

## ★CHAPTER 14★

## ★ACCRUED ENVIRONMENTAL RESTORATION (CLEANUP) LIABILITIES★

★1401 GENERAL

★140101. This chapter prescribes the accounting policy and principles for measuring (estimating) and recognizing (recording in the accounting system and reporting in the financial statements) DoD liabilities associated with the containment, treatment, or removal of contamination that could pose a threat to public health and the environment. Liability recognition shall not be based on the availability of funds.

★140102. This chapter does not address a number of other related issues. Accounting for disposal expenses (including hazardous waste removal and disposal) is discussed in Chapter 13 of this Volume. Reporting guidance on liabilities in general is contained in Chapter 4 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 the costs of environmental compliance, pollution prevention, conservation activities, contaminations or spills, or treaty obligations, all of which are accounted for as part of ongoing operations.

★140103. Accrued environmental restoration (cleanup) costs of the Department of Defense (DoD) relate to General Property, Plant, and Equipment (PP&E), including acquired land, and Stewardship Land, as those major asset categories are described in Chapter 6 of this Volume. Environmental restoration activities may be conducted at operating installations, base realignment and closure (BRAC) installations, or at formerly used defense sites (FUDS).

★140104. Environmental restoration cost measurements (estimates) may be prepared at the installation or other organizational level. Cost estimates prepared for this purpose shall include, on a current cost basis, the anticipated costs of the level of effort required to affect the restoration, as well as the costs of complying with associated applicable legal and/or regulatory requirements. Such cost estimates should be based on the current technology 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), or as appropriate when preparing annual reports to Congress. 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).

★140105. Environmental restoration estimates are subject to audit. Cost estimate preparation may involve the application of specialized methods, accumulation and study of historical costs, and the conduct of technical analyses. Estimating tools used must be verified, validated, and determined to be reasonably accurate. 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.

★140106. Cost estimates for some aspects of cleanup activity (e.g., studies, investigations, remedial actions, or monitoring) 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.

★140107. Cost estimates for restoration activities should only be offset by estimated cash proceeds when the proceeds are permitted to be retained and used by the organization that will fund the disposal costs.

★140108. Environmental restoration liability estimates that are material at the reporting level, as identified in Section 01016 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.

1402 **★ACCOUNTING POLICY FOR ACCRUED ENVIRONMENTAL RESTORATION (CLEANUP) COSTS FOR GENERAL PROPERTY, PLANT, AND EQUIPMENT AND STEWARDSHIP LAND**

★140201. Environmental Restoration (cleanup) liabilities shall be measured as described in paragraphs 140202 and 140203 and recognized, as described in paragraphs 140204 of this chapter, as of the reporting date (e.g., fiscal year-end), for locations the DoD is legally obligated to cleanup (environmental restoration) and for locations the Department has entered into agreements to cleanup.

★140202. The Office of the Deputy Under Secretary of Defense for Environmental Security (ODUSD(ES)) issues policy and management guidance addressing most environmental restoration (cleanup) efforts involving the DoD:

A. The Defense Environmental Restoration Program includes active installations and FUDS, and the Base Realignment and Closure Restoration Program for BRAC installations. Environmental restoration (cleanup) activities are further categorized as installation restoration, other hazardous waste (which includes the clearance of ordnance and explosive wastes at FUDS property and of munitions left on closed, transferred, or transferring ranges), and building demolition/debris removal (BD/DR). Management and cost estimating guidance is contained in the document titled, "MANAGEMENT GUIDANCE FOR THE DEFENSE ENVIRONMENTAL RESTORATION PROGRAM."

★B. The ODUSD(ES) management guidance details essential installation level site inventory and reporting requirements (e.g., site identifiers, status, and cost-to-complete estimates). These data requirements are used in preparing installation and FUDS Site Management Action Plans (MAPs) and BRAC Cleanup Plans (BCPs). The ODUSD(ES) uses this information for several purposes including the preparation of budgetary requests and the Defense Environmental

Restoration Program Annual Report to Congress. These site inventories and related estimated cost data also shall be used by the DoD Components as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services as described in Section G of the management guidance cited in the preceding paragraph).

★140203. Estimated environmental restoration costs for General PP&E, and stewardship land that are probable and reasonably estimable shall be recognized as expense (Account 6800) and a liability established. The liability will be reduced as cleanup costs are paid (including payments for assets acquired for use in environmental restoration activities). When an environmental restoration cost-to-complete estimate is revised (e.g., based on a new estimate or through indexing), the cumulative effect of the change shall be recognized as an expense in the 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 next fiscal year-end. Figure 14-1 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 restoration 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.

1403     ★ACCOUNTING POLICY FOR ACCRUED ENVIRONMENTAL RESTORATION (CLEANUP) COSTS FOR POTENTIALLY RESPONSIBLE PARTY SITES

★140301. Potentially responsible sites are contaminated areas that require the DoD to determine the extent to which it or other parties bear responsibility. If the DoD has entered, or is required to enter, into an agreement to provide environmental restoration, such liabilities that are reasonably estimable, shall be measured (as described in this paragraph) and recognized. When a responsibility determination will be resolved in the future, the likelihood of loss must be classified as “probable,” “reasonably possible,” or “remote.” When the likelihood of loss is not reasonably estimable but at least reasonably possible, the nature of the contingency shall be disclosed in the financial statements. When the likelihood of loss is probable and reasonably estimable, the contingency shall be measured and recognized. Restoration cost estimates should include the following cost elements, as appropriate:

★A. Studies, plans and designs, restoration activities, remedial actions, and operations (to include operating and maintenance costs of remedial systems), and the costs of contractors, engineers, and consultants.

★B. Facilities, machinery, and equipment dedicated to a restoration effort that do not have alternative uses, and their associated operating and maintenance costs.

★C. Compensation and benefits of government personnel that devote significant time directly to an environmental restoration effort, to include security and surveillance.

★D. Long-term monitoring.

- ★E. Site closeout and deletion from the National Priority List, where appropriate.

<b>ACCOUNT NO. 2995</b>	
<b>ACCRUED CLEANUP COSTS</b>	
DESCRIPTION: Represents the accumulated current dollar estimate of the future environmental restoration costs associated with General PP&E.	
DEBIT	CREDIT
1. Reverse expense upon receipt of services.  Contra: 6800	1. Record the systematic accumulation of the environmental restoration liability estimate.  Contra: 6800 3310
NORMAL BALANCE: CREDIT	
FIGURE 14-1	