used to identify each item or piece of equipment (see Department of Defense Instruction (DoDI) 5000.64, “Accountability and Management of DoD Equipment and Other Accountable Property”).

E. Hazardous Waste. Per SFFAS 6, the definition of hazardous waste, used in conjunction with environmental cleanup costs previously defined, 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 threat to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed. As noted in Technical Bulletin 2006-1, the term “hazardous waste,” as defined in SFFAS 6, was developed by consulting environmental laws, such as the Resource Conservation Recovery Act (RCRA); however 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.

\* F. Permanent Removal from Service. Permanent removal from service occurs when (1) an asset use is terminated and (2) there is documented evidence supporting management’s need to dispose of the asset. If only one of these two business rules occurs, a need for the “permanent” removal of an asset from service has not occurred.

G. Real Property. Land and improvements to the land (i.e., facilities). Real Property includes equipment affixed and built into the facility as an integral part of the facility (such as heating systems), but not movable equipment (e.g., plant equipment, industrial equipment, buoys). The DoD Real Property Unique Identifier (RPUID), if available, should be used to identify each real property asset (see DoDI 4165.14, “Real Property Inventory and Forecasting”).

\* H. Removal from Service. Removal from service is defined as an event that terminates the use of a General Property Plant and Equipment (G-PP&E) asset (e.g., shut down of a facility). Removal from service may occur because of a change in the manner or duration of use, change in technology or obsolescence, damage by natural disaster, or identified as excess

to an entity or DoD Component's mission needs. General removal of an asset from service is not the same as "permanent removal from service."

\* I. Routine Hazardous Waste Disposal. When estimating future environmental cleanup costs associated with equipment disposals, routine hazardous waste disposal refers to waste that is regulated and managed the same as the disposal of hazardous waste from day-to-day operations and on a regular basis (see Federal Financial Accounting Technical Release 11). Routine hazardous waste disposal is not recognized as an environmental liability (per SFFAS 6, Paragraph 93).

## 1302 ACCOUNTING POLICY FOR ENVIRONMENTAL LIABILITIES

### 130201. Environmental Liability Recognition

This section outlines the policy for recognizing, disclosing, and measuring environmental liabilities in accordance with applicable accounting standards.

A. Environmental liabilities must be recognized on the financial statement for probable and measurable future outflows or expenditure of resources for environmental cleanup, closure, and/or disposal actions, in accordance with Federal Financial Accounting and Auditing Technical Release Number 2. A probable environmental liability exists when it is more likely than not that hazardous waste requiring cleanup resulted from operations where DoD was likely involved. A measurable environmental liability exists when a dollar value can be estimated for the cleanup costs or a study is needed to define further cleanup parameters (see subparagraph 130204.B).

\* B. DoD reports environmental litigation liabilities separately from other environmental liabilities in the notes to the financial statements. DoD Components should report estimates of certified third-party damage claims that are probable or reasonably possible. See Volume 6B, Chapters 4 and 10 for information regarding reporting of contingent liabilities arising from litigation claims.

C. Environmental conditions that result from current operations and require immediate cleanup, e.g. an oil spill or routine hazardous waste disposal, are not considered environmental liabilities and should be recognized as a current operating expense, assuming the DoD Component completes the cleanup, closure and/or disposal action in the current reporting period. If the DoD Component does not complete the cleanup, closure and/or disposal action within the current reporting period, then an environmental liability should be recorded for that portion of the cleanup, closure and/or disposal action not completed. The DoD Component should record an accounts payable for cleanup, closure, and/or disposal costs incurred and not paid in accordance with Chapter 9.

D. Environmental liabilities are generally recognized in accordance with the following paragraphs.

1. The total estimated cost of environmental liabilities associated with General PP&E placed in service prior to October 1, 1997, shall be recognized as follows:

(a) In the initial year the liability is recorded, unless the costs are intended to be recovered through user charges.

(b) If the costs are intended to be recovered through user charges, DoD Components shall recognize a liability for that part of the asset's useful life that has lapsed since the PP&E was placed into service. The remaining liability shall be systematically recognized over the remaining useful life. Refer to subparagraph 130204.E for additional information on systematically recognizing cost estimates.

2. The estimated environmental liabilities associated with General PP&E placed in service after September 30, 1997, that have future environmental cleanup, closure, and/or disposal requirements shall be systematically recognized over the useful life. The accumulation of the liability and the recognition of the related expense shall commence when it is placed in service, continue in each period that operation continues, and be completed when the General PP&E ceases operation.

