

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

All changes are 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 **December 2011** is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Policy Memo	The Office of the Secretary of Defense (OSD) policy memorandum “Strategy for Environmental and Disposal Liabilities Audit Readiness” dated September 30, 2015 was incorporated as applicable. The memorandum remains available on the Archived Policy Memoranda and on the Office of the Deputy Chief Financial Officer web pages.	Incorporated
Chapter Title	Revised the chapter title to “Environmental and Disposal Liabilities.”	Revision
130102	Added an “Authoritative Guidance” section that includes additional guidance from the OSD energy, installations, and environment community.	Addition
130202	Added additional terms and definitions and enhanced other definitions.	Addition
130203.A	Added guidance addressing cleanup costs in instances where there is no known technology to perform cleanup.	Addition
130203.C	Added guidance addressing cleanup costs associated with ongoing operations.	Addition
130203.D	Added guidance addressing Statement of Federal Financial Accounting Standards 6 requirements and the application of the roll forward methodology.	Addition
Table 13-1	Added accounting treatment options for reporting environmental liabilities existing on or before September 30, 1997.	Addition
Table 13-2	Added accounting treatment options for recording liabilities associated with the cleanup of asbestos existing on or before September 30, 2012.	Addition

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
Table 13-3	Added accounting requirements for assets placed in service after September 30, 1997 for non-asbestos related liabilities and after September 30, 2012 for asbestos related liabilities.	Addition
130203.E.1	Added the authoritative source for the Environmental Protection Agency exemption for military munitions on a military range from the definition of solid waste.	Addition
130203.E.2	Added guidance for determining the obsolescence of conventional munitions.	Addition
130203.E.3	Added clarifying sentence for the recognition of environmental liabilities for stockpile and non-stockpile chemical agents and munitions inventory, and buried chemical agents and munitions.	Addition
130203.E.7	Added guidance for estimates of both friable and non-friable asbestos.	Addition
130203.F	Added clarifying requirements for the financial reporting of environment liabilities by DoD Components.	Addition
130204	Added guidance addressing required environmental liability disclosures.	Addition
130205.A.6 and 130205.A.7	Added additional guidance involving accounting estimates for environmental liability.	Addition
130205.B.1	Added additional guidance for environmental liability estimates based upon a site-specific study.	Addition
130205.B.4	Added additional guidance for environmental liability estimates using cost models.	Addition
130205.C.12	Added guidance for program management costs.	Addition
130205.D	Added requirements involving use of roll forward procedures and supporting documentation for liability expenditures.	Addition
130205.F - H	Added guidance for completeness of recorded environmental liabilities including establishment and maintenance of a complete and current site universe.	Addition
130205.I	Added guidance for environmental liabilities associated with equipment.	Addition
Table 13-4	Revised the environmental cleanup cost accounting entries using the United States Standard General Ledger accounts.	Revision
Figure 1	Added a roll forward decision tree for event-driven liabilities.	Addition
Appendix A	Added a quantitative approach to determine significant amounts in the roll forward period.	Addition

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CHAPTER 13

ENVIRONMENTAL AND DISPOSAL LIABILITIES

1301 GENERAL

130101. Purpose

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

*130102. [Authoritative Guidance](#)

A. This chapter implements applicable provisions of:

1. [Statement of Federal Financial Accounting Standards \(SFFAS\) 1](#), “Accounting for Selected Assets and Liabilities;”
2. [SFFAS 5](#), “Accounting for Liabilities of The Federal Government”;
3. [SFFAS 6](#), “Accounting for Property, Plant, and Equipment”;
4. Federal Accounting Standards Advisory Board (FASAB) [Technical Bulletin \(TB\) 2006-1](#), “Recognition and Measurement of Asbestos-Related Cleanup Costs,” amended by FASAB under [TB 2011-2](#), “Extended Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs”;
5. Federal Financial Accounting and Auditing Technical Release [\(TR\) 2](#), “Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government”;
6. [TR 10](#), “Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment”;
7. [TR 11](#), “Implementation Guidance on Cleanup Costs Associated with Equipment”;
8. [TR 14](#), “Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment”;
9. Office of Management and Budget (OMB) [Circular A-136](#), “Financial Reporting Requirements”;

