



United States Department of the Interior

OFFICE OF THE SECRETARY
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To: Bureau Chief Financial Officers

From: Douglas A. Glenn 
Deputy Chief Financial Officer and Director
Office of Financial Management

Subject: Accounting Guidance for the Recognition of Liability and Related Expenses for Asbestos-Related Cleanup Costs Associated with Real Property

The Statement of Federal Financial Accounting Standards (SFFAS) No. 6: *Accounting for Property, Plant, and Equipment*, requires Federal agencies to recognize a liability for cleanup costs associated with hazardous waste removal, containment, or disposal and provides guidance on inter-period cost allocation for cleanup costs. Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, restates the requirements in SFFAS No. 6 and specifically applies them to asbestos. It clarifies the required reporting of liabilities and the related expenses arising from asbestos-related cleanup costs for Federal agencies. Technical Bulletin 2009-1 deferred the effective date of Technical Bulletin 2006-1 to fiscal year (FY) 2012, and Technical Bulletin 2011-2 further deferred the implementation to FY 2013. In Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*, the Federal Accounting Standards Advisory Board (FASAB) provides additional clarification of SFFAS No. 6 and Technical Bulletin 2006-1 for identification and recognition of asbestos-related cleanup costs. It also provides various methodologies for identifying and recognizing asbestos liabilities associated with Federal real property.

In Technical Bulletin 2006-1, FASAB defines asbestos-related cleanup costs as the costs of removing, containing, and/or disposing of asbestos-containing materials from property or material and/or property that consist of asbestos-containing material at permanent or temporary closure or shutdown of associated property, plant, and equipment (PP&E). It requires the recognition of a liability and related expense for asbestos-related cleanup costs that are both probable and reasonably estimable. Note that the asbestos-related cleanup liability does not include cleanup costs related to a release of asbestos into the environment. If a release were to occur, any future costs should be reported as an environmental and disposal liability. See the Department's *Environmental and Disposal Liabilities Identification, Documentation and Reporting Handbook Version 3*, for details on identifying and reporting environmental and disposal liabilities.

This memorandum, *Accounting Guidance for the Recognition of Liability and Related Expenses for Asbestos-Related Cleanup Costs Associated with Real Property*, provides guidance on the

recognition of the liability and the related expenses for the estimated asbestos-related cleanup costs for real properties owned by the Department of the Interior (the Department). It also provides guidance on the financial statement note disclosure related to asbestos.

Implementation Approach

According to bureau asset records in FY 2012, the Department owns more than 143,000 real property assets. A majority of these assets are exempted from asbestos-related cleanup liability reporting due to the asset group not likely to contain asbestos (e.g., land) or the non-asbestos containing materials used in the assets. For the remaining non-exempt assets, the Department chooses a cost modeling approach as a cost-effective means to estimate the asbestos cleanup costs. The model is based on the bureaus' existing asbestos surveys from which cost factors were developed. Details on the cost factor development and the estimation methodology are found in the *Department of the Interior Asbestos Liability Reporting Methodology and Guidance* document (see attachment).

In FY 2013, all bureaus have been deployed to the Financial and Business Management System (FBMS) except for the Bureau of Reclamation, which will be deployed in FY 2014. To utilize the capability of FBMS, the Department implemented the asbestos liability reporting in FBMS using data elements in the real property module, including Legal Interest, Current User Status, System Status, DOI Asset Code or Main Usage Type, Survey Conducted, Asbestos Present, Construction Completion Date, and Gross Square Feet. The Department will provide the cost factors and the average survey cost to FBMS to be uploaded. The cost factors will be applied to the bureaus' inventories of non-exempt real property that are measured in square feet and the average survey cost to those not measured in square feet to estimate the bureaus' asbestos related cleanup costs liability per the Department's asbestos liability reporting methodology and guidance.

Asbestos-related Cleanup Liability Recognition Point

Per SFFAS No. 6 and Technical Bulletin 2006-1, Federal entities should amortize the cleanup costs over the useful life of the General PP& E and expense the cleanup costs for stewardship or heritage assets upon implementation of Technical Bulletin 2006-1. The Department performed a useful life analysis on Department-owned real property assets using bureau real property data as of June 30, 2011. According to the analysis, approximately 93 percent of the non-exempt assets (i.e., assets that do not have a basis for exemption from reporting an asbestos cleanup liability) will be fully depreciated in FY 2013, when Technical Bulletin 2006-1 became effective. Of the 7 percent that will not be fully depreciated in FY 2013, approximately 88 percent will be at least 80 percent depreciated. Since these assets have been in service for a substantial portion of their estimated useful lives, the Department elects to recognize the total estimated clean-up costs for General PP&E as a liability upon implementation of Technical Bulletin 2006-1, instead of amortizing the cleanup costs as required by SFFAS No. 6. Thus, the Department will recognize the asbestos cleanup liability in the same manner for General PP&E and stewardship or heritage assets.

Recognition of Asbestos-Cleanup Liability upon Implementation of Technical Bulletin 2006-1 in FY 2013

Upon implementation of Technical Bulletin 2006-1 in first quarter, FY 2013, bureaus will recognize a liability for their total asbestos-related cleanup costs associated with non-exempt owned assets as of October 1, 2012. The offsetting charge will be to Net Position. The following entries will be recorded in the bureaus' General Ledger in FBMS for the bureau's asbestos cleanup liability:

Debit SGL 7401.B0000 Prior-Period Adjustments – Asbestos Cleanup Cost; and
Credit SGL 2995.Y0000 Estimated Cleanup Cost Liability – Asbestos.