3. The estimated environmental liabilities associated with cleanup cost for Stewardship PP&E shall be recognized in the period that the asset is placed into service.

\* 4. For asbestos-related environmental liabilities associated with PP&E, the effective date for which systematic recognition of the liability is required is based on the effective date of the implementing requirement (i.e., [Technical Bulletin 2006-1](#), "Recognition and Measurement of Asbestos Related Cleanup Costs," amended by [Technical Bulletin 2011-2](#)). Asbestos-related environmental liabilities associated with PP&E placed in service after [September 30, 2012](#), shall be systematically recognized over the remaining useful life of the PP&E.

\* 5. Asbestos-related environmental liabilities associated with PP&E placed in service prior to [October 1, 2012](#), shall be recognized for the portion of the estimated total cleanup, closure and/or disposal cost of the estimated useful life that has passed since the PP&E was placed in service. However, if the PP&E has been in service for a substantial portion of its estimated useful life, the estimated total cleanup, closure and/or disposal cost may be recognized in full in the initial year the liability is recorded, unless the costs are intended to be recovered through user charges.

E. The following discusses recognition of environmental liabilities that are specific in nature.

1. Operational Ranges. An environmental liability associated with the cleanup, closure, and/or disposal, including disposal of unexploded ordnance, on operational ranges does not exist until a formal decision is made to close the range or hazardous waste is migrating off the range. If hazardous waste is migrating off the range, the DoD Component will recognize an environmental liability.

2. Conventional Munitions. Environmental liabilities for conventional munitions that are determined to be excess and/or obsolete as of the financial reporting date are recognized for the total disposal estimate. Conventional munitions are typically an inventory item intended for consumption; therefore, an environmental liability would exist only when the munitions are considered excess or obsolete, because the unused portions [require special actions to ensure proper disposal](#).

3. Stockpile and Nonstockpile Chemical Agents and Munitions Inventory, and Buried Chemical Agents and Munitions. Environmental liabilities and related expenses for stockpile and nonstockpile chemical agents and munitions inventory, and buried chemical agents and munitions, should be recognized for cleanup, closure, and/or disposal costs. Per [50 U.S.C. 1521](#), the Department is required to dispose of chemical weapons and materiel contained in the stockpile, as well as the nonstockpile. The stockpile [consists of](#) the chemical weapons and materiel in the inventory. The nonstockpile items are binary chemical weapons, miscellaneous chemical warfare materiel, recovered chemical weapons, and former production facilities. Proper action is needed to mitigate risk to human health and the environment from buried chemical agents and munitions.

4. General PP&E Formerly Identified as National Defense PP&E. The [SFFAS 23](#) eliminated the National Defense PP&E category and reclassified these assets (e.g., Military Equipment) as General PP&E. This reclassification requires environmental liability recognition in accordance with the rules established for General PP&E. Refer to subparagraph 130202.D for recognition rules of General PP&E. As a result of this reclassification, the Components are required to adjust environmental liabilities that were recognized in full for assets placed in service on or after October 1, 1997. The [SFFAS 23](#) states that the cumulative effect of adopting this standard should be reported as a change in accounting principle and that the adjustment should be made to the beginning balance of the cumulative results of operations in the Statement of Changes in Net Position in the period of the change without restating the prior periods.

\* 5. General PP&E Cleanup Cost for Permanent Removal of Assets. For assets permanently removed from service, the cleanup costs liability associated with the disposal, closure, and/or shutdown of the general PP&E costs should be recognized in full. If removal of service is considered other than permanent, the liability and associated cleanup cost expense shall continue to accumulate. Permanent removal of service is defined under subparagraph 130102.E. In compliance with [Federal Financial Accounting Technical Release 14](#), documentation must exist of management's decision to permanently remove an asset from service. Recognition of the [full liability](#) for cleanup costs associated with General PP&E will not be recorded if an asset's useful life [has not been terminated](#) and there is [no documented evidence](#) validating management's decision to permanently remove the asset from service. See [http://www.fasab.gov/pdf/origfiles/original\\_aapc\\_tr\\_14.pdf](http://www.fasab.gov/pdf/origfiles/original_aapc_tr_14.pdf).

\* 6. Financial Reporting Component. Each DoD Component is responsible for [accurate reporting](#) of the environmental expense and liabilities for the real property and/or equipment that it records and reports on its financial statements [as assets](#), regardless of ownership. The criteria for determining the General PP&E financial reporting component are

outlined in Chapter 6. Based on these criteria, the Military Department with jurisdiction over the BRAC-related assets will report environmental expense and liabilities attributed to BRAC real property and/or equipment on their General Fund financial statements.