10. [Title 42 United States Code \(U.S.C.\) Section 11411](#), “Use of Unutilized and Underutilized Public Buildings and Real Property to Assist the Homeless”;
11. [50 U.S.C. § 1521](#), “Destruction of Existing Stockpile of Lethal Chemical Agents and Munitions”;
12. Statement on Auditing Standards (SAS) Number 122/[AU-C Section 540](#), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”;
13. [Treasury Financial Manual \(TFM\)](#) – United States Standard General Ledger (USSGL);
14. [DoD Directive 5530.3](#), “International Agreements”;
15. [DoD Instruction \(DoDI\) 5015.02](#), “DoD Records Management Program”;
16. [DoDI 4165.14](#), “Real Property Inventory (RPI) and Forecasting”;
17. [DoDI 4715.05](#), “Environmental Compliance at Installations Outside the United States”;
18. [DoDI 4715.07](#), “Defense Environmental Restoration Program (DERP)”;
19. [DoDI 4715.08](#), “Remediation of Environmental Contamination Outside the United States”;
20. [DoDI 5000.61](#), “DoD Modeling and simulation (M&S) Verification, Validation, and Accreditation (VV&A)”;
21. [DoDI 5000.64](#), “Accountability and Management of DoD Equipment and Other Accountable Property”; and
22. [DoD Manual \(DoDM\) 4715.20](#), “Defense Environmental Restoration Program (DERP) Management”.

B. This chapter does not address roles and responsibilities in the preparation of financial reports and budget formulation for environmental liabilities. In addition, it does not describe different types of property, plant and equipment (PP&E) or provide technical environmental guidance.

1. Refer to Volumes 2A and 2B for guidance on budget formulation.
2. Refer to Chapter 6 for descriptions of the different types of PP&E discussed in this chapter.
3. Refer to Volume 6A, Chapter 2 for guidance on roles and responsibilities in the preparation of financial reports.
4. Refer to the guidance issued by the Office of the Assistant Secretary of Defense (Energy, Installation and Environment) for technical guidance: DoDM 4715.20.

1302 ACCOUNTING POLICY FOR ENVIRONMENTAL LIABILITIES

130201. 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.

*130202. Definitions

A. Asset-Driven Liability. An asset driven liability is an environmental and disposal liability resulting from future disposal associated with DoD PP&E asset closure or disposal that involves the 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.

B. Baseline. The baseline as used in this chapter refers to 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.

C. Cost Model. A cost model as used in this chapter refers to 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.

D. Cost-to-Complete (CTC). As used in this chapter, 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 estimates also include program management costs.

E. DoD Component. As used in this chapter, a 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.

F. 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”.

G. Environmental Cleanup, Closure, and/or Disposal Costs. For financial statement reporting purposes, the term “environmental cleanup costs” include 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, include removing, containing, and/or disposing of hazardous waste from real property 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, cleanup costs may include, but are not limited to: decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs related to DoD operations that result in hazardous waste. Cleanup costs do not include costs such as those resulting from accidents or where cleanup is an ongoing part of operations. Guidance in SFFAS 6 for environmental liabilities does not apply to these other types of cleanup since the cleanup effort is not deferred until operation of the associated PP&E ceases either permanently or temporarily.

H. Environmental Liabilities. For financial reporting purposes, a DoD environmental liability is an expected future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup, closure, and/or disposal costs resulting from past transactions or events. A DoD environmental liability exists when: (1) contamination is present or more than 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.

I. Environmental Liability Site Universe. As used in this chapter, the environmental liability site universe refers to all sites identified after performing a due care approach to determine if “probable” and “reasonably estimable” criteria outlined in TR 2 have been met.

J. Environmental Site. An environmental site is a real property asset or combination of assets with a discrete location(s) for which there is an environmental issue that requires evaluation. .

K. 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.

L. 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 that result in a release requiring cleanup action. Examples of an event-driven liability include: liabilities funded by DERP or Base Realignment and Closure (BRAC), and environmental corrective action.

M. Friable Asbestos. Friable asbestos is any material containing more than one percent asbestos that, when dry, can be crumbled, pulverized, or reduced to powder by hand pressure.

N. Hazardous Waste. According to SFFAS 6, Paragraph 86, hazardous waste is a solid, liquid, or confined gaseous waste, or combination thereof, which 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 from the ***Resource Conservation and Recovery Act*** and any materials FASAB specifically identifies as hazardous waste such as the hazardous air pollutant asbestos. Hazardous substances as defined under the ***Comprehensive Environmental Response, Compensation, and Liability Act*** are generally also hazardous wastes.

