

**SUMMARY OF MAJOR CHANGES TO  
DOD 7000.134-R, VOLUME 4, CHAPTER 13  
“ENVIRONMENTAL LIABILITIES”**

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

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
	<p style="color: blue;">This chapter is a consolidation of the former Chapters 13 and 14 of this Volume. These chapters were consolidated to appropriately reflect the applicable provisions of various Statements of Federal Financial Accounting Standards (SFFAS) as they relate to environmental liabilities.</p>	

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## CHAPTER 13

★ENVIRONMENTAL LIABILITIES★1301 GENERAL130101. 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. The policies and procedures prescribed in this chapter apply to all environmental liabilities regardless of the funding source and whether the funding is available.

B. This chapter implements applicable provisions of Statements of Federal Financial Accounting Standards (SFFAS) Number 5, "Accounting for Liabilities of the Federal Government," SFFAS Number 6, "Accounting for Property, Plant, and Equipment (PP&E)," SFFAS Number 23, "Eliminating the Category National Defense Property, Plant and Equipment," Statement on Auditing Standards (SAS) Number 57, "Auditing Accounting Estimates," and Federal Financial Accounting and Auditing Technical Release Number 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government."

C. This chapter does not address budget formulation for environmental liabilities, describe the different types of PP&E recorded within the DoD accounting records, or provide technical environmental guidance.

1. Refer to Volume 2A and 2B for guidance on budget formulation.
2. Refer to Chapter 6 of this Volume for descriptions of the different types of PP&E discussed in this chapter.
3. 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," dated September 2001, and "Guidance for Recognizing, Measuring, and Reporting Environmental Disposal and Closure Liabilities not Eligible for Defense Environmental Restoration Program (DERP) Funding," dated May 2005.

130102. Definitions.

A. Current Liabilities. Liabilities of an entity for which the financial statements are prepared, and for which the entity will outlay the resources within 1 year of the reporting date.

B. Disclosures. For the purposes of financial statement reporting, the term “Disclosure” means to report the information in the narrative of the notes to the financial statements. The notes are an integral part of the financial statements and should withstand audit scrutiny.

C. Environmental Cleanup Costs. For financial statement reporting purposes, the term “environmental cleanup costs” includes costs associated with environmental restoration of environmental sites funded under the DERP, correctives actions, and costs associated with the future disposal of facilities, equipment, or munitions or closure of facilities. These costs include the cost of removing, containing, and/or disposing of hazardous waste from property, or material and/or property that consist of hazardous waste at the time of shutdown or disposal of the asset. Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and postclosure costs related to Department of Defense (DoD) operations that result in hazardous waste.

D. Environmental Liabilities. A probable and measurable future outflows or sacrifices of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.

E. Hazardous Waste. A solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed

F. Measurable Liability. A liability that can be quantified in monetary units that is reasonably estimable with sufficient reliability. A measurable environmental liability exists when a dollar value can be estimated for the cleanup costs.

G. Noncurrent Liabilities. Liabilities of an entity for which the financial statements are prepared, and for which the entity will outlay the resources beyond 1 year of the reporting date.

H. Nonenvironmental Costs. Nonenvironmental costs are the costs of removing, containing, and/or disposing of property, or material and/or property that does not consist of hazardous waste. Nonenvironmental costs may include, but are not limited to the following:

1. Costs of disposing or removing assets that do not contain hazardous waste.
2. Nonenvironmental portions of the total costs associated with shutting down or disposing of an asset containing hazardous waste.

3. Insignificant portions of environmental cleanup costs that are considered immaterial to the total costs of removing or disposing of an asset.

I. Nonenvironmental Liabilities. A nonenvironmental liability is a future outflow or sacrifice of resources for nonenvironmental costs.

J. Past Transaction or Event. A past transaction or event is a happening that has financial consequences to an entity. An event may be an internal event that occurs within an entity such as placing an item in service or an external event that involves interaction between an entity and its environment such as an act of nature, a theft, vandalism, an injury caused by negligence, or an accident.

K. Probable Event. An event is probable if it is reasonably expected or believed to be more likely than not to occur. A probable environmental liability exists when it is likely that contamination resulted from DoD operations.

L. Recognition. For purposes of financial statement reporting, the term “Recognition” means the reporting of a dollar amount on the face of the basic financial statements.

## 1302 ACCOUNTING POLICY FOR ENVIRONMENTAL LIABILITIES

130201. This section outlines the policy of recognizing, disclosing, and measuring environmental liabilities in accordance with applicable accounting standards.