\* 7. Overseas Environmental Liabilities. Overseas environmental liabilities are environmental cleanup, closure, and/or disposal costs associated with the operation of installations overseas in accordance with DoDI 4715.8, “Environmental Remediation for DoD Activities Overseas,” and international agreements as defined by DoD Directive 5530.3, “International Agreements.” Environmental liabilities resulting from DoD operations are considered “Government-Related Events,” as defined by SFFAS 5, and will be recognized when the event creating the liability occurs. The requirements to be met will be based on the applicable Final Governing Standards, the Overseas Environmental Baseline Guidance Document, and international agreements, in accordance with DoDI 4715.5, “Management of Environmental Compliance at Overseas Installations.”

8. Nonenvironmental Disposal Cost. When estimating the disposal cost of assets containing hazardous waste, nonenvironmental costs that are considered immaterial to the total cost of removing or disposing of the asset(s) (i.e., disposal of nuclear ships) may be recognized as an environmental liability. Materiality depends on the degree to which an omission or misstatement would change or influence the judgment of a reasonable person relying on the information and requires the application of professional judgment. Each DoD Component is responsible for defending any immateriality determinations.

\* 9. Asbestos. Both friable and nonfriable asbestos-related cleanup, closure, and/or disposal costs should be estimated in accordance with Technical Bulletin 2006-1, “Recognition and Measurement of Asbestos-Related Cleanup Costs,” as amended by FASAB Technical Bulletin 2011-2, “Extended Deferral of the Effective Date of Technical Bulletin 2006-1(Recognition and Measurement of Asbestos-Related Cleanup Costs).” Asbestos-related cleanup, closure, and/or disposal costs are the costs of removing, containing, and/or disposing of:

(1) Asbestos-containing materials from property, or

(2) Material and/or property that consist of asbestos-containing material at permanent or temporary closure, or shutdown of associated PP&E (i.e., when cleanup cannot occur until the end of the useful life or at regular intervals during that life). Asbestos-related cleanup, closure, and/or disposal costs associated with PP&E should be recognized in accordance with subparagraphs 130202D.4 and 130202D.5. Technical Release 10, “Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment,” provides a framework for identifying assets containing asbestos, assessing assets to collect information, and/or developing assumptions needed to estimate asbestos cleanup costs. The effective date for reporting is the first quarter, fiscal year 2012.

F. Environmental liabilities are generally based on accounting estimates that are discussed in paragraph 130204. Recognition of necessary adjustments to accounting estimates used in establishing environmental liabilities follows:

1. The cumulative effect of changes in cost estimates is recognized as an expense in the current accounting period and the corresponding liability is adjusted. Pending system modernization, an alternative is to reverse the accumulation entry at the opening of the subsequent fiscal year. In this event, the entire revised estimated liability and related expense would be entered in the current reporting period. These accounting transactions are provided in Table 13-2. Additionally, the related cleanup cost for the current period shall be expensed and accrued as an environmental liability. Refer to subparagraph 130302.C for the appropriate accounting transactions.

\* 2. The risk of material misstatement of accounting estimates normally varies with the complexity and subjectivity associated with the process, the availability and reliability of relevant data, the number and significance of assumptions made, and the degree of uncertainty associated with those assumptions. [The DERP requires cleanup cost estimates to be single point estimates using the best available data. If a range is estimated for non-DERP environmental liabilities and an amount within the range is considered a better estimate than any other estimate, that amount should be recognized; however, if no amount within a range is considered a better estimate, then the minimum amount in the range should be recognized. Refer to subparagraph 130203.B for disclosure requirements of estimates that are based on uncertainty.](#)

3. Material adjustments that are required to correct errors related to prior period operations shall be recognized as a prior period adjustment that restates the prior period comparative financial statements. Adjustments to correct errors typically result from mistakes, or the oversight or misuse of facts that would materially misstate the entities financial statements. This type of adjustment is reflected in the Statement of Changes in Net Position and omits the expense recognition 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. Adjustments required for immaterial amounts are recognized as a current period event.

#### 130202. Environmental Liability Disclosures

A. Financial statement disclosures provide pertinent information in notes or narratives about the amounts reported on the face of the financial statements. (Refer to Volume 6B, Chapter 10 for instructions on completing the financial statement notes.) The recognition of environmental liabilities requires the following disclosures associated with the cleanup, closure, and/or disposal cost estimates that must be addressed each reporting period within the financial statement note for environmental liabilities.