O. Non-Friable Asbestos. 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.

P. Non-routine Environmental and Disposal Liability. As used in this chapter, a non-routine environmental and disposal liability refers to 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.

Q. 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 events occurs, a "permanent" removal of an asset from service has not occurred.

R. Probable. As used in this chapter, probable means that which can reasonably be expected or is believed to be more likely than not to occur 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.

S. Real Property. 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).

T. Reasonably Estimable. Reasonably estimable is the ability to quantify reliably, in monetary terms, the outflow of resources that will be required. 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.

U. 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).

V. Roll Forward Procedures. Roll forward procedures is a documented process for bridging the timing gap between June 30 and September 30 to determine if any significant changes to environmental liabilities have occurred between June 30 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.

W. Routine Hazardous Waste Disposal. When estimating future environmental cleanup costs associated with equipment disposals, routine hazardous waste disposal refers to waste

that is regulated and managed in the same manner as the disposal of hazardous waste from day to day operations and which is performed on a regular basis (see TR 11). Routine hazardous waste disposal is not recognized as an environmental liability (per SFFAS 6, Paragraph 93).

X. Transaction Level Detail Reports. As used in this chapter, transaction level detail reports represent system automated reports that identify details supporting summary values reported on DoD Component financial statements. For event-driven liabilities, transaction level detail reports could include, but are not limited to: (1) environmental and disposal liability system summary reports outlining individual site level and (2) program management level CTC transactions and accounting system summary reports outlining unliquidated obligations as of September 30 across open contracts. For asset-driven liabilities, transaction level detail reports could include, but are not limited to, cost model outputs at the asset level.

Y. Unliquidated Obligation (ULO) Balance. As used in this chapter, ULO represents the total amount of obligated funding associated with environmental liability cleanup not yet disbursed as of the end of a given fiscal year.

130203. Environmental Liability Recognition

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

* A. Environmental liabilities must be recognized on the financial statements for probable and reasonably estimable future outflows or expenditure of resources for environmental cleanup, closure, and/or disposal actions, 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; 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 130205.B).

B. 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 of liabilities arising from litigation claims.

* C. Cleanup costs associated with ongoing operations such as routine hazardous waste disposal or accidents such as an oil spill are not considered environmental liabilities and must be recognized as a current operating expense, assuming the DoD Component completes the cleanup, closure and/or disposal action in the current reporting period. If the DoD Component does not complete the cleanup, closure and/or disposal action within the current reporting period, 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.

* D. Environmental liabilities are generally recognized in accordance with SFFAS 6. The requirements of SFFAS 6 relating to environmental liabilities are supplemented by the following additional FASAB standards and pronouncements: SFFAS 1; SFFAS 5; TB 2006-1; TR 2; TR10; TF11 and TR 14.

1. 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, DoD Components must record environmental liabilities 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 for Initial Implementation for Liabilities Existing on or Before September 30, 1997

Environment and Disposal Liability	Accounting Treatment
Option 1	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. In each subsequent year of the asset's useful life, recognize a proportionate amount of the remaining costs.
Option 2	If costs are not intended to be recovered primarily through user charges, management may elect to recognize the estimated total (ultimate) cleanup cost as a liability upon implementation of the standard (SFFAS 6, Paragraph 104).

*Table 13-2. Cleanup Cost Liability Options for Asbestos for Initial Implementation for Liabilities Existing on or Before September 30, 2012

Asbestos	Accounting Treatment
Option 1	Record a liability for estimated cleanup costs equal to the portion of the estimated useful life of the asset that has passed since the PP&E was placed in service. In each subsequent year of the asset's useful life, recognize a proportionate amount of the remaining costs.
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.

2. Accounting for estimated environmental liabilities subsequent to initial implementation of SFFAS 6 or TB 2006-1 as amended by TB 2011-2 must be recorded as described in Table 13-3.

*Table 13-3. Cleanup Cost Liability Treatment for Assets Placed in Service After September 30, 1997 for Non-Asbestos Related Liabilities and 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	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. Recognition of the expense and accumulation of the liability shall 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.
Asbestos	After September 30, 2012	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. Recognition of the expense and accumulation of the liability shall 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.

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. 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.

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 130205.D).

5. Environmental liabilities reported in the financial statements must reflect the liability as of the current 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. 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.

