

★CHAPTER 13★

★ACCRUED ENVIRONMENTAL AND NONENVIRONMENTAL DISPOSAL COST
LIABILITIES★1301 GENERAL

★130101. This chapter prescribes the accounting policy and principles for measuring (estimating) and recognizing (recording in the accounting system and reporting in the financial statements) Department of Defense (DoD) liabilities associated with the disposition of property, structures, equipment, munitions, and weapons. It also includes the preservation and management of training ranges at active installations (as described in subparagraph 130201.A. of this Chapter). The timing of disposal liability measurement will vary depending on whether the disposal effort involves the removal and disposal of hazardous waste (environmental disposal). The accounting entry used to record an environmental disposal liability is dependent on whether the liability existed at September 30, 1997, and on when the liability is first recorded (see paragraph 130108). The recording and reporting of disposal cost estimates in financial statements is subject to the materiality criterion in paragraph 130109 of this Chapter. Liability recognition shall not be based on the availability of funds.

130102. This chapter does not address a number of related issues. Accounting for accrued environmental restoration costs that result from past operations is discussed in Chapter 14 of this Volume. The property, plant, and equipment (PP&E) types discussed in this chapter are defined in Chapter 6 of Volume 4 of this Regulation. Accounting for asset disposition gains and losses is discussed in Chapter 17 of this Volume. Reporting guidance on liabilities in general is contained in Chapter 4 of Volume 6B of this Regulation. Required supplementary stewardship information (RSSI) reporting guidance is in Chapter 11 of Volume 6B of this Regulation. Applicable budget formulation guidance is in Chapters 4, 9, and 13 of Volume 2B of this Regulation, including the development of stabilized prices for the Defense Working Capital Fund. This chapter does not apply to costs that are incurred to bring land to a form suitable for intended use; these costs are discussed in Chapter 6 of this Volume. Nor does this chapter apply to the disposal costs associated with excess, obsolete, or unserviceable inventories; such costs are addressed in Chapter 17 of this Volume.

130103. Disposal costs shall be measured and recognized as discussed in Sections 1302, 1303, 1304, and 1305 of this Chapter.

130104. Disposal cost measurements (estimates) may be prepared at the installation or other organizational level. Cost estimates prepared for this purpose shall consider, on a current cost basis, the anticipated costs of the level of effort required to dispose of the item, as well as the costs of complying with associated applicable legal and/or regulatory requirements. Such cost estimates should be based on the current disposal or reuse technologies available. Cost estimates shall be revised when there is evidence that significant changes in the cost estimates have occurred, (e.g., 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 (i.e., as if acquired in the current period).

130105. Disposal estimates are subject to audit. The preparation of cost estimates may involve the application of specialized methods, accumulation and study of historical costs, and/or the conduct of technical analyses. Organizations that prepare cost estimates must retain adequate documentation to identify data sources, estimating method accreditation (including parametric models) and rationale used (see Key Accounting Requirement Number 8 in Chapter 3 of Volume 1 of this Regulation). Documentation of management review also must be retained.

130106. Estimates for disposal costs may be 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 used. If no amount within a range is considered a better estimate than other estimates, then the minimum amount in the range should be used.

130107. Estimates for disposal costs should be offset by estimated cash proceeds only when the proceeds (resale, recycle, salvage, etc.) are permitted to be retained and used by the organization that will fund the disposal costs.

130108. Disposal liability estimates that are material at the reporting entity level, as identified in Section 0106 of Chapter 1 of Volume 6B of this Regulation, shall be recorded in the accounting system and reported in the financial statements as of the report date. Estimates for disposal liabilities shall be recorded as follows:

A. Environmental disposal liabilities incurred on or prior to September 30, 1997, for property, plant, and equipment (PP&E) (other than National Defense PP&E). Estimated environmental disposal liabilities for the property categories discussed in Sections 1302, 1303 and 1304 of this Chapter, that were probable and reasonably estimable at September 30, 1997, shall be recorded as follows:

★1. Except as provided for in subparagraphs 2 below, the total amount of the estimated liability shall be recorded for the environmental disposal estimate, with an offsetting charge to Prior Period Adjustments (Account 7400).