1. The sources (list applicable laws and regulations) of cleanup, closure, and/or disposal requirements.

2. The method for assigning estimated total cleanup, closure, and/or disposal costs to current operating periods ([i.e., based on consumed useful life or physical capacity of the assets](#)).

3. The unrecognized amounts of environmental liabilities for assets that require the systematic recognition of the total estimated cleanup, closure, and/or disposal costs.

The DoD Component should recognize the portion of the total cost that is attributed to the useful life of the asset that has expired since the asset was placed in service. The balance or the total estimated cleanup, closure and/or disposal cost is the unrecognized cost of the liability.

4. Material changes in the total estimated cleanup, closure and/or disposal costs due to changes in laws, technology, or plans.

5. Portion of the changes in estimated costs due to changes in laws, technology, or plans; and those changes related to prior periods.

6. The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, plans, or applicable laws and regulations.

7. A description of the type of environmental liabilities identified.

B. Environmental liability estimates that are based on an existing condition, situation, or set of circumstances involving uncertainty that is more likely than not to result in a future expenditure to an entity should be fully disclosed within the financial statement notes for environmental liabilities. Environmental liabilities that only have a remote probability or slight chance of occurring do not require disclosure in the general purpose financial statements and accompanying notes, but the law may require disclosure in special purpose reports.

C. Environmental liabilities not covered by budgetary resources should be disclosed in accordance with Volume 6B, Chapter 10. Liabilities not covered by budgetary resources are equal to the total liability minus the liabilities covered by budgetary resources. Environmental liabilities covered by budgetary resources are equal to the following:

1. Undelivered Orders Outstanding for current and prior years.
2. Unobligated appropriated balances available for execution.
3. Other resources authorized for specified purposes in a given year.

D. Documentation to support the environmental liability recognition and disclosures, including management reviews, shall be retained for the life of the liability. Once the liability has been eliminated, the documentation should be retained according to applicable retention and disposal instructions in accordance with Volume 1, Chapter 9.

#### 130203. Environmental Liability Estimates

A. Environmental liabilities are generally **developed based on** accounting estimates, because the extent of the environmental cleanup, closure, and/or disposal costs cannot be determined until completing cleanup/disposal operations. The DoD Component's responsible program management function and accounting function **shall** work together to identify and support the environmental liability estimates and maintain audit records to support assumptions, methodologies, and internal controls used in developing the estimates. The responsible program

management function is accountable for generating the cost estimates; the accounting function is responsible for reviewing the cost estimates and ensuring the liability is recognized according to the guidance published in this chapter. Each estimate is based on subjective as well as objective factors. Accordingly, sound business judgment based on knowledge and experience about past and current events and assumptions is required. The accounting estimates are subject to audit standards of [SAS Number 57/AU Section 342](#), "Auditing Accounting Estimates." Organizations that prepare accounting estimates must retain adequate documentation of quality review, estimator and reviewer qualifications, data sources, estimating methodologies, accreditation including the parametric models, and internal control procedures. The process of establishing accounting estimates would normally consist of:

1. Identifying situations for which accounting estimates are required.
2. Identifying the relevant factors that may affect the accounting estimate.
3. Accumulating relevant, sufficient, and reliable data on which to base the estimate.
4. Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors.
5. Determining the estimated amount based on the assumptions and other relevant factors.
6. Determining that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

B. The environmental cleanup, closure, and/or disposal costs that are probable and reasonably estimable must be estimated based on site-specific information using engineering estimates, comparison with similar sites or equipment, or cost models validated in accordance with [DoDI 5000.61](#), "DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation (VV&A)." The reliability of the cost estimate will depend on the amount of site-specific information available, the extent of experience and resemblance with similar sites or assets, and availability of remediation technology. Once the DoD Component generates a cost estimate, the liability should be recognized in accordance with paragraph 130202 and any uncertainty disclosed in the notes to the financial statements.

1. Site-Specific Study. A cost estimate produced from a site-specific study is generally more reliable because it is based directly on environmental conditions at the site. Further, environmental personnel can evaluate the alternative cleanup, closure, and/or disposal actions identified through a site-specific study to develop engineering estimates and to identify the selected alternative.

2. Experience with Similar Site Conditions or Assets. If a site-specific study has not been completed, then the DoD Component should determine whether the site is

similar to other sites where experience has been gained based on the completion of a comprehensive study or actual remediation. If there is no investigation and/or comparable site data available, costs are not considered reasonably estimable. In this case, the DoD Component should recognize the anticipated costs of conducting future studies until they complete the site-specific study.