6. 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:

a. 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.

b. 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.

c. 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.

d. 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 Note 14 balances as of September 30, the documented process for arriving at that determination will need to be available for auditors' review.

7. 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.

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

9. For asbestos-related environmental liabilities (both friable and non-friable) associated with PP&E, the effective date for which systematic recognition of the liability is required is based on the effective date of the implementing requirement (i.e., TB 2006-1 amended by TB 2011-2). 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.

10. Asbestos-related environmental liabilities associated with PP&E placed in service prior to October 1, 2012 (the effective implementation date for TB 2006-1), must be recognized for the portion of the estimated total cleanup, closure and/or disposal cost of the estimated useful life that has passed from the date the PP&E was placed in service through September 30, 2012. The remaining cost must be recognized in a systematic and rational manner based on use of the physical capacity whenever possible or useful life of the associated PP&E. However, if the PP&E has been in service for a substantial portion (greater than 50%) of its estimated useful life, the estimated total cleanup, closure and/or disposal cost may be recognized in full in the initial year the liability is recorded, unless the costs are intended to be recovered through user charges.

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

* 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 in Title 40 Code of Federal Regulations, Environmental Protection Agency § 266.202 (the EPA regulation). The EPA regulation effectively excludes military munitions on a military range from the definition of solid waste until a formal decision to close the range occurs or the munitions discharge migrates off the military range.

* 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. 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.](#)

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 130202.Q 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.

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.

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 defending any materiality determinations.

* 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:

- a. Asbestos-containing materials from property, or

b. 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 subparagraphs 130203.D.9 and 130203.D.10. 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.

* F. The DoD Component having the responsibility (by law, statute, agreement, or DoD policy) for funding the environmental liability **must** report the associated expense and liability on its financial statements. The determination of the liability amount **must** be in accordance with applicable pronouncements (see paragraph 130205). The DoD Component recording the environmental liability **must** have sufficient supporting documentation to establish its responsibility for the liability. The DoD Component responsible for the physical cleanup and disposal **must** be the entity that estimates, tracks, revises, and monitors the liability. In most instances, this will be the same entity as the entity responsible for funding the environmental and disposal liability. If that is not the case, then the “non-funding” entity **must** provide the cost and liability information to the funding entity to record in the funding entity’s financial statements.

G. Environmental liabilities are generally based on accounting estimates that are discussed in paragraph 130205. Recognition of necessary adjustments to accounting estimates used in establishing environmental liabilities follows:

1. The cumulative effect of changes in cost estimates is recognized as an expense in the current accounting period and the corresponding liability is adjusted. These accounting transactions are provided in Table 13-4. Additionally, the related cleanup cost for the current period **must** be expensed and accrued as an environmental liability. Refer to subparagraph 130302 for the appropriate accounting transactions.

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.

H. 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 subparagraph 130204 for disclosure requirements of estimates that are based on uncertainty.

*130204. Environmental Liability Disclosures

A. Financial statement disclosures provide pertinent information in notes or narratives about the amounts reported on the face of the financial statements. (Refer to Volume 6B, Chapter 10 for [guidance](#) on completing the financial statement notes.) [Disclosure requirements for liabilities, including environmental liabilities, differ depending on how the likelihood that a loss or an additional loss has been incurred by an entity is classified and also whether the loss is reasonably estimable. 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.](#)

B. [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:

1. The sources (list applicable laws and regulations) of cleanup, closure, and/or disposal requirements;
2. The method for assigning estimated total cleanup, closure, and/or disposal costs to current operating periods (i.e., based on consumed useful life or physical capacity of the assets);
3. The unrecognized amounts of environmental liabilities for assets that require the systematic recognition of the total estimated cleanup, closure, and/or disposal costs. The DoD Component [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;
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](#);
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
6. A description of the type of environmental liability identified.

C. Environmental liabilities that 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, financial statement disclosure is required. 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.

D. 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.

E. 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.

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:

- a. New budget authority;
- b. Unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year;
- c. Spending authority from offsetting collections (credited to an appropriation or fund account); and
- d. Recoveries of unexpired budget authority through downward adjustments of prior year obligations.

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. 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.