### 130202. Environmental Liability Recognition

A. Environmental liabilities are recognized for probable and measurable future outflows or sacrifices of resources for environmental cleanup costs that result from past transactions or events. Environmental conditions that result from current operations and require immediate cleanup operations are not considered environmental liabilities and should be recognized as a current operating expense, assuming the Component completes cleanup operations in the current operating period. The Component should record an accounts payable for cleanup costs incurred and not paid in accordance with Chapter 9 of this Volume.

B. Environmental liabilities are generally recognized in accordance with the following paragraphs. The diagram in Table 13-4 at the end of this chapter illustrates the process for recognizing environmental liabilities for PP&E.

1. The total estimated cost of environmental liabilities associated with General PP&E placed in service prior to October 1, 1997, shall be recognized in the initial year the liability is recorded, unless the costs are intended to be recovered through user charges. If the costs are intended to be recovered through user charges, then the Components shall recognize a liability for that portion of the asset that has passed since the PP&E was placed into service and the remaining liability shall be systematically recognized over the remaining useful life. Refer to subparagraph 130204E of this chapter 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 closure and/or environmental cleanup 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.

C. The liabilities discussed below are specific in nature and should be recognized as applicable.

1. Active Ranges. An environmental liability associated with the cleanup and disposal of unexploded ordnance on active ranges does not typically exist until a formal decision is made to close the range. Sustainment and maintenance activities associated with an active range are considered current operating expenses that are intended to be completed during the current operating period. If the environmental cleanup operations are not completed in the current period, then an environmental liability should be recognized for the estimated outflow of resources as of the financial statement reporting period. Otherwise, accumulation of the environmental liability and recognition of the related expense shall commence when the formal management decision is made to close the range.

2. Conventional Munitions. Environmental liabilities and the related expenses 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 could threaten the environment if the disposal was improperly managed.

3. Stockpile and Nonstockpile Chemical Agents and Munitions Inventory. Environmental liabilities and the related expenses for stockpile and nonstockpile chemical agents and munitions should be recognized for the estimated disposal costs. Per 50 United States Code (USC) 1521, the Department is required to dispose of chemical weapons and materiel contained in the stockpile, as well as the nonstockpile. The stockpile is the chemical weapons and materiel in the inventory. The nonstockpile items are binary chemical weapons, miscellaneous chemical warfare materiel, recovered chemical weapons, former production facilities, and buried chemical warfare materiel.

4. General PP&E Formally Identified as National Defense PP&E. The SFFAS Number 23, "Eliminating the Category National Defense PP&E," eliminated the National Defense PP&E category and reclassified these assets as General PP&E. This reclassification requires environmental liability recognition in accordance with the rules established for General PP&E. Refer to subparagraph 130202B of this chapter for general recognition rules of General PP&E. As a result of this reclassification, 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 Number 23 states that the cumulative effect of adopting this standard should be reported as a change in accounting principle and that 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. Nonenvironmental Liabilities. Nonenvironmental costs associated with the disposition of assets are recognized when a formal management decision has been made to remove or dispose of the asset. Nonenvironmental liabilities may also be recognized for insignificant portions of environmental cleanup costs that are considered immaterial to the total cost of removing or disposing of an asset. 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.

D. Environmental liabilities are generally based on accounting estimates that are discussed in subparagraph 130204 of this chapter. The subparagraphs below prescribe the recognition of necessary adjustments to the accounting estimates used in establishing environmental liabilities.

1. The cumulative effect of changes in cost estimates are 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. Additionally, the related cleanup cost for the current period shall be expensed and accrued as accounts payable. Refer to the accounting procedures in subparagraph 130302C of this chapter 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 that are made, and the degree of uncertainty associated with the assumptions. Therefore, environmental liabilities may be established for estimated costs that are specific amounts or a range of amounts. If some amount within a range is considered a better estimate than any other estimate, that amount should be recognized. If no amount within a range is considered a better estimate than other estimates, then the minimum amount in the range should be recognized. Refer to subparagraph 130203B of this chapter 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.

130203. Environmental Liability Disclosures

A. Financial statement disclosures provide pertinent information in notes or narrative about the amounts reported on the face of the financial statements. The recognition of environmental liabilities requires the following disclosures associated with the cleanup cost measurement that must be addressed each reporting period within the financial statement note for environmental liabilities.

1. The source of cleanup requirements.
2. The method for assigning estimated total cleanup costs.
3. The unrecognized amounts of environmental liabilities for assets that require the systematic recognition of the total estimated cleanup costs. The 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 cost is the unrecognized cost of the liability.
4. Material changes in the total estimated cleanup costs due to changes in laws, technology, or plans.
5. The nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations.

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 loss to an entity should be fully disclosed within the financial statement notes for environmental liabilities. Environmental liabilities that only have a remote probability of occurring do not require disclosure unless specifically required by law.