3. Availability of Cleanup Technology. If an acceptable cleanup technology is not available to address the site, then the DoD Component should recognize the estimate to contain the hazardous waste and other relevant costs, such as the costs for future studies. The DoD Component should also disclose the range of uncertainty in the notes to the financial statement.

C. Environmental liability estimates must be developed for each environmental site and should include all cleanup, closure, and/or disposal costs. Such cost estimates are calculated on a current cost basis and are based on a current plan, existing laws, and technology. Overhead management costs for environmental sites and equipment that cannot be attributed to specific sites and equipment should be added to environmental liability at a summary level. Environmental liability estimates should include the following cost elements, as applicable:

1. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort.
2. Cost of employing contractors, engineers, and consultants.
3. Disposal costs (includes demilitarization, material handling, transportation, storage, and tipping fees).
4. Cost of dedicated facilities, machinery, and equipment, and the related operating and maintenance costs.
5. Research and development costs for alternative remediation technologies.
6. Payments to regulatory agencies to provide technical support, e.g. document review of planned studies.
7. Efforts to tear down, remove, and dispose of the item(s), to include transportation, demilitarization, and dismantlement.
8. Planning and design efforts, to include contract advertisement and document reproduction.
9. Landscaping costs to replace landscaping elements damaged or destroyed by remediation efforts.

10. Permits, licenses, and approval to include State Historic Preservation Officer concurrence and documentation. Also included are screening costs of suitable property for the homeless, as established by [42 USC 11411](#).

11. Grants or payments to state, tribal, and local governments.

\* D. Environmental liability estimates shall be reviewed annually and revised when there is evidence that significant changes in the cost measurement have occurred, such as changes in scope, ownership, regulation, or technology. In the event of a 10 percent or greater fluctuation in the liability line item from year to year, the nature of the change must be disclosed on the financial statement (see Volume 6B, Chapter 2 for additional information). This information should be obtained from of a summary of changes to the site-level estimates and corresponding reasons for change. At a minimum, long-term cost estimates shall be adjusted upward or downward annually, through indexing, to maintain them on a current cost basis as if acquired in the current period. Once the cost estimates are reviewed and adjusted, the estimated liability should be reduced by the expensed amounts that are paid to reflect the total remaining cleanup costs less any unrecognized portions of a systematically recognized cost estimate. Expenditures should be managed to the site-level to allow for comparison of prior estimates to subsequent results, in accordance with [SAS Number 57/AU Section 342](#), "Auditing Accounting Estimates."

E. A systematic recognition of the cost estimate is preferable based on the use of physical capacity. If physical capacity is not applicable or estimable, the estimated useful life based on the number of years may serve as the basis for the systematic recognition of expense and accumulation of a liability. A more thorough explanation of the term "useful life" is provided in Chapter 6. The current period estimate is equal to:

1. The total final estimated costs of the disposal or closure effort--
2. Divided by the total capacity---
3. Multiplied by the physical capacity used ---
4. Minus the amounts previously recognized as expense---
5. Equals the current period estimate.

F. Components shall maintain records of environmental sites and equipment that contribute to DoD environmental liabilities and reconcile them with PP&E records at least annually. The purpose of the reconciliation is to ensure that all of the Department's environmental liabilities are recognized and documented. The reconciliation may identify asset records that require recognition of an environmental liability or instances where there is no inventory record for assets with a recorded environmental liability. The DoD Components should use the following process to adequately reconcile to the PP&E records:

1. Real Property. The Real Property Inventory (RPI), maintained on behalf of DoD by the Military Departments, is the official DoD facility inventory. Any DoD

Component that maintains a database of real property-related data for its own purpose must reconcile with the official DoD RPI or establish an accurate functional crosswalk.

(a) Record in the real property records whether the real property associated with the record has been reviewed for environmental issues.

(b) Record the project number for each environmental cleanup, closure, and/or disposal project associated with the real property record.

(c) The responsible environmental program office maintains records of each project and associates it with the applicable real property records. This office also maintains a project file for each environmental project.

2. Equipment. To the extent that environmental liabilities associated with equipment disposals are reported in systems other than property systems, environmental liabilities should be reconciled to the accountable property records to ensure all assets are reviewed. Refer to [DoDI 5000.64](#), “Accountability and Management of DoD Equipment and Other Accountable Property” for additional information on accountable property records.

### 1303 ACCOUNTING PROCEDURES FOR RECORDING ENVIRONMENTAL LIABILITIES

This section illustrates the use of the applicable United States Standard General Ledger (USSGL) accounts for recording the proprietary and budgetary transactions for environmental liabilities.

#### 130301. Estimated Cleanup Cost Liability (USSGL Account 2995)

A. This account represents the estimated amounts owed for projected future cleanup, closure, and/or disposal costs associated with:

1. Hazardous waste from property; or
2. Material and/or property consisting of hazardous waste at a permanent or temporary closure or shutdown of the associated property, plant, and equipment.

B. Subsidiary ledgers shall be established as necessary to meet external reporting requirements and to provide internal control over amounts owed.

#### 130302. Environmental Liability Accounting Entries

The accounting entries depicted in Table 13-1 illustrate the entries that should be used to record transactions for environmental liabilities. The alternative accounting entries depicted in Table 13-2 illustrate the entries that can be used pending system modernization to the Department’s business systems.

TABLE 13-1. ACCOUNTING ENTRIES FOR ACCOUNT USSGL 2995 - ESTIMATED CLEANUP COST LIABILITY

1. Dr 6800 Future Funded Expenses  
Cr 2995 Estimated Cleanup Cost Liability

Record the current period liability for cost to be funded in the future. This entry is also applicable for the systematically recognized portions of environmental liabilities.

2. Dr 2995 Estimated Cleanup Cost Liability  
Dr 6100 Operating Expenses/Program Costs  
Cr 2110 Accounts Payable  
Cr 6800 Future Funded Expenses

And

- Dr 4610 Allotments – Realized Resources
- Dr 4801 Undelivered Orders – Obligations, Unpaid
- Cr 4901 Delivered Orders – Obligations, Unpaid

And (if funded by a direct appropriation)

- Dr 3107 Unexpended Appropriations – Used
- Cr 5700 Expended Appropriations

Record previously estimated cleanup costs that are due and payable for receipt of goods or services that have not been paid.

3. Dr 2110 Accounts Payable  
Cr 1010 Fund Balance with Treasury

And

2. Dr 4901 Delivered Orders – Obligations, Unpaid  
Cr 4902 Delivered Orders – Obligations, Paid

Record payment.

2. Dr 3310 Cumulative Results of Operations  
Cr 6800 Future Funded Expenses  
Cr 6100 Operating Expenses/Program Costs

To record the closing of the expense accounts to cumulative results of operations.

TABLE 13-2. ALTERNATIVE ACCOUNTING ENTRIES FOR USSGL ACCOUNT 2995-ESTIMATED CLEANUP COST LIABILITY (PENDING SYSTEM MODERNIZATION)

1. Dr 6800 Future Funded Expenses  
Cr 2995 Estimated Cleanup Cost Liability

Record the current period liability for cost to be funded in the future. This entry is also applicable for the systematically recognized portions of environmental liabilities.

2. Dr 2995 Estimated Cleanup Cost Liability  
Cr 6800 Future Funded Expenses

Reverse accruals at the beginning of the next accounting period.

3. Dr 6800 Future Funded Expenses  
Cr 2995 Estimated Cleanup Cost Liability

Record the total current period revised estimated liability for cost to be funded in the future. This entry is also applicable for the systematically recognized portions of environmental liabilities.

4. Dr 6100 Operating Expenses/Program Costs  
Cr 2110 Accounts Payable

And

- Dr 4610 Allotments – Realized Resources  
Dr 4801 Undelivered Orders – Obligations, Unpaid  
Cr 4901 Delivered Orders – Obligations, Unpaid

And (if funded by a direct appropriation)

- Dr 3107 Unexpended Appropriations – Used  
Cr 5700 Expended Appropriations

Record previously estimated cleanup costs that are due and payable for receipt of goods or services that have not been paid.

TABLE 13-2. ALTERNATIVE ACCOUNTING ENTRIES FOR USSGL ACCOUNT 2995-ESTIMATED CLEANUP COST LIABILITY (PENDING SYSTEM MODERNIZATION)  
(Continued)

5. Dr 2110   Accounts Payable  
    Cr 1010    Fund Balance with Treasury

And

    Dr 4901   Delivered Orders – Obligations, Unpaid  
    Cr 4902   Delivered Orders – Obligations, Paid

Record payment.

6. Dr 3310   Cumulative Results of Operations  
    Cr 6800   Future Funded Expenses  
    Cr 6100   Operating Expenses/Program Costs

To record the closing of the expense accounts to cumulative results of operations.