F. 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.

130205. Environmental Liability Estimates

A. Environmental liabilities are generally developed based on accounting estimates, because the extent of the environmental cleanup, closure, and/or disposal costs cannot be determined until completing cleanup/disposal operations. The DoD Component's responsible program management function and accounting function **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:

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. Comparing prior accounting estimates to actual results and with new estimates to assess the reliability of the process used to develop estimates;
- * 7. Determining that the accounting estimate is consistent with the operational plans of the entity; and
8. Determining that the accounting estimate is presented in conformity with applicable accounting principles and that disclosure is adequate.

B. The environmental cleanup, closure, and/or disposal costs that are probable and reasonably estimable must be estimated based on site-specific information using engineering estimates, comparison with similar sites, **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 130203](#) and any uncertainty disclosed in the notes to the financial statements.

* 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 ULO transaction level details does not need to be at the site level. In such circumstances, contracts and invoices supporting the ULO transaction level details for the combined multiple sites must be retained to support future audit requirements.](#)

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 130203](#) until they complete the site-specific study.

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 130203](#). The DoD Component [must](#) also disclose the range of uncertainty in the notes to the financial statement.

* 4. [When leveraging cost models to develop cost estimates, DoD Components should:](#)

a. [Accumulate relevant, sufficient, and reliable data on which accounting estimates for a given environmental and disposal liability concern were based;](#)

b. [Ensure estimates are prepared by qualified personnel and adequately reviewed and approved by the appropriate levels of authority before being finalized;](#)

c. 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 shall 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 shall be driven by the impact that new information has on existing estimates;

d. 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));

e. 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

f. 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.

C. 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:

1. Compensation and benefits of government personnel expected to devote significant time directly to a disposal effort;
2. Cost of employing contractors, engineers, and consultants;
3. Disposal costs (includes demilitarization, material handling, transportation, storage, and tipping fees);
4. Cost of dedicated facilities, machinery, and equipment, and the related operating and maintenance costs;
5. Research and development costs for alternative remediation technologies;
6. Payments to regulatory agencies to provide technical support (e.g., document review of planned studies);

7. Efforts to tear down, remove, and dispose of the item(s), to include transportation, demilitarization, and dismantlement;
8. Planning and design efforts, to include contract advertisement and document reproduction;
9. Landscaping costs to replace landscaping elements damaged or destroyed by remediation efforts;
10. Permits, licenses, and approval to include State Historic Preservation Officer concurrence and documentation. Also included are screening costs of suitable property for the homeless, as established by 42 U.S.C. § 11411;
11. Grants or payments to state, tribal, and local governments; and

* 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 upon 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 the 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.

* D. 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 subparagraph 130203.D.5).** 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. Once the cost estimates are reviewed and adjusted, the estimated liability **must** be reduced by the amounts that are paid. 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.**

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

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

* F. 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 (i.e., baseline):

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

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

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

* H. When implementing guidance outlined in subparagraphs 130205.F and 130205.G, DoD Components must establish and maintain environmental and disposal liability universe baselines for event-driven and asset-driven environmental liabilities:

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 and that there are sufficient procedures in place to maintain currency over the baseline. Documentation must be readily available to support the baseline, allowing auditors to verify the completeness of established cleanup site universes.

2. Asset-driven environmental liabilities. DoD Components could rely more heavily upon PP&E asset universes 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 could begin by considering the entire PP&E asset universe and demonstrate why individual subcategories are not applicable.

* I. 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:

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

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. 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.

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

1303 ACCOUNTING PROCEDURES FOR RECORDING ENVIRONMENTAL LIABILITIES

This section illustrates the use of the applicable USSGL accounts for recording the proprietary and budgetary transactions for environmental liabilities. Refer to the Deputy Chief Management Office [Standard Financial Information Structure](#) website for the DoD Standard Chart of Accounts (including point accounts) and the Transaction Library.

130301. Estimated Cleanup Cost Liability (USSGL Account 299500)

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

1. Hazardous waste from property; or
2. Material and/or property consisting of hazardous waste at a permanent or temporary closure or shutdown of the associated **PP&E**.

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

130302. Environmental Liability Accounting Entries

The accounting entries depicted in Table 13-4 illustrate the entries that **must** be used to record transactions for environmental liabilities.