130204. Environmental and Nonenvironmental Liability Measurements

A. Environmental liabilities are generally accounting estimates because the extent of the environmental costs can not be determined until completing cleanup/disposal operations. Management is responsible for making the accounting estimates included in the financial statements. Environmental management is responsible for generating the liability estimates and the Component's accounting function is responsible for reviewing the estimate and ensuring they comply with accounting standards. The estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate an amount at the date of the financial statements. Management's judgment is normally based on its knowledge and experience about past and current events and its assumptions about existing conditions and courses of action it expects to take. The accounting estimates are subject to audit standards of the Statement on Auditing Standards (SAS) Number 57, AU Section 342. Organizations that prepare accounting



estimates must retain adequate documentation of management review as well as documentation that identify the data sources, and estimating method accreditation including the parametric models, and the rationale used. 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 liability cost that are probable and estimable must be measured based on site specific information, engineering estimates, or cost models validated in accordance with DoD Instruction 5000.61, "DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation (VV&A)." The liability estimate will vary depending on whether a comprehensive study has been completed, experience with similar site conditions, and availability of remediation technology

1. Completed Comprehensive Study. A liability estimate produced from a completed comprehensive study is generally the most reliable estimate because it is based on a thorough investigation and sampling of the environmental conditions at the site. Further, once environmental personnel complete the investigation, they evaluate the alternative corrective actions identified and base the liability estimate, generally an engineering estimate, on the selected alternative. The Component should recognize the amount of the estimate as the environmental liability and disclose in the notes any amounts that may occur as a result of the degree of uncertainty associated with the estimate.

2. Experience with Similar Site Conditions. If a comprehensive study has not been completed, then the Component should determine whether the site appears to be similar to other sites where experience has been gained based on the completion of a comprehensive study or actual remediation. If the Component has experience with similar sites, then they prepare a liability estimate, generally based on cost models, and recognize the results in the financial statements. The Component should also disclose the range of uncertainty in the notes to the financial statement.

3. Availability of Remediation Technology. If the remediation technology is not available to remediate the site, then the Component should recognize the estimate to contain the contamination and other relevant cost, such as the costs for future studies. The Component should also disclose the range of uncertainty in the notes to the financial statement.

C. Environmental liability cost measurements may be estimated for each environmental site at the installation or organizational level. The liability cost estimates should include the anticipated costs of the level of effort required to cleanup hazardous wastes, as well as the costs of complying with associated applicable legal and/or regulatory requirements. Such cost estimates are calculated on a current cost basis and based on a current disposal plan and existing laws, and technology. The cost estimates for both the environmental and nonevironmental portion of the liability 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 to include security and surveillance.
2. Efforts to tear down, remove, and dispose of the item(s) to include transportation, demilitarization, and dismantlement.
3. Planning and design efforts to include contract advertisement and document reproduction.
4. Landscaping costs.
5. 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 the McKinney Act in Public Law 101-645.
6. Fix up costs if disposed without being demolished.
7. Cost of employing contractors, engineers, and consultants.
8. Cost of dedicated facilities, machinery, and equipment and the related operating and maintenance costs.
9. Research and development, alternative technologies, and approaches studies.
10. Grants to state and local governments.
11. Payments to state, tribal, and local governments.
12. Oversight support payments to the Environmental Protection Agency.

D. Environmental liability cost 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. As 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. The estimated liability costs should be reduced by the costs that are paid to reflect the total remaining cleanup costs less any unrecognized portions of a systematically recognized cost estimate. Further, the Component should be able to distinguish between the current and nonconcurrent portions of the liability estimate.

E. A systematic recognition of the cost estimate is preferably based on the use of physical capacity. The current period estimate is equal to (i) total final estimated costs of the disposal or closure effort, (ii) divided by the total capacity, (iii) times the physical capacity used, (iv) minus the amounts previously recognized as an expense. 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.

F. Components shall maintain an inventory of environmental sites and reconcile it with General PP&E records at least annually. The purpose of the reconciliation is to ensure that all of the Department's disposal liabilities both environmental and non-environmental are recognized and documented. The reconciliation may identify property records that require recognition of disposal liabilities or instances where there is no inventory record for an existing disposal liability. The Real Property Inventory (RPI) maintained on behalf of DoD by the Military Departments is the official DoD facility inventory. The numbering schema in that RPI used to identify facilities, sites, and installations is the official DoD schema for these data. Any DoD organization, Agency, or Military Department 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 to that schema.

### 1303 ACCOUNTING PROCEDURES FOR RECORDING ENVIRONMENTAL AND NONENVIRONMENTAL LIABILITIES

130301. 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.

#### 130302. Estimated Cleanup Cost Liability (Account 2995)

A. This account represents the estimated amounts owed for projected future cleanup costs associated with removing, containing, and/or disposing of:

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 to others.

C. 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. The accounting entries in Table 13-3 illustrate the entries for nonenvironmental liabilities.

ACCOUNTING ENTRIES FOR ACCOUNT 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 2995     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

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

Record payment.

4.     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 13-1

ALTERNATIVE ACCOUNTING ENTRIES FOR 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)

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.

4.     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

RECOGNITION OF ENVIRONMENTAL LIABILITIES  
FOR  
PROPERTY, PLANT, AND EQUIPMENT

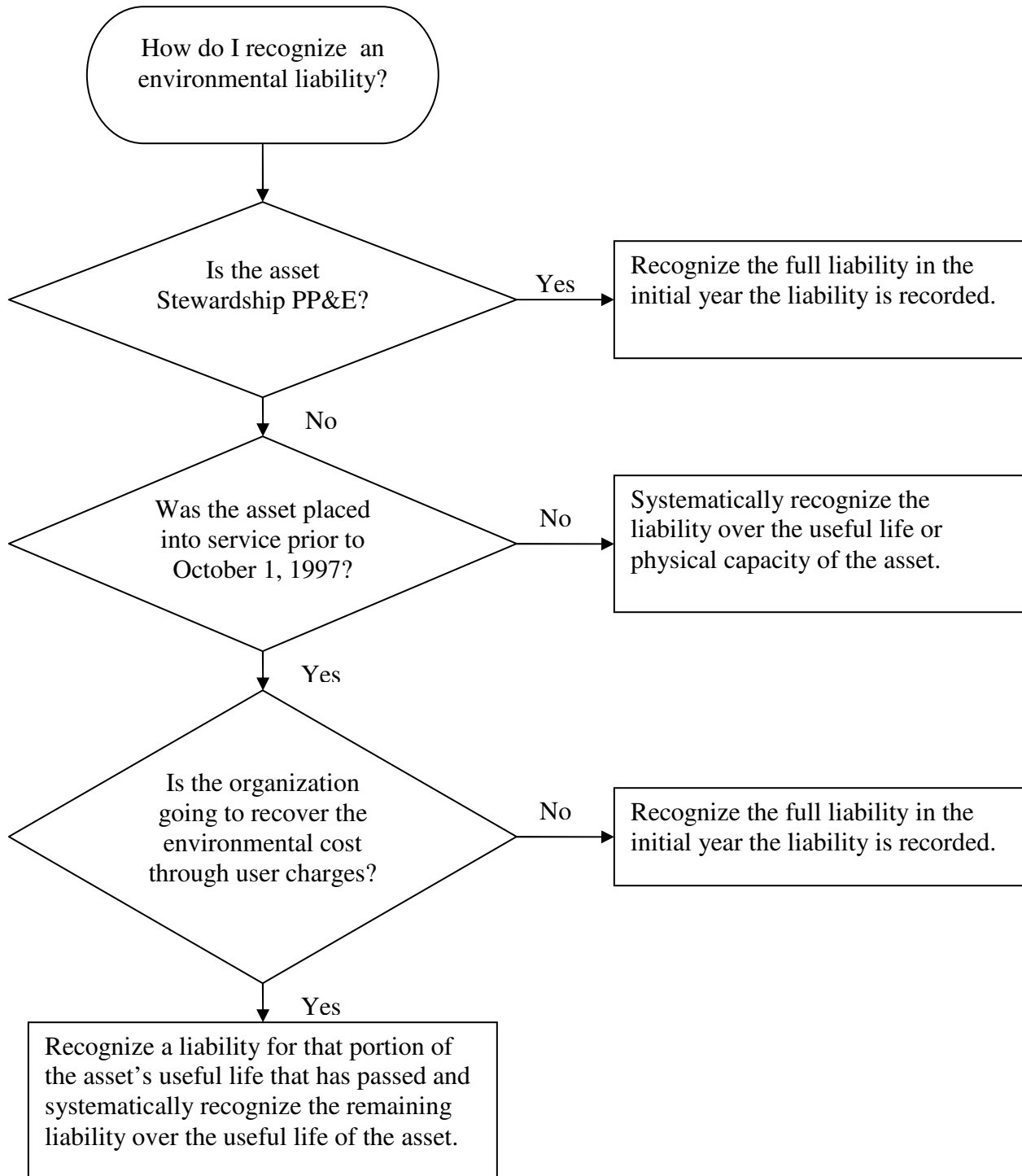


Table 13-3