★2. If environmental disposal costs are expected to be recovered annually over the estimated useful life of the PP&E through user charges, then the DoD Components shall (a) record a liability for that portion of the environmental disposal estimate that is attributable to the portion of the useful life prior to September 30, 1997 (or prior to September 30, 1998, if the liability was not recorded previously), with an offsetting charge to Prior Period Adjustments (Account 7400) and (b) incrementally record the balance of the environmental disposal estimate in a systematic and rational manner over the remaining useful life of the asset. In recording the environmental disposal estimate during each period subsequent to September 30, 1997 (or subsequent to September 30, 1998, if the fiscal year 1998 increment was charged to Prior Period Adjustments (Account 7400)) that the PP&E is in operation, a portion of the estimated total cost shall be accrued as a liability, with an offsetting charge to expense, based on

the use of the physical capacity, in the following manner: each period estimate shall equal (i) the total (final) estimated costs of cleanup efforts, (ii) times the physical capacity used/total capacity, (iii) minus the amount previously recognized as an expense (or charged to Prior Period Adjustments (Account 7400) for any portion charged as a prior period adjustment for use prior to September 30, 1997 (or prior to September 30, 1998)). If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for the systematic recognition of expense and accumulation of a liability. The unrecognized portion of the estimated total disposal cost must be disclosed (provided as information by footnote) in the financial statements each period.

★B. Environmental disposal liabilities incurred after September 30, 1997, for PP&E (other than National Defense PP&E). Estimated environmental disposal liabilities for the property discussed in Sections 1302, 1303 and 1304 of this Chapter that were or are placed into service after September 30, 1997, that are probable and reasonably estimable, shall be recorded incrementally, in a systematic and rational manner. In recording the environmental disposal estimate during each period subsequent to September 30, 1997 (or subsequent to September 30, 1998, if the fiscal year 1998 increment was charged to Prior Period Adjustments (Account 7400)) that the PP&E is in operation, a portion of the estimated total disposal cost shall be accrued as a liability, with an offsetting charge to expense, based on the use of the physical capacity, in the following manner: each period estimate shall equal (i) the total (final) estimated costs of cleanup efforts, (ii) times the physical capacity used/total capacity, (iii) minus the amount previously recognized as an expense (or charged to Prior Period Adjustments for any portion charged as a prior period adjustment for use prior to September 30, 1997 (or September 30, 1998)). If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for the systematic recognition of expense and accumulation of a liability. The total (final) amount of the estimated total disposal cost must be disclosed (provided as information by footnote) in the financial statements each period.

★C. Environmental disposal liabilities incurred on or prior to September 30, 1997, for National Defense PP&E. Estimated environmental disposal liabilities for the property discussed in Section 1305 (National Defense PP&E) of this Chapter, that were probable and reasonably estimable at September 30, 1997 (or at September 30, 1998, if the liability was not recorded previously), shall be recorded as a liability, with an offsetting charge to Prior Period Adjustments (Account 7400).

★D. Environmental disposal liabilities incurred after September 30, 1997, for National Defense PP&E. Estimated environmental disposal liabilities for the property discussed in Section 1305 (National Defense PP&E) of this Chapter, that were or are placed into service after September 30, 1997 (or September 30, 1998, if the fiscal year 1998 increment was charged to Prior Period Adjustments (Account 7400)), that are probable and reasonably estimable shall be recorded as a liability, with an offsetting charge to expense.

E. Nonenvironmental disposal liabilities. Estimates for nonenvironmental disposal liabilities shall be charged to expense at the time a formal disposal decision is made except for nuclear powered assets as discussed in paragraph 130506 of this Chapter.

1302 ACCOUNTING POLICY FOR ACCRUED DISPOSAL COSTS FOR GENERAL PP&E AND STEWARDSHIP LAND

130201. This category includes (1) preservation and management activities at active and inactive ranges at active installations (as defined in DoD Instruction 6055.14, “Unexploded Ordnance Safety on Ranges”), that are not part of the Defense Environmental Restoration Program; (2) excess and/or obsolete facilities and structures that are not included in the Defense Environmental Restoration Program (see paragraph 140202.A. of Chapter 14 of this Volume); and (3) equipment other than National Defense PP&E. (Guidance on disposal cost liabilities associated with National Defense PP&E is contained in Section 1305 of this Chapter.)

A. Range preservation and management activities include the removal and disposal of solid wastes (to include radioactive materials), clearance of unexploded ordnance, and efforts to control and/or eliminate pollutants and contaminants. Installation-level cost estimates shall be used for estimating the amount of the liability.