*Table 13-4. Accounting Entries (Adapted from U.S. Standard General Ledger – Implementation Guidance – *Environmental Cleanup Costs*) for Account USSGL 299500 – Estimated Cleanup Cost Liability

1. In year 1, assume a PP&E with a useful life of 3 years is acquired and it is known to produce hazardous waste. The estimated cleanup cost is \$120,000. Assume cleanup will start when PP&E cease its operation. $\$120,000/3 \text{ years} = \$40,000 \text{ per year}$

Year 1:

Dr 680000 Future Funded Expenses 40,000

Cr 299500 Estimated Cleanup Cost Liability - NC* 40,000

2. In year 2, a reestimate of the cleanup cost indicated that the cost will be more than what was originally estimated by \$60,000. Total cleanup cost = \$120,000 (original amount) + \$60,000 (additional estimated costs) = \$180,000.

$\$60,000/3 \text{ (3 years)} = \$20,000 \times 2 \text{ (year 1 and year 2 need to be recovered)} = \$40,000$
 $\$40,000 \text{ (original estimate)} + \$40,000 \text{ (calculated reestimate for year 1 and year 2 need to be recovered)} = \$80,000$

Year 2:

Dr 680000 Future Funded Expenses 80,000

Cr 299500 Estimated Cleanup Cost Liability – NC* 80,000

3. In year 3, record annual estimated cleanup cost.

Year 3:

Dr 680000 Future Funded Expenses 60,000

Cr 299500 Estimated Cleanup Cost Liability – NC*
60,000

(\$40,000 original annual cost estimate + \$20,000 additional cost estimate determined in year 2 = \$60,000)

4. Assume the agency receives funding for the cleanup cost in Year 4 in the amount of \$50,000.

Year 4:

Dr 101000 Fund Balance With Treasury 50,000

Cr 310100 Unexpended Appropriations – Appropriations Received 50,000

Dr 299500 Estimated Cleanup Cost Liability – NC* 50,000

Cr 299500 Estimated Cleanup Cost Liability – C* 50,000

Dr 411900 Other Appropriations Realized 50,000
Cr 445000 Unapportioned Authority 50,000
Dr 445000 Unapportioned Authority 50,000
Cr 451000 Apportionments 50,000
Dr 451000 Apportionments 50,000
Cr 461000 Allotments – Realized Resources 50,000

5. In year 4, contractor A started and completed his portion of the cleanup and billed the agency for \$20,000.

Year 4:

Dr 299500 Estimated Cleanup Cost Liability – C *20,000
Cr 211000 Accounts Payable 20,000
Dr 310700 Unexpended Appropriations - Used 20,000
Cr 570000 Expended Appropriations 20,000
Dr 461000 Allotments – Realized Resources 20,000
Cr 480100 Undelivered Orders – Obligations, Unpaid 20,000
Dr 480100 Undelivered Orders – Obligations, Unpaid 20,000
Cr 490100 Delivered Orders – Obligations, Unpaid 20,000

6. In year 4, the agency makes a partial payment of \$10,000 to contractor A.

Year 4:

Dr 211000 Accounts Payable 10,000
Cr 101000 Fund Balance With Treasury 10,000
Dr 490100 Delivered Orders – Obligations, Unpaid 10,000
Cr 490200 Delivered Orders – Obligations, Paid 10,000

7. In year 4, contractor B was hired to perform additional cleanup for \$5,000.

Year 4:

Dr 461000 Allotments – Realized Resources 5,000

Cr 480100 Undelivered Orders – Obligations, Unpaid 5,000

* NC = Not Covered by Budgetary Resources

C = Covered by Budgetary Resources

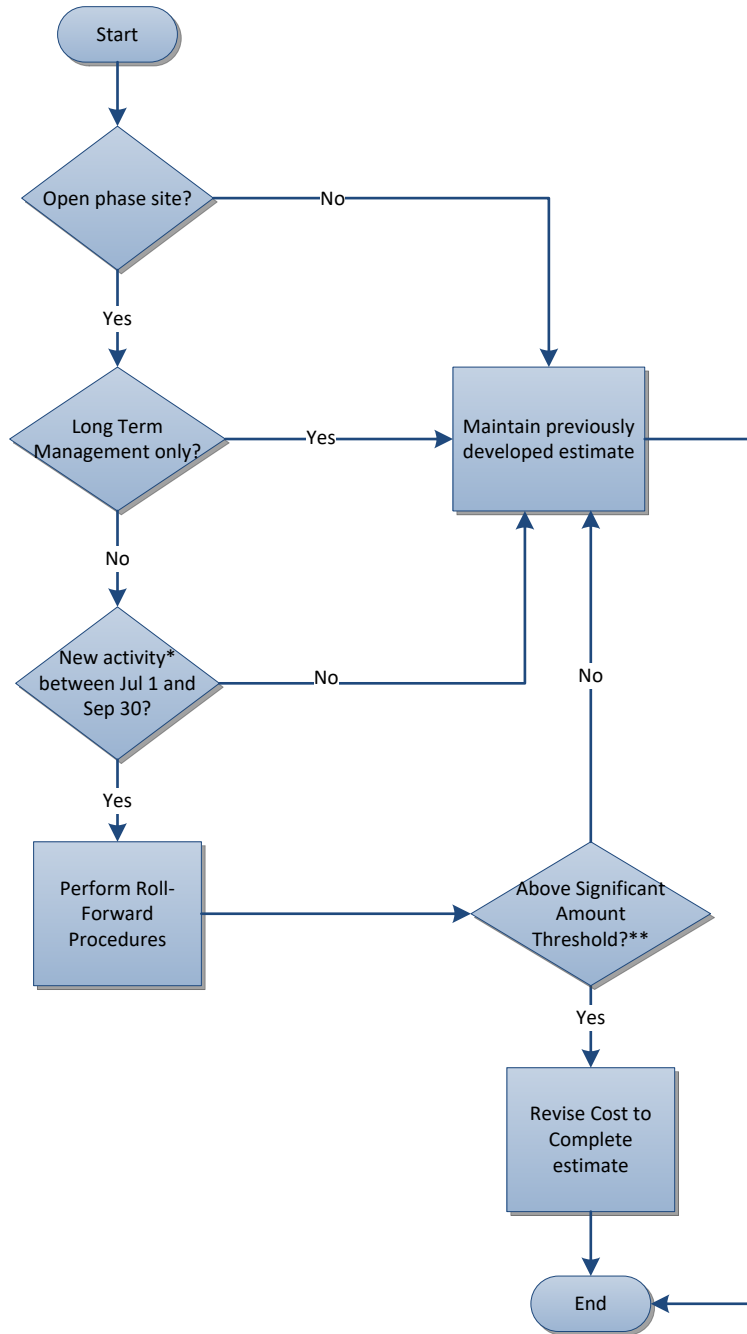
Statements for Year 4

<i>Proprietary Pre-Closing Trial Balance – Year 4</i>			
101000	Fund Balance with Treasury	40,000	
211000	Accounts Payable		10,000
299500	Estimated Cleanup Cost Liability - NC		130,000
299500	Estimated Cleanup Cost Liability - C		30,000
310100	Unexpended Appropriation – Appropriations Received		50,000
310700	Unexpended Appropriation - Used	20,000	
570000	Expended Appropriations		20,000
331000	Cumulative Results of Operations	180,000	
<i>Budgetary Pre-Closing Trial Balance – Year 4</i>			
411900	Other Appropriations Realized	50,000	
461000	Allotments – Realized Resources		25,000
480100	Undelivered Orders – Obligations, Unpaid		5,000
490100	Delivered Orders – Obligations, Unpaid		10,000
490200	Delivered Orders – Obligations, Paid		10,000

<i>Closing Entries – Year 4</i>			
570000	Expended Appropriations	20,000	
331000	Cumulative Results of Operations		20,000
310100	Unexpended Appropriation – Appropriations Used	50,000	
310700	Unexpended Appropriation – Used		20,000
310000	Unexpended Appropriations - Cumulative		30,000
420100	Total Actual Resources - Collected	40,000	
411900	Other Appropriations Realized		50,000
490200	Delivered Orders – Obligations, Paid	10,000	
461000	Allotments – Realized Resources	25,000	
445000	Unapportioned Authority		25,000

Balance Sheet – Year 4			
Asset			
101000	Fund Balance with Treasury	40,000	
Liabilities			
211000	Accounts Payable		10,000
299500	Estimated Cleanup Cost Liability		160,000
Net Position			
310000	Unexpended Appropriations-Cum		30,000
331000	Cumulative Results of Operations	160,000	

*Figure 1. Roll Forward Decision Tree for Event-Driven Environmental Liabilities



*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	\$XXXXX
Multiply by 1% Materiality ²	x .01 \$XXXXX
Multiply by no more than 3% ³	x .03
Significant Amount Threshold	<u>\$XXXXX</u>

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.