For bureaus that are making a Hyperion adjustment, the following SGLs will be used to record the journal entries:

740B Prior-Period Adjustments – Asbestos Cleanup Cost; and
299Y Estimated Cleanup Cost Liability – Asbestos.

Change in Asbestos-Related Cleanup Liability during FY 2013

During FY 2013, various changes, including populating the fields with missing data that were not mandatory in the FBMS D7 deployment, were made that affected the asbestos cleanup liability. As a result, the change in the liability during FY 2013 is more likely to be the result of updates in the data elements rather than the change in the real property portfolio. For this reason, all changes in the asbestos cleanup liability during FY 2013 will be charged to prior-period instead of the current operating period.

Adjustments to the Asbestos-Related Cleanup Liability for changes on or after October 1, 2013

On or after October 1, 2013, changes in the asbestos cleanup liability will be charged to current operations instead of prior operations. The following journal entries will be used to record the increase or decrease in asbestos cleanup liability in FBMS:

To record an increase in the liability:

Debit SGL 6800.00000 Future Funded Expenses; and
Credit SGL 2995.Y0000 Estimated Cleanup Cost Liability – Asbestos.

To record a decrease in the liability:

Debit SGL 2995.Y0000 Estimated Cleanup Cost Liability – Asbestos; and
Credit SGL 6800.00000 Future Funded Expenses.

In FY 2014, the FBMS Business Planning and Consolidation (BPC) Reporting Tool will replace Hyperion so there will not be Hyperion adjusting entries after FY 2014.

The following sections describe various scenarios where the asbestos cleanup liability may be increased or decreased. The net increase or decrease in the bureau's total liability in the accounting period will be recognized.

I. Assets placed in service on or after October 1, 2013

Bureaus should follow the Department's guidance set forth in the *Department of the Interior Asbestos Liability Reporting Methodology and Guidance* on estimating the asbestos cleanup costs associated with assets placed in service on or after October 1, 2013. These assets include assets built, purchased, donated, or transferred in from entities outside the Department. If an asset is determined to be non-exempt for asbestos cleanup liability reporting, the liability will be increased by the appropriate cost factor multiplied by the gross square footage of the asset if it is a building, or by the average survey cost if it's a structure.

II. Renovations

Due to the difficulty associated with estimating the reduction in liability for partial renovations, bureaus may reduce the asbestos cleanup liability for non-exempt assets only when a complete renovation on the asset has occurred and facilities management can confirm that the asset is either free of asbestos-containing materials or no additional cleanup cost related to asbestos will be incurred. Any asbestos cleanup liability associated with assets with complete renovations will be removed. Bureaus should keep appropriate documentation to support the reduction in liability readily available for the Department's or the auditors' review.

III. Cost Factor and Average Survey Cost Refinement (with inflation or deflation built-in)

The Department's asbestos cleanup liability estimate is based on cost factors and average survey cost derived from surveys conducted by the bureaus. To refine the cost factors and the average survey cost, the Department will request annually that bureaus submit any new survey data for analysis. The Department will analyze the complete set of survey data and develop new cost factors and a new average survey cost as appropriate. The new cost factors and the new average survey cost will be adjusted for inflation or deflation for the following fiscal year. The inflation or deflation factor will be developed from the RS Means Historical Cost Indexes which are available at:

<https://www.meanscostworks.com/references/UNIT/REFPDF/hci.pdf>.

RS Means is a division of Reed Business Information that provides cost information to the construction industry in order for entities to provide accurate estimates and a projection for their project costs. The RS Means Historical Cost Indexes are not available until July and inflation or deflation needs to be applied at the beginning of the fiscal year. The Department will use the average of the past five year indexes to generate the inflation or deflation factor.

The Department will assess if any change in cost factors will have a material effect on the total asbestos cleanup liability for the Department. If the change is determined to be material, Net Position should be adjusted for the increase or decrease. If the change is determined to be immaterial, the change in liability may be charged to current operations. The Department will provide the new cost factors and the new average survey cost to FBMS to be uploaded and applied in the new fiscal year and guidance to the bureaus on what general ledger accounts to charge in the fourth quarter of the current fiscal year.

In the case that the change in total asbestos cleanup liability is material, the amount of the adjustment to Net Position will be shown as a “Prior-Period Adjustment” in the Statement of Changes in Net Position, and also disclosed in the “Restatement” note to the financial statements.

IV. Change in Asset Ownership on or after October 1, 2013

When there is a change in ownership of an asset from Department owned to non-Department owned after the implementation of Technical Bulletin 2006-1, the asbestos cleanup liability associated with that asset will be removed from the bureau or Department’s total asbestos cleanup liability. Change in ownership occurs when an asset is sold, donated, or transferred to another bureau or to an entity outside the Department. Note that if the receiving entity is another bureau within the Department, the receiving bureau will need to follow the guidance on Section I: Assets Placed in Service on or after October 1, 2013.

Bureaus should maintain the documentation for change in asset ownership to support the change in liability.

V. Asset Demolition or Disposal on or after October 1, 2013

When an asset is demolished or disposed of, the bureau no longer has an asbestos cleanup liability associated