B. When the Department identifies excess and/or obsolete structures and schedules them for demolition or other disposition, installation-level cost estimates shall be used for disposal liability measurement. Cost estimates for excess and obsolete structures that will be disposed of without being demolished should include any necessary fix-up costs and any directly attributable environmental costs (such as inspection, sampling, testing, removal and disposal of lead-based paint or asbestos). Disposal cost estimates for excess and/or obsolete structures that will be demolished should include the following cost elements, as appropriate:

1. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort.
2. Efforts to tear down remove and dispose of the item(s).
3. Planning and design (including contract advertisement and document reproduction) efforts.
4. Re-landscaping.
5. Permits and approvals (including State Historic Preservation Officer concurrence and documentation and McKinney Act screening).
6. Directly attributable environmental costs (excluding environmental restoration under the Defense Environmental Restoration Program).

C. Installation-level cost estimates shall be used to measure the disposal liability for equipment other than National Defense PP&E.

★130202. Environmental asset disposal liabilities that are probable and reasonably estimable for ranges, facilities, structures, and equipment shall be recognized, in accordance with the guidance in paragraph 130108 of this Chapter, as follows:

A. For purposes of this guidance, range preservation and maintenance costs at active installations are considered to be environmental disposal. Estimated range preservation and management costs shall be recognized as expense systematically over the period of expected use. Accumulation of the liability and recognition of the related expense (Account 6800) shall commence when the range is placed into service. The liability will be reduced as costs are paid (including payments for assets acquired for use in disposal activities). When a cost estimate is revised, the cumulative effect of the change will be recognized as an expense in the current accounting period and the corresponding liability adjusted. Alternatively, the annual accumulation entry may be reversed at the opening of the subsequent fiscal year. In that event, payments will be charged to expense (Account 6100), and the revised expense (Account 6800) and liability estimates will be recognized at the fiscal year-end.

★B. The estimated environmental disposal costs (at disposition) of facilities, structures, and equipment that are probable and reasonably estimable shall be recognized as expense systematically over the period of their expected use, or based on physical capacity. If physical capacity is not applicable or estimable, estimated environmental disposal costs shall be recognized ratably over the estimated service life, or the useful life as determined under the depreciation criteria in Chapter 6 of this Volume. Accumulation of the liability and recognition of the related expense (Account 6800) shall commence when the PP&E is placed into service. The liability will be reduced as costs are paid (including payments for assets acquired for use in disposal activities). Alternatively, the annual accumulation entry may be reversed at the opening of the subsequent fiscal year. In that event, payments will be charged to expense (Account 6100), and the revised expense (Account 6800) and liability estimates will be recognized at the fiscal year-end. When a cost estimate is revised, the cumulative effect of the change that is applicable to prior and current period operations will be recognized as an expense in the current accounting period and the corresponding liability adjusted.

C. Figure 13-1 illustrates the most common liability account entries associated with the recognition of a future funded expense (Account 6800) and the necessary expense reversal upon the performance of disposal work. Sample entries to record the associated operating expenses/program costs (Account 6100) covered by available budgetary resources are in Section 1706 of Chapter 17 of this Volume.

130203. Nonenvironmental asset disposal liabilities that are probable and reasonably estimable for facilities, structures, and equipment that have been abandoned (e.g., buildings that have not been occupied for extended periods and are no longer maintained) or have been declared excess and/or obsolete and scheduled for demolition or other disposition within the next twelve months, shall be recognized. Sample entries to record operating expenses/program costs (Account 6100) covered by available budgetary resources are in Section 1706 of Chapter 17 of this Volume.

★1303 ACCOUNTING POLICY FOR ACCRUED DISPOSAL COST FOR CONVENTIONAL MUNITIONS, INCLUDING UNGUIDED MISSILES

130301. Conventional munitions may require disposal at the end of their useful lives. Liabilities for conventional munitions, including environmental disposal and nonenvironmental disposal, shall be measured and recognized as described in this section.

130302. With regard to conventional munitions, the hazardous waste removal and disposal cost measurements required by this chapter shall be applied to current fiscal year-end inventories by type (e.g., Munitions Items Disposition Action System families), less any appropriate downward adjustments to reflect factors that may reduce the quantities ultimately requiring disposal, including consumption, and operational losses that would not be replaced.

