

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

Changes are identified in this table and also denoted by **blue font**.

Substantive revisions are denoted by an asterisk (*) symbol 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 2018** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated references and reorganized sections to comply with the DoD Financial Management Regulation Revision Standard Operating Procedures.	Revision
1.2	Additional sources were included in the “Authoritative Guidance” paragraph.	Addition
2.0	Updated the definitions to provide clarification.	Revision
3.2	Revised numerous subparagraphs to add clarity to Environmental Liability Recognition.	Revision
Table 13-1	Revised title of table and added clarifying language to accounting treatment.	Revision
Table 13-2	Revised title of table and added clarifying language to accounting treatment.	Revision
Table 13-3	Revised title of table and added clarifying language to accounting treatment.	Revision
3.4	Revised numerous subparagraphs to add clarity to Environmental Liability Disclosures, including clarification of the systematic and rational recognition of expense and accumulation of the liability over the useful life of property, plant, and equipment.	Revision
4.0	Revised the section to include additional Standard Financial Information Structure resources and explanation.	Addition
Table 13-4	Deleted this table, references to United States Standard General Ledger Account 299500 “Estimated Cleanup Cost Liability,” and Environmental Liability Accounting Transactions.	Deletion

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CHAPTER 13

ENVIRONMENTAL AND DISPOSAL LIABILITIES

1.0 GENERAL

1.1 Purpose

This chapter prescribes the accounting policy for measuring, recognizing, recording, and disclosing Department of Defense (DoD) environmental liabilities. General accounting principles and policy for liabilities are contained in Chapter 8. The policies prescribed in this chapter apply to all environmental liabilities regardless of the funding source or availability of funding. Refer to Volume 6B for guidance on roles and responsibilities in the preparation of related financial reports and note disclosures.

*1.2 Authoritative Guidance

This chapter implements applicable provisions of:

1.2.1. Title 10, United States Code, section 2701 (10 U.S.C. § 2701).
“Environmental Restoration Program;”

1.2.2. 42 U.S.C. § 9607, “The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA);”

1.2.3. 50 U.S.C. § 1521, “Destruction of existing stockpile of lethal chemical agents and munitions;”

1.2.4. Title 40, Code of Federal Regulations, part 266.202 (40 CFR § 266.202);”

1.2.5. Office of Management and Budget (OMB Circular A-136), “Financial Reporting Requirements;”

1.2.6. U.S. Department of Treasury (Treasury) Treasury Financial Manual (TFM) – United States Standard General Ledger (USSGL);

1.2.7. Statement of Federal Financial Accounting Standards (SFFAS) 1, “Accounting for Selected Assets and Liabilities;”

1.2.8. SFFAS 5, “Accounting for Liabilities of the Federal Government;”

1.2.9. SFFAS 6, “Accounting for Property, Plant, and Equipment;”

1.2.10. SFFAS 21, “Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources;”

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

1.2.12. Federal Accounting Standards Advisory Board [\(FASAB\) Technical Bulletin \(TB\) 2006-1](#), “Recognition and Measurement of Asbestos related Cleanup Costs,” amended by [FASAB TB 2011-2](#), “Extended Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos related Cleanup Costs

1.2.13. [FASAB Interpretation 9](#), “Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & SFFAS 6;”

1.2.14. [FASAB Technical Release \(TR\) 2](#), “Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government;”

1.2.15. [FASAB TR 10](#), “Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment;”

1.2.16. [FASAB TR 11](#), “Implementation Guidance on Cleanup Costs Associated with Equipment;”

1.2.17. [FASAB TR 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment;”

1.2.18. Statement on Auditing Standards (SAS) Number 122/[AU-C Section 540](#), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures;”

1.2.19. U.S. Government Accountability Office (GAO) “Standards for Internal Control in the Federal Government” (the “[Green Book](#)”);

1.2.20. DoD Instruction [\(DoDI\) 4165.14](#), “Real Property Inventory (RPI) and Forecasting;”

1.2.21. [DoDI 4165.72](#), “Real Property Disposal;”

1.2.22. [DoDI 4715.05](#), “Environmental Compliance at Installations Outside the United States;”

1.2.23. [DoDI 4715.06](#), “Environmental Compliance in the United States;”

1.2.24. [DoDI 4715.07](#), “Defense Environmental Restoration Program (DERP);”

1.2.25. [DoDI 4715.08](#), “Remediation of Environmental Contamination Outside the United States;”

1.2.26. [DoDI 5000.61](#), “DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation (VV&A);”

1.2.27. [DoDI 5000.64](#), “Accountability and Management of DoD Equipment and Other Accountable Property;”

1.2.28. [DoDI 5530.03](#), “International Agreements;”

1.2.29. [DoD Manual \(DoDM\) 4160.21](#), “Defense Materiel Disposition: Disposal Guidance and Procedures;”

1.2.30. [DoDM 4160.28](#), “Defense Demilitarization Manual;”

1.2.31. [DoDM 4715.20](#), “Defense Environmental Restoration Program (DERP) Management.”

*2.0 DEFINITIONS

The following definitions apply to environmental liabilities:

2.0.1. Asset-Driven Liability. An environmental and disposal liability is the environmental cost associated with future DoD Property, Plant, and Equipment (PP&E) asset closure or disposal that involves non-routine removal of hazardous waste at the point of disposal or closure and/or environmental response explicitly required (by permit or other policy or law). Examples of an asset-driven liability include equipment environmental disposal liabilities, asbestos and environmental closure requirements.

2.0.2. Baseline. A study or survey used to establish the initial site universe of environmental and disposal liability sites. The baseline provides a starting point from which sites that contribute to financial statement reporting balances will be adjusted over time. Once the baseline is established, DoD Components must rely upon established procedures to maintain their E&DL universe.

2.0.3. Contamination. Defined as a release of a hazardous substance, or the potential release of a discarded hazardous substance, which may have a harmful effect or become injurious to the environment or to the public health, safety, or welfare.

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

2.0.5. Cost-to-Complete (CTC). Represents the total estimated future costs for site level cleanup not currently funded at the end of a given fiscal year. CTC estimates assume that approved funding in the year of execution will be received and obligated in full. CTC (including DERP CTC) estimates also include program management costs.

2.0.6. DoD Component. Refers to the Office of the Secretary of Defense, the Military Departments (including their Reserve components), the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the DoD, the Defense Agencies, the DoD Field Activities, and all other organizational entities in the DoD.

2.0.7. Due Care. As defined in TR 2, due care in the context of environmental and disposal liability refers to “a reasonable effort to identify the presence or likely presence of contamination. Due care is considered to be exercised if an agency has effective policies and procedures in place to routinely attempt to identify contamination and forward that information to the responsible agency official.”

2.0.8. 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 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 SFFAS 6, paragraph 85, are the cost of removing, containing, and/or disposing of hazardous waste from real property, or material and/or personal 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, paragraph 87, cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs. Per SFFAS 6, paragraph 93, cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards (SFFAS 1 and SFFAS 5) and are not subject to the recognition guidance provided in SFFAS 6 for environmental liabilities since the cleanup effort is not deferred until operation of the associated PP&E ceases either permanently or temporarily.

2.0.9. Environmental Liabilities. For financial reporting purposes, a DoD environmental liability is a probable future outflow or other sacrifice 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 known to be present or likely to be present; (2) environmental cleanup, closure, and/or disposal is required by applicable federal, state, interstate, or local requirements or an authorized legal agreement such as a lease, contract, or international agreement; and (3) DoD activities created the liability and/or an authorized legal agreement establishes DoD as the responsible entity. 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.

2.0.10. Environmental Liability Site Universe. All sites identified after performing a due care approach to determine if “probable” and “reasonably estimable” criteria outlined in TR 2 have been met.

2.0.11. Environmental Site/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. A site is a distinct area of an installation containing one or more releases or threatened releases of hazardous substances treated as a discrete entity or consolidated grouping for response purposes. Environmental sites can also be created due to certain re-designation of land per the provisions contain in the environmental permitting processes.

2.0.12. Equipment. Equipment is personal property that is functionally complete for its intended purpose, durable, and nonexpendable. Equipment generally has an estimated useful life of two 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 or being available for use by the entity.

2.0.13. Event-Driven Liability. An event-driven liability is an environmental and disposal liability resulting from either a government-acknowledged event or a government-related event where there is a release of contamination to the environment that will require future cleanup.

2.0.14. Friable Asbestos and Non-Friable Asbestos. Friable asbestos is any material containing more than one percent asbestos that, when dry and left undisturbed, can be pulverized, or reduced to powder by hand pressure. Non-friable asbestos is any material containing more than one percent of asbestos that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure during disturbance/removal.

2.0.15. Hazardous Waste. According to SFFAS 6, paragraph 86, hazardous waste is a solid, liquid, or confined gaseous waste, or combination thereof, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or in an increase in serious irreversible, or incapacitating irreversible, 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. DoD Components should use the hazardous waste definition provided by the Environmental Protection Agency and any materials FASAB specifically identifies as hazardous waste, such as the hazardous air pollutant asbestos. Hazardous substances, as defined under the CERCLA, are generally also hazardous wastes.

2.0.16. Non-routine Environmental and Disposal Liability. A unique cleanup cost of hazardous waste associated with the closure (either temporarily or permanently), disposal, or decommissioning of equipment that meets the “probable” and “reasonably estimable” criteria outlined in TR 2. Additional guidance on non-routine environmental and disposal liabilities is included in TR 11.

2.0.17. Permanent Removal from Service. Permanent removal from service requires two business events to occur: (1) the termination of the asset’s use; and (2) documented evidence of management’s decision to permanently remove the asset from service, by selling, scrapping, recycling, donating or demolishing the asset or where there has been destruction of the asset such as in an aircraft crash. If only one of these two business rules occurs, a “permanent” removal of an asset from service has not occurred.

2.0.18. Probable. As defined in SFFAS 5, probable is that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic. More likely than not is a greater than 50 percent chance that the DoD Component has a responsibility to address the contamination. The probability of a future outflow or other sacrifice of resources is assessed based on current facts and circumstances. These current facts and circumstances include the law that provides general authority for federal entity operations and specific budget authority to fund programs. If budget authority has not yet been provided, a future outflow or other sacrifice of resources might still meet the probability test if (1) it directly relates to ongoing entity operations and (2) it is the type for which budget authority is routinely provided. Therefore, the definition applies both to liabilities covered by budgetary resources and to liabilities not covered by budgetary resources. Additional guidance on determining "probable" for environmental and disposal liabilities is provided in TR 2.

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

2.0.20. Real Property. Consists of buildings, structures, linear structures, and land and improvements to the land. 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).

2.0.21. Reasonably Estimable. The ability to quantify reliably, in monetary terms, the outflow of the required resources. The process for determining if an environmental and disposal liability is "reasonably estimable" is applied after a transaction or event has occurred that meets the definition of "probable." Additional guidance on determining "reasonably estimable" for environmental and disposal liabilities is provided in TR 2.

2.0.22. Removal from Service. Removal from service is defined as an event that terminates the use of a 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 identification 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." Removal from service must be considered other than permanent unless (1) the asset's use is terminated and (2) there is documented evidence of the DoD Component's decision to permanently remove the asset from service. If only one of the two business events has occurred, permanent removal from service has not occurred (i.e., the removal is considered other than permanent).

2.0.23. Roll Forward Procedures. A documented process bridging the timing gap between June 30 (or other interim date that an analysis has been performed) and September 30 to determine if any significant changes to environmental liabilities have occurred between June 30 (or other interim date that an analysis has been performed) and September 30. Any significant changes that have occurred between June 30 and September 30 must be reflected in the environmental and disposal liability balance through an adjustment to the environmental and disposal liability balance as of September 30.

2.0.24. Routine Hazardous Waste Disposal. The cost of hazardous waste disposal from day-to-day on-going operations, performed on a regular basis (for example, removing and disposing of batteries, cleaning solvents, and motor oil incurred as part of periodic routine maintenance of equipment over its useful life) should be recognized as an operating expense and accrued liability/payable the period the cleanup occurs in accordance with liability standards outlined in SFFAS 1. The cost of removing and disposing of the same routine maintenance hazardous waste at the time of equipment disposal would likewise be expensed and the associated liability is recognized when incurred (TR 11, paragraphs 12-14). In accordance with SFFAS 6, paragraph 93, if such cleanup is an ongoing part of operations and not deferred until operation of associated PP&E ceases either permanently or temporarily, the costs are not subject to the recognition guidance provided in SFFAS 6, paragraphs 97 and 98.

2.0.25. Transaction Level Detail Reports. Provide the line item details that support the summarized values reported on DoD Component financial statements. For event-driven liabilities, transaction level detail reports could include, but are not limited to, site level or program management level data from environmental and disposal liability systems and accounting systems that report CTC estimates, prior year cost incurred, current year cost incurred, and unpaid obligations as of the reporting period. For asset-driven liabilities, transaction level detail reports could include, but are not limited to, cost model outputs at the asset level.

2.0.26. Unpaid Obligations (UPO). Represents valid obligations supported by documentary evidence to conform to 31 U.S.C. § 1501(a). The amount of unpaid obligations represents the amount of orders for goods and services remaining unfilled at fiscal year-end for which the liability has not yet accrued.

3.0 ACCOUNTING POLICY FOR ENVIRONMENTAL LIABILITIES

3.1 Audit Readiness/Internal Procedures

Each DoD Component must 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.

*3.2 Environmental Liability Recognition

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

3.2.1. Environmental liabilities must be recognized on the financial statements as a result of past transactions or events when the future outflows or expenditures of resources for environmental cleanup, closure, and/or disposal actions are probable and reasonably estimable, in accordance with TR 2. A probable environmental liability exists when it is more likely than not that contamination from hazardous waste exists for which DoD is either legally liable for the cleanup or has acknowledged responsibility for the cleanup. A reasonably estimable environmental liability exists when a dollar value can be estimated for (1) the cleanup costs based on the results of remedial investigation/feasibility study or experience with similar sites and/or

conditions; or (2) where there is no known technology to perform cleanup, the costs can be estimated for a remedial investigation study/costs to contain the contamination (see subparagraph 3.2.2).

3.2.2. Cleanup costs associated with government related events resulting in a liability, such as ongoing operations that result in routine hazardous waste or accidental damage (e.g., oil spill) to property caused by federal operations, must be recognized as an operating expense in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable. If the DoD Component does not complete the cleanup, closure and/or disposal action within the current reporting period, and the cleanup is related to routine ongoing operations, the DoD Component must record an accrued liability for the cleanup, closure, and/or disposal costs incurred and not paid in accordance with Chapter 9.

3.2.3. Cleanup costs associated with government-acknowledged events (such as toxic waste damage caused by nonfederal entities and natural disasters) do not meet the definition of a “liability” until, and to the extent that, the government formally acknowledges financial responsibility for the cost from the event and an exchange or nonexchange transaction has occurred. The liability and expense should be recognized when both (1) the Congress has appropriated or authorized resources, and (2) an exchange occurs (contractor performs repairs) or nonexchange amounts are unpaid as of the reporting date (direct payments to disaster victims), whichever applies, in accordance with SFFAS 5.

3.2.4. SFFAS 5 address liabilities for environmental cleanup resulting from an accident, natural disaster, or other one-time occurrence. SFFAS 6 provides the standards related to the timing of recognition of environmental liabilities and related inter-period operating expenses when cleanup cannot be performed until permanent or temporary closures or shutdown and a portion of the estimated total cleanup costs is to be recognized as an expense during each operating period benefiting from operations of the general PP&E. This allocation must be based on a systematic and rational method. For example, the estimated cost could be allocated to operating periods based on the expected physical capacity of the PP&E and the amount of capacity used each period. In addition, disclosure of the total estimated cost is required.

3.2.5. Cleanup costs must be estimated when the associated PP&E is placed in service. The estimate must be referred to as the “estimated total cleanup cost. As cleanup costs are paid, payments must be recognized as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities. SFFAS 6, paragraph 94 describes two approaches to recognizing the total cleanup cost: one applies to Stewardship PP&E and another to general PP&E.

3.2.5.1. The estimated environmental liabilities associated with the total cleanup cost for Stewardship PP&E must be consistent with the treatment of the acquisition cost of Stewardship PP&E (i.e., expensing in the period placed in service). For new Stewardship PP&E, the agency must recognize an expense and a liability for the full amount of estimated total cleanup cost when the Stewardship PP&E is placed in service. For Stewardship PP&E already in service, according to SFFAS 6, on the day the standard is adopted or upon early implementation, the agency

must charge net position through a prior period adjustment and recognize a liability for the full amount of the estimated total cleanup costs. As re-estimates are made, adjustments to the liability must be recognized in expense as “changes in estimated cleanup costs from prior periods.”

3.2.5.2. SFFAS 6 had an effective implementation date for periods beginning after September 30, 1997 and TB 2006-1 as amended by TB 2011-2 had an effective date for periods beginning after September 30, 2012. For the initial implementation of these standards, DoD Components must record environmental liabilities for PP&E as described in Table 13-1 (for non-asbestos related liabilities) or Table 13-2 (for asbestos related liabilities).

*Table 13-1. Cleanup Cost Liability Options for PP&E-September 30, 1997 and Prior

The following table describes cleanup cost liability options for the initial implementation of SFFAS 6 for liabilities that existed on or before September 30, 1997.

Environmental and Disposal Liability	Accounting Treatment
Option 1	<p>Liability should 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.</p> <p>The offsetting charge is to be recorded as a “prior period adjustment” on the Statement of Net Position.</p> <p>In each subsequent year of the asset’s useful life, recognize a proportionate amount of the remaining costs as an operating expense on the Statement of Net Cost and accumulation of liability on the Balance Sheet (SFFAS 6, paragraph 97-98, 104-105).</p> <p>As re-estimates are made, cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate.</p>
Option 2	<p>If costs are not intended to be recovered primarily through user charges, management may elect to recognize the estimated <u>total</u> cleanup cost as a liability upon implementation of the standard.</p> <p>The offsetting charge is to be recorded as a “prior period adjustment” on the Statement of Net Position (SFFAS 6, paragraph 104-105).</p> <p>In addition, in periods following the implementation period, any changes in the estimated total cleanup cost must be expensed when re-estimates occur and the liability balance adjusted.</p>

Note: No amounts may be recognized as expense in the period of implementation. The amounts involved must be disclosed and to the extent possible the amount associated with current and prior periods should be noted.

*Table 13-2. Cleanup Cost Liability Options for Asbestos-September 30, 2012 and Prior

The following table describes cleanup cost liability options for the initial implementation of TB 2006-1, as amended by TB 2011-2 for asbestos related liabilities that existed on or before September 30, 2012.

Asbestos	Accounting Treatment
Option 1	Record a liability for estimated cleanup costs equal to that portion of the physical capacity used or that portion of the estimated useful life of the asset that has passed since the PP&E was placed in service. The remaining cost must be recognized in a systematic and rational manner based on use of the physical capacity of the associated PP&E, whenever possible.
Option 2	If the asset has been in service for a substantial portion (greater than 50% of the useful life) of its estimated used life, management can elect to recognize the entire amount of the estimated cleanup cost. This option can only be used if costs are not intended to be recovered primarily through user charges (SFFAS 6, paragraphs 97-98, and 104-105).

Note 1. The offsetting charge for any liability for asbestos related cleanup costs related to general PP&E in service at the date of implementation must be made to the net position of the entity. The amount of the adjustment must be shown as a “change in accounting principle” in any statement of changes in net position that may be required (TB 2006-1, paragraphs 40-41).

Note 2. Illustrative Example of Asbestos Related Cleanup Costs calculation and reporting is presented in Appendix B of TB 2006-1.

*Table 13-3. Cleanup Cost Liability Treatment for PP&E Placed in Service After Effective Date

The following table describes the cleanup cost liability treatment for assets placed in service after September 30, 1997 (for non-asbestos related liabilities), as well as the cleanup cost liability treatment for assets placed in service after September 30, 2012 (for asbestos related liabilities).

Environmental and Disposal Liability	Effective Date	Assets Placed in Service After Effective Date
Non-Asbestos	After September 30, 1997	<p>Estimate the total cleanup costs related to the PP&E and recognize annually a portion of the costs over the useful life of the asset.</p> <p>Recognition of the expense and accumulation of the liability must 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 (SFFAS 6, paragraphs 97-98).</p>
Asbestos	After September 30, 2012	<p>A portion of estimated total asbestos related cleanup costs must be recognized as expense during each period that PP&E is in operation. 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.</p> <p>Recognition of the expense and accumulation of the liability must 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 (SFFAS 6, paragraph 98 and TB 2006-1, paragraph 38).</p> <p>As re-estimates are made, the cumulative effect of changes in total estimated asbestos related cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate. In certain scenarios, such as when cleanup costs have been fully expensed, the re-estimate may result in a credit to expense for that year (SFFAS 6, paragraph 99).</p> <p>As asbestos related cleanup costs are paid, payments must be recognized as a reduction in the liability for asbestos related cleanup costs (SFFAS 6, paragraph 100).</p>

3.2.5.3. The estimated environmental liabilities associated with PP&E placed in service after September 30, 1997 (i.e., after the initial implementation of SFFAS 6, paragraph 104), that have future environmental cleanup, closure, and/or disposal requirements must be systematically recognized over the useful life or physical capacity usage of the asset. In accordance with SFFAS 6, the accumulation of the liability and the recognition of the related expense should commence when the asset is placed in service, continue in each period that operation continues, and be completed when the PP&E cease operations. The accounting treatment for PP&E placed in service after September 30, 1997 is applicable irrespective of whether the costs are intended to be recovered through user charges or not. If the environmental liability is not associated with an asset having a useful life, for example an event-driven environmental liability, the total estimated cleanup cost should be recognized upon identification of the liability in accordance with SFFAS 5.

3.2.5.4. Estimates must be evaluated and revised periodically (at least annually) to account for material changes due to inflation or deflation and changes in regulations, plans, and/or technology (see subparagraph 2.3.4.5). The cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate (SFFAS 6, paragraphs 96 and 99).

3.2.5.5. For asbestos (both friable and non-friable) related environmental liabilities associated with PP&E, the initial date of the standard implementation (i.e., TB 2006-1 amended by TB 2011-2) is the effective date for the systematic liability recognition. Asbestos related environmental liabilities associated with PP&E placed in service after September 30, 2012, must be systematically recognized over the remaining useful life of the PP&E.

3.2.6. Environmental liabilities that are unique in nature have different recognition criteria.

3.2.6.1. An environmental liability for military range cleanup, closure and/or disposal, including disposal of unexploded ordnance, 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. This accounting guidance is based on the conditional exemption provided to DoD per EPA regulation 40 CFR 266.202. The EPA regulation effectively excludes military munitions on a military range from the definition of solid waste. A military munition is not a solid waste when:

3.2.6.1.1. Used in training military personnel or explosives and munitions emergency response specialists (including training in proper destruction of unused propellant or other munitions); or

3.2.6.1.2. Used in research, development, testing, and evaluation of military munitions, weapons, or weapon systems; or

3.2.6.1.3. Recovery, collection, and on-range destruction of unexploded ordnance and munitions fragments during range clearance activities at active or inactive ranges. However, “use for intended purpose” does not include the on-range disposal or burial of unexploded ordnance and contaminants when the burial is not a result of product use.

3.2.6.2. Environmental liabilities related to conventional munitions that are determined to be excess and/or obsolete as of the financial reporting date are recognized for the total disposal estimate (i.e., the environmental liability). 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. Conventional munitions are considered to be obsolete when no longer needed due to changes in technology, laws, or operations. Excess quantities of conventional munitions and obsolescence of conventional munitions must be evidenced by documentation of management's decision to permanently remove an asset from service and the asset's use is terminated.

3.2.6.3. Environmental liabilities for stockpile and non-stockpile chemical agents and munitions inventory, and buried chemical agents and munitions, should be recognized for cleanup, closure, and/or disposal costs when the probable and reasonably estimable criteria have been met, in accordance with TR 2. Per 50 U.S.C. § 1521, DoD is required to dispose of chemical weapons and materiel contained in the stockpile, as well as the non-stockpile. The stockpile consists of the chemical weapons and materiel in the inventory. The non-stockpile 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. The determination to dispose of chemical weapons and materials must be evidenced by documentation supporting management's decision to permanently remove an asset from service and the asset's use is terminated.

3.2.6.4. For assets permanently removed from service, the environmental cleanup costs liability associated with the disposal, closure, and/or shutdown of the PP&E must be recognized in full. If removal of service is considered other than permanent, the liability and associated cleanup cost expense must continue to accumulate. Permanent removal from service is defined under subparagraph 2.0.17. In compliance with TR 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 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.

3.2.6.5. **Overseas** environmental liabilities are environmental cleanup, closure, and/or disposal costs associated with the operation of installations overseas in accordance with DoDI 4715.08 and international agreements as defined by DoD Directive 5530.3. 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 SFFAS standards, DoD Issuances (i.e., DoD Directive, DoD Instruction, DoD Manual), and international agreements, in accordance with DoDI 4715.05.

3.2.6.6. When estimating the disposal cost of assets containing hazardous waste, non-environmental costs that are considered immaterial to the total cost of removing or disposing of the asset(s) (e.g., 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 [supporting](#) any materiality determinations.

3.2.6.7. Both friable and non-friable asbestos related cleanup, closure, and/or disposal costs must be estimated in accordance with TB 2006-1, as amended by TB 2011-2. Cost estimates for asbestos must include both friable and non-friable, however itemization of the two types of asbestos is not required in the estimate. Asbestos related cleanup, closure, and/or disposal costs are the costs of removing, containing, and/or disposing of:

3.2.6.7.1. Asbestos-containing materials from property, or

3.2.6.7.2. 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 must be recognized in accordance [with information in Table 13-2 and Table 13-3](#). TR 10 provides a framework for identifying assets containing asbestos, assessing assets to collect information, and/or developing assumptions needed to estimate asbestos cleanup costs.

3.2.7. Multiple reporting entities may have distinct responsibilities regarding general PP&E and related cleanup costs. Some component reporting entities are designated by law, rule, or administrative regulation to fund the cleanup liability associated with PP&E owned and operated by another reporting entity during the asset's useful life. In such cases, a component reporting entity that recognizes general PP&E during its useful life differs from the component reporting entity that will eventually be responsible for the future outflows or other sacrifices of resources required for cleanup costs or funding the cleanup liability when the asset is removed from service. FASAB Interpretation 9 clarifies that during the assets useful life, the reporting entity that owns the asset must continue to recognize inter-period operating costs on its Statement of Net Cost and accrue the liability for PP&E on its Balance Sheet until the general PP&E and the associated liability are transferred to the entity designated responsible by law, statute or policy for cleanup. At that time, the general PP&E and the liability should be de-recognized by the component reporting entity that recognized them during the general PP&E's useful life and recognized by the component reporting entity that will liquidate the liability. De-recognition and recognition of the general PP&E and liability should be performed in accordance with [existing accounting standards](#). The DoD Component recording the environmental liability must have sufficient supporting documentation to establish its responsibility for the liability.

3.2.8. Environmental liabilities are generally based on accounting estimates that are discussed in paragraph 3.3. Recognition of necessary adjustments to accounting estimates used in establishing environmental liabilities follows:

3.2.8.1. The cumulative effect of changes in cost estimates is recognized as an expense in the current accounting period and the corresponding liability is adjusted. Additionally, the related cleanup cost for the current period must be expensed and accrued as an environmental liability. Refer to [section 3.0](#) for the appropriate accounting [procedures for recording environmental liabilities](#).

3.2.8.2. Material adjustments that are required to correct errors related to prior period operations must 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 includes errors in the calculation of estimated environmental liabilities. This type of adjustment is reflected in the Statement of Changes in Net Position and omits any expense recognition in the current period. The amounts involved must be disclosed, and to the extent possible, the amount associated with current and prior periods must be noted. Adjustments required for immaterial amounts are recognized as a current period event.

3.2.9. 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 and non-DERP requires cleanup cost estimates to be single point estimates using the best available data. If a range is estimated for environmental liabilities and an amount within the range is considered a better estimate than any other estimate, that amount must be recognized; however, if no amount within a range is considered a better estimate, then the minimum amount in the range must be recognized. Refer to [paragraph 3.4](#) for disclosure requirements of estimates that are based on uncertainty.

3.3 Environmental Liability Estimates

3.3.1. 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 should 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 and approving 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 122/AU-C Section 540. 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:

3.3.1.1. Identifying situations for which accounting estimates are required;

3.3.1.2. Identifying the relevant factors that may affect the accounting estimate;

3.3.1.3. Accumulating relevant, sufficient, and reliable data on which to base the estimate;

3.3.1.4. Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors;

3.3.1.5. Determining the estimated amount based on the assumptions and other relevant factors;

3.3.1.6. Comparing prior accounting estimates to actual results and with new estimates to assess the reliability of the process used to develop estimates;

3.3.1.7. Determining that the accounting estimate is consistent with the operational plans of the entity; and

3.3.1.8. Determining that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

3.3.2. 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, contaminants, equipment, or cost models validated in accordance with DoDI 5000.61. As cost estimates by definition are subjective and have an element of uncertainty, documentation to support cost estimates must be substantial and robust. The reliability of the cost estimate will depend on the amount of site-specific information available, the extent of experience and resemblance with similar site conditions or assets, availability of remediation technology, and cost models. Once the DoD Component generates a cost estimate, the liability must be recognized in accordance with paragraph 3.2 and any uncertainty disclosed in the notes to the financial statements.

3.3.2.1. 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. However, understanding that DoD Components often include multiple sites on an individual contract, supporting documentation required to justify individual UPO transaction level details does not need to be at the site level. In such circumstances, contracts and invoices supporting the UPO transaction level details for the combined multiple sites must be retained to support future audit requirements.

3.3.2.2. If a site-specific study has not been completed, then the DoD Component must 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 as an environmental liability in accordance with paragraph 3.2 until they complete the site-specific study.

3.3.2.3. If an acceptable cleanup technology is not available to address the site, then the DoD Component must recognize the estimate to contain the hazardous waste and other relevant costs, such as the costs for future studies, as an environmental liability in accordance with paragraph 3.2. The DoD Component must also disclose the range of uncertainty in the notes to the financial statement.

3.3.2.4. When cost models is leveraged to develop cost estimates, DoD Components **must**:

3.3.2.4.1. Accumulate relevant, sufficient, and reliable data on which accounting estimates for a given environmental and disposal liability concern were based;

3.3.2.4.2. Ensure estimates are prepared by qualified personnel and adequately reviewed and approved by the appropriate levels of authority before being finalized;

3.3.2.4.3. Sustain the use of a cost model methodology by compiling and/or collecting and maintaining documentation from appropriate service providers (as applicable) to support review of cost factors on a regular basis, and implementing a data collection process. For purposes of implementing this approach, DoD considers “performed on a regular basis” to mean at least annually. At a minimum, DoD Components **must** ensure that appropriate reviews have been performed and subsequent supporting documentation is available to provide to an auditor. Decisions on when to update cost factors **must** be driven by the impact that new information has on existing estimate;

3.3.2.4.4. Compile documentation and/or collect documentation from appropriate service providers (as applicable) supporting the reasonableness of cost factors used by cost estimation software (e.g., Remedial Action Cost Engineering Requirements (RACER));

3.3.2.4.5. Compile documentation and/or collect assurance from appropriate service providers (as applicable) that cost estimation software (e.g., RACER) has been validated or otherwise ensure that the functions performed by the software are executed as intended; and

3.3.2.4.6. Compare a representative sample of prior accounting estimates with subsequent results to assess the reliability of the process used to develop estimates and the reasonableness of estimates developed.

3.3.3. Environmental liability estimates must be developed to include all environmental liability sites in the site universe and must 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 the environmental liability at a summary level. Environmental liability estimates must include the following cost elements, as applicable:

3.3.3.1. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort;

3.3.3.2. Cost of employing contractors, engineers, and consultants;

3.3.3.3. Disposal costs (includes demilitarization, material handling, transportation, storage, and tipping fees);

3.3.3.4. Cost of dedicated facilities, machinery, and equipment, and the related operating and maintenance costs;

3.3.3.5. Research and development costs for alternative remediation technologies;

3.3.3.6. Payments to regulatory agencies to provide technical support (e.g., document review of planned studies);

3.3.3.7. Efforts to tear down, remove, and dispose of the item(s), to include transportation, demilitarization, and dismantlement;

3.3.3.8. Planning and design efforts, to include contract advertisement and document reproduction;

3.3.3.9. Landscaping costs to replace landscaping elements damaged or destroyed by remediation efforts;

3.3.3.10. Permits, licenses, and approval to include State Historic Preservation Officer concurrence and documentation, and required for remediation by environmental regulation;

3.3.3.11. Grants or payments to state, tribal, and local governments;

3.3.3.12. Program management costs for DERP, a statutorily defined program with a limited universe of sites on active, BRAC and Formerly Used Defense Sites properties. Program management associated with DERP exists solely to support the remediation of sites specifically eligible for DERP. Since these program management costs will cease at the conclusion of the DERP program, these costs must be reported as part of environmental and disposal liability. These costs are necessary to effectively manage and execute the site cleanup requirements for DERP sites; however, they cannot be directly attributed to an individual cleanup site. Per DoDM 4715.20, the DoD Components must report these costs as rolled-up CTC estimates at the appropriate program level. Estimated program management costs must be included for the Future Years Defense Program (FYDP) and beyond. DoD Components must estimate program management costs beyond the FYDP by applying the average percentage of program management costs through

the FYDP to the site level requirements remaining past the FYDP. As with other environmental and disposal liability, these estimates must be supported with appropriate documentation.

3.3.4. Environmental liability estimates must 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 a significant change has occurred between the environmental liability valuation date and September 30, roll forward procedures must be performed (see paragraph 4.2). At a minimum, long-term cost estimates should be adjusted upward or downward annually, through indexing, to maintain them on a current cost basis as if acquired in the current period. Expenditures should be managed to the transaction level to allow for comparison of prior estimates to subsequent results. Supporting documentation required to justify individual transaction level details does not need to be at the site level. However, contracts and invoices supporting the transaction level details for combined multiple sites must be retained to support future audit requirements.

* 3.3.5. A portion of estimated total cleanup costs must be recognized as an expense during each period the PP&E is in operation. This must 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. A more thorough explanation of the term “useful life” is provided in Chapter 6. The current period estimated expense is equal to:

3.3.5.1. The total final estimated costs of the disposal or closure effort;

3.3.5.2. Divided by the total capacity;

3.3.5.3. Multiplied by the physical capacity used;

3.3.5.4. Minus the amounts previously recognized as expense;

3.3.5.5. Equals the current period estimated expense.

3.3.6. DoD Components must follow at least one (or some combination) of the approaches outlined (as applicable for the environmental and disposal liability considered) to establish and maintain a complete and current site universe of environmental and disposal liabilities (i.e., baseline):

3.3.6.1. Reconcile PP&E asset records maintained in Accountable Property Systems of Record (APSRs) with environmental and disposal liability records in environmental databases of record;

3.3.6.2. Produce evidence of the performance of a historical fence-to-fence survey focused on identifying and recording environmental and disposal liabilities and recent efforts to maintain currency over initial survey findings; and

3.3.6.3. Reconcile environmental and disposal liability records with other appropriate source lists.

3.3.7. After an initial baseline has been established, DoD Components must maintain site universes by using the following techniques:

3.3.7.1. For asset-driven and event-driven liabilities, leverage PP&E asset acquisition and disposal processes/systems to update routinely the established baseline;

3.3.7.2. For event-driven liabilities, document and adhere to standard operating procedures for responding to typical site addition processes (e.g., spill programs, environmental surveys) and update the baseline accordingly; and

3.3.7.3. For event-driven liabilities, document and adhere to standard operating procedures for removing future cost estimates when remediation requirements have been met and no additional future liability exists, and update the baseline accordingly.

3.3.8. When implementing guidance outlined in subparagraphs 3.3.6 and 3.3.7, DoD Components must establish and maintain environmental and disposal liability universe baselines for event-driven and asset-driven environmental liabilities:

3.3.8.1. Event-driven environmental liabilities. In these instances, it is important that DoD Components define the history, timeline, and activities employed in the surveys to demonstrate that a due care approach was taken, in accordance with TR 2, to establish an initial baseline using current factors (e.g., technology, cost, and the regulatory environment), and that there are sufficient procedures in place to identify and update the baseline to reflect the impact of changes in these factors. Documentation must be readily available to support the baseline, allowing auditors to verify the completeness of established cleanup site universes.

3.3.8.2. Asset-driven environmental liabilities. To apply the recognition and measurement principles and disclosure requirements for general PP&E in accordance with SFFAS 6, DoD Components may categorize PP&E into categories (base units) of PP&E against which the category definitions will be applied to identify relevant environmental and disposal liabilities. If only a subset of the PP&E asset universe is applicable to a given environmental and disposal liability subcategory, DoD Components must begin by considering the entire PP&E asset universe and demonstrate why individual subcategories are not applicable.

3.3.9. DoD Components must identify and account for environmental disposal liabilities that are non-routine at the time of equipment disposal, in accordance with TR 11. When using the methodology described in TR 11, DoD Components should:

3.3.9.1. Leverage APSRs to define and categorize equipment assets that should be assessed using TR 11 guidelines.

3.3.9.2. Focus on establishing documentation consistent with guidelines set forth in TR 11 to establish an audit trail for reported equipment environmental disposal liabilities. An audit trail must be produced even if the resulting value of equipment environmental disposal liabilities is deemed immaterial.

3.3.9.3. Review applicable contractual agreements to understand better the responsibilities and obligations during disposal of equipment assets being considered. In some instances, other contractual parties may assume all or part of a liability at the point of disposal, which could affect DoD financial reporting requirements.

3.3.9.4. Coordinate with the following communities (as applicable): Acquisition, Financial Management, Program Management, and Environmental.

*3.4 Environmental Liability Disclosures

3.4.1. 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 guidance on completing the financial statement notes.) Disclosure requirements for liabilities, including environmental liabilities, differ depending on [the underlying event and the probability and measurability](#) (reasonably estimable) of loss. [Key determinants of probable are the likelihood of contamination, the contamination is government related, the government is legally liable, or government acknowledges the financial responsibility, and whether remediation technology exists.](#) The classifications of likelihood are probable, reasonably possible and remote. Probable means that the future confirming event or events are more likely than not to occur; reasonably possible means that the chance of the future confirming event or events is more than remote but less than probable; and, remote means the chance of the future event or events occurring is slight

3.4.2. Environmental liabilities meeting the criteria in TR 2 for “probable” and “reasonably estimable” must be recognized on the Balance Sheet. 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:

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

3.4.2.2. 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);

3.4.2.3. 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 must 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 of the total estimated cleanup, closure and/or disposal cost is the unrecognized portion of the liability;

3.4.2.4. Material changes in the total estimated cleanup, closure and/or disposal costs due to changes in laws, technology, or plans, and the portion of the change in estimate that relates to prior period operations;

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

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

3.4.3. Environmental liabilities that **are not recognized because they** do not meet the criteria of “probable” and “reasonably estimable” but for which there is at least a reasonable possibility that a loss may have been incurred **are contingent environmental liabilities that must be disclosed in the notes to the** financial statements. **OMB Circular A-136 provides details for this disclosure.** The financial statement disclosure should include the nature of the environmental liability and an estimate of the possible liability, an estimate of the range of dollar amounts for the possible liability, or a statement that such an estimate cannot be made.

3.4.4. Environmental liabilities that are classified as remote or with a 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. **If such information is included in general purpose financial reports (e.g., the total face amount of insurance and guarantees in force), it should be labeled in such a way to avoid the misleading inference that there is more than a remote chance of a loss of that amount.**

3.4.5. DoD Components must disclose Intragovernmental Liabilities Not Covered by Budgetary Resources separately from Liabilities Covered by Budgetary Resources in accordance with Volume 6B, Chapter 10.

3.4.5.1. Liabilities Covered by Budgetary Resources are liabilities incurred which are covered by realized budgetary resources as of the Balance Sheet date. Budgetary resources encompass not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include:

3.4.5.1.1. New budget authority;

3.4.5.1.2. Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year;

3.4.5.1.3. Spending authority from offsetting collections (credited to an appropriation or fund account); and

3.4.5.1.4. Recoveries of unexpired budget authority through downward adjustments of prior year obligations.

3.4.5.2. Liabilities are considered covered by budgetary resources if they are to be funded by permanent indefinite appropriations, which have been enacted and signed into law and are available for use as of the Balance Sheet date, provided that the resources may be apportioned by OMB without further action by the Congress and without a contingency having to be met first.

3.4.5.3. Liabilities Not Covered by Budgetary Resources include liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity.

3.4.6. DoD reports environmental litigation liabilities separately from other environmental liabilities in the notes to the financial statements. DoD Components must 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 and disclosing requirements on environmental liabilities arising from litigation claim.

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

*4.0 ACCOUNTING PROCEDURES FOR RECORDING ENVIRONMENTAL LIABILITIES

4.1 Standard Line of Accounting and Accounting Transactions

4.1.1. The *Standard Financial Information Structure (SFIS)* is a comprehensive data structure that supports requirements for budgeting, financial accounting, cost/performance, interoperability, and external reporting needs across the DoD enterprise. It is a common business language that enables budgeting, performance-based management, and the generation of financial statements. SFIS standardizes financial reporting across DoD and allows revenues and expenses to be reported by programs that align with major goals, rather than basing reporting primarily on appropriation categories. It also enables decision-makers to efficiently compare programs and their associated activities and costs across DoD and provides a basis for common valuation of DoD programs, assets, and liabilities.

4.1.2. Volume 1, Chapter 4 prescribes the requirements for SFIS and Standard Line of Accounting/Accounting Classification compliance for DoD business systems to meet statutory requirements and additional requirements implemented by the OMB and the Treasury. As stated in Volume 1, Chapter 4, subparagraph 1.3.8, the Treasury Bureau of the Fiscal Service publishes the USSGL which is updated annually in the TFM. TFM Volume 1 Supplements include the latest USSGL Bulletin and seven major sections that comprise the Treasury USSGL guidance: (I) Chart of Accounts, (II) Accounts and Definitions, (III) Account Transactions, (IV) Account Attributes for USSGL Proprietary Account and Budgetary Account Reporting, (V) Crosswalks to Standard External Reports for Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reporting, (VI) Crosswalks to Reclassified Statements for Reporting, and (VII) GTAS Validations and Edits for Reporting. Refer to the Office of the Deputy Chief Financial Officer

SFIS website, [the authoritative source](#) for the DoD Standard Chart of Accounts (including point accounts), the Transaction Library and [data element definitions when recording financial transactions related to environmental and disposal liabilities and environmental contingent liabilities](#).

4.2 Performing Roll Forward Procedures

4.2.1. Environmental liabilities reported in the financial statements must reflect the liability as of the Balance Sheet date (i.e., September 30 for Federal agencies), not an earlier date. Thus, when the annual evaluation of the environmental liabilities is performed as of a date earlier than September 30, DoD Components must develop, document, and execute a process for performing roll forward procedures. These procedures are to determine if any changes that meet the “probable” and “reasonably estimable” criteria occurring during the roll forward period have a significant impact (see Appendix A) on the estimates to be reported as of September 30. To limit the time period covered by the roll forward procedures, DoD Components need to complete a robust cost estimation process at least as recently as June 30 of each year. Subsequent significant changes that have occurred between June 30 and September 30 must be reflected in the environmental and disposal liability [reported as of the Balance Sheet date](#). To assist DoD Components with segmenting their site universe to identify subsets of environmental and disposal liability cleanup sites that may not require a reassessment during the roll forward period, a decision tree has been developed and included in Figure 1.

4.2.2. While performing the roll forward procedures, each DoD Component must identify and assess any potential qualifying events to determine their significance to reported financial statement balances. To roll forward the environmental liability for event-driven liabilities, the DoD Component must consider:

4.2.2.1. Whether the process for developing supporting justification to determine the significance of a roll forward event may not be as robust as the process for developing supporting justification produced to support the initial estimates or annual evaluation. Sufficient evidence must be available to support the roll forward assessments.

4.2.2.2. Establishing or adjusting liabilities for discoveries/changes occurring in the roll forward period based on prior experience with similar sites and/or conditions for the total cost of cleanup. If several similar sites and/or conditions are considered with no single scenario more likely than any other, the scenario with the minimum associated amount in the range should be used.

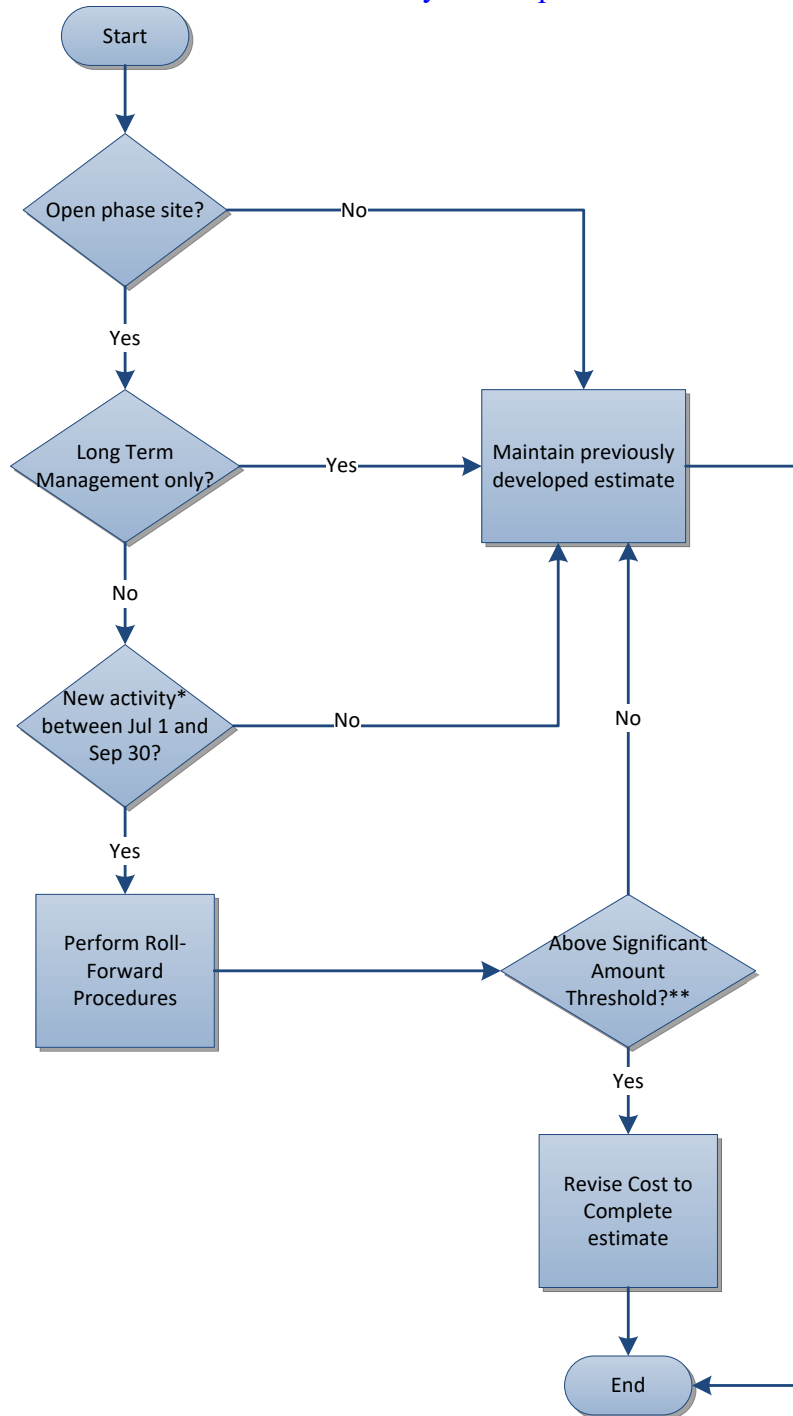
4.2.2.3. Macroeconomic factors (e.g., raw materials, regulatory standards, technology) that changed during the roll forward period to determine if they will have a significant impact to the overall cost estimates.

4.2.2.4. Establishing, documenting, and performing roll forward procedures that can sufficiently support the determination of whether any significant changes occurred or alternatively those changes are insignificant. Even if the result of those procedures determines that very few or no events are significant to the financial statements and/or balances as of

September 30, the documented process for arriving at that determination will need to be available for auditor's review.

4.2.3. To update the environmental liability balance for asset-driven liabilities during the roll forward period of July, August and September, DoD Components must consider changes in asset inventories and/or significant occurrence impacting established cost factors developed to predict disposition of non-routine, environmentally hazardous waste at the point of PP&E asset disposal.

Figure 1. Roll Forward Decision Tree for Event-Driven Environmental Liabilities
 Note: This decision tree assumes an interim analysis was performed as of June 30.



*New activities could include: change in project scope, change in standards or regulations, new technology, new obligation, change in DoD policy, new or additional contamination discovered.

**See Appendix A for determination of significant amounts in the roll forward period.

Appendix A. Quantitative Determination of Significant Amounts in the Roll Forward Period

DoD Components should use this quantitative approach to determine what are considered significant amounts in the roll forward period. Significant amounts that have occurred between June 30 and September 30 must be reflected in environmental and disposal liability through an adjustment to the environmental and disposal liability as of September 30. To assist DoD Components with segmenting their cleanup site universe to identify subsets of environmental and disposal liability cleanup sites that may not require a reassessment during the roll forward period, a decision tree has been developed and included in Figure 1. DoD Components should leverage Figure 1 or a method consistent with Figure 1. The intent of Figure 1 is to assist DoD Components with segmenting their cleanup site universe to identify high risk subsets, subsequently reducing the overall effort required to implement roll forward procedures. Subsequently, DoD Components must assess qualifying events to determine significance to the reported financial statement balances.

Approach to calculate their Significant Amount Threshold:

Environmental & Disposal Liability Balance ¹	\$XXXXXX
Multiply by 1%	x .01
Materiality ²	\$XXXXXX
Multiply by no more than 3% ³	x .03
Significant Amount Threshold	\$XXXXXX

Note: DoD Components must use the calculated Significant Amount Threshold or \$1 million, whichever is greater.

The Significant Amount Threshold calculation has been developed to compensate for the possible aggregation of misstatements in the recorded liability amount by a DoD Component (i.e., misstatements for multiple environmental and disposal liability sites) and among DoD Components at the consolidated DoD financial statement level. While individual misstatements may not be material to the financial statements, when aggregated with other misstatements they could result in a material misstatement.

¹ Total Environmental and Disposal Liabilities recorded balance on the DoD Component’s individual financial statements as of the most recently reported period.

² This materiality amount is equivalent to Design Materiality as described in the GAO FAM §230.12.

³ The no more than 3% of Materiality is based on OUSD’s judgment to compensate for the potential aggregation of amounts at the DoD Component level.