A. Cost estimates for environmental disposal should include the following cost elements, as appropriate:

1. The cost of employing contractors, engineers, and consultants.
2. Facilities and machinery and equipment dedicated to the applicable disposal effort, and associated operating and maintenance costs.
3. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort, to include security and surveillance.

B. Cost estimates for nonenvironmental disposal should include all tasks associated with removal, transportation (where applicable), demilitarization, final dismantlement and disposal, and consider the cost elements listed in paragraph A. (1), (2), and (3) of this Paragraph.

★130303. Estimated final environmental disposal costs that are probable and reasonably estimable shall be recognized, in accordance with the guidance in paragraph 130108 of this Chapter, as expense systematically during each period, based on the estimated service life. Accumulation of the liability and recognition of the related expense (Account 6800) shall commence when the items are placed into service. Alternatively, the annual accumulation entry may be reversed at the opening of the subsequent fiscal year. In that event, payments will be charged to expense (Account 6100), and the revised expense (Account 6800) and liability estimates will be recognized at the fiscal year-end. Figure 13-1 illustrates the most common liability account entries associated with the recognition of a future funded expense (Account 6800) and the necessary expense reversal upon the performance of cleanup work. Sample entries to record the associated operating expenses/program costs (Account 6100) covered by available budgetary resources are in Section 1706 of Chapter 17 of this Volume. When a cost estimate is revised, the cumulative effect of the change that is applicable to prior and current period operations will be recognized as an expense in the current accounting period and the corresponding liability adjusted.

130304. Nonenvironmental disposal liabilities that are probable and reasonably estimable, for munitions that have been declared excess and/or obsolete and scheduled for demolition or other disposition within the next twelve months shall be recognized. Sample entries to record the associated operating expenses/program costs (Account 6100) covered by available budgetary resources are in Section 1706 of Chapter 17 of this Volume.

★1304 ACCOUNTING POLICY FOR THE DESTRUCTION OF CHEMICAL AGENTS AND MUNITIONS SUBJECT TO 50 U.S.C. 1521

130401. The Congress, in 50 U.S.C. 1521, has enacted legislation to require the Secretary of Defense to carry out the destruction of the United States' lethal chemical agents and munitions by 2007. The Department of the Army manages this destruction program. This section prescribes the accounting policy and procedures for the chemical demilitarization activities directed in 50 U.S.C. 1521.

★130402. Environmental and nonenvironmental disposal activities conducted under 50 U.S.C. 1521 that are probable and reasonably estimable shall be recorded as liabilities, in accordance with the guidance in paragraph 130108 of this Chapter.

130403. Cost estimates for the destruction of stockpile and nonstockpile chemical agents and munitions should include all tasks associated with their destruction and include the following cost elements, as appropriate:

- A. Permits and licenses.
- B. Research and development and alternative technologies and approaches studies.
- C. Grants to state and local governments.
- D. Other payments to state, Tribal, and local governments (e.g., fees, purchases of emergency equipment, etc.).
- E. Oversight support payments to the Environmental Protection Agency.
- F. Contractors, engineers, and consultants.
- G. Facilities and machinery and equipment dedicated to a destruction effort, and their associated operating and maintenance costs.
- H. Compensation and benefits of government personnel expected to devote significant time directly to a destruction effort, including security and surveillance.

★130404. Destruction liabilities for chemical agents and munitions that are in inventory shall be recognized for the total disposal estimate. The liability will be reduced as destruction costs are paid. When a cost estimate is revised, the cumulative effect of the change will be recognized as an expense in the current accounting period and the corresponding liability adjusted. Alternatively, the total disposal entry may be reversed at the opening of the subsequent fiscal year. In that event, payments will be charged to expense (Account 6100), and the revised expense (Account 6800) and liability estimates will be recognized at the fiscal year-end. Figure 13-1 illustrates the most common liability account entries associated with the recognition of a future funded expense (Account 6800) and the necessary expense reversal upon the performance of disposal. Sample entries to record the associated operating expenses/program costs (Account 6100) covered by available budgetary resources are in Section 1706 of Chapter 17 of this Volume.

1305 ACCOUNTING POLICY FOR ACCRUED DISPOSAL COSTS FOR NATIONAL DEFENSE PP&E

130501. The guidance in this section does not apply to nuclear components that are owned and disposed of by the Department of Energy.

130502. With regard to National Defense PP&E, the environmental disposal cost measurements required by this chapter shall be developed in consideration of the RSSI report “As of 09/30/CY” quantities for the “Categories/Major Types,” excluding “Space Systems” and “Other Weapons Systems (see Figure 11-1 of Volume 6B, Chapter 11); less any appropriate downward adjustments to reflect factors that may reduce the quantities ultimately requiring disposal, including consumption, operational losses that would not be replaced, Foreign Military Sales, donations, recycling and reuse.

130503. Disposal liabilities for National Defense PP&E shall be measured as follows:

A. Environmental cost estimates for hazardous waste removal and disposal should include the following cost elements, as appropriate:

1. The cost of employing contractors, engineers, and consultants.
2. Facilities and machinery and equipment dedicated to the applicable disposal effort, and associated operating and maintenance costs.
3. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort, to include security and surveillance.

B. Nonenvironmental cost estimates for disposition related nonenvironmental disposal should include all tasks associated with removal, transportation (where applicable), demilitarization, final dismantlement and disposal, and shall include the cost elements listed in A. (1), (2), and (3) of this paragraph as applicable.

130504. Nonenvironmental disposal liabilities for National Defense PP&E that are probable and reasonably estimable shall be recognized as expense at the time there is a formal management decision that the items are to be retired (Army), decommissioned (Air Force), or stricken (Navy), and prior to their transfer to the Defense Reutilization and Marketing Service or other disposition (but see the exception for nuclear powered assets in paragraph 130506 of this Chapter). Sample entries to record the associated operating expenses/program costs (Account 6100) covered by available budgetary resources are in Section 1706 of Chapter 17 of this Volume.

★130505. Environmental disposal liabilities for National Defense PP&E that are probable and reasonably estimable shall be recognized, in accordance with the guidance in paragraph 130108 of this Chapter, as expense at the time items are placed into service and a liability established. The liability will be reduced as costs are paid (including payments for assets acquired for use in disposal activities). Alternatively, the annual accumulation entry may be reversed at the opening of the subsequent fiscal year. In that event, payments will be charged to expense (Account 6100), and the revised expense (Account 6800) and liability estimates will be recognized at the fiscal year-end. Figure 13-1 illustrates the most common liability account entries associated with the recognition of a future funded expense (Account 6800) and the necessary expense reversal upon the performance of cleanup work. Sample entries to record the associated operating expenses/program costs (Account 6100) covered by available budgetary resources are in Section 1706 of Chapter 17 of this Volume. When a cost-to-complete estimate is revised, the cumulative effect of the change will be recognized as expense in the current accounting period and the corresponding liability adjusted.

★130506. For nuclear powered assets (e.g., nuclear submarines and surface ships), the costs of both hazardous waste removal and disposal (environmental disposal) and nonenvironmental disposal, when probable and reasonably estimable, shall be recognized, in accordance with the guidance in paragraph 130108 of this Chapter, as expense, and a liability established, when items are placed into service. The liability will be reduced as costs are paid (including payments for assets acquired for use in disposal activities). Alternatively, the annual accumulation entry may be reversed at the opening of the subsequent fiscal year. In that event, payments will be charged to expense (Account 6100), and the revised expense (Account 6800) and liability estimates will be recognized at the fiscal year-end. Figure 13-1 illustrates the most common liability account entries associated with the recognition of a future funded expense (Account 6800) and the necessary expense reversal upon the performance of cleanup work. Sample entries to record the associated operating expenses/program costs (Account 6100) covered by available budgetary resources are in Section 1706 of Chapter 17 of this Volume. When a cost-to-complete estimate is revised, the cumulative effect of the change will be recognized as expense in the current accounting period and the corresponding liability adjusted.

★ ACCOUNT NO. 2995	
ACCRUED CLEANUP COSTS	
DESCRIPTION: Represents the accumulated current dollar estimate of the future funded hazardous waste removal and disposal costs associated with PP&E.	
DEBIT	CREDIT
<p>1. Reverse expense upon receipt of services.</p> <p>Contra: 6800</p>	<p>1. Record the systematic accumulation of the hazardous waste removal and disposal liability estimate.</p> <p>★ Contra: 6800 7400</p>
NORMAL BALANCE: CREDIT	
FIGURE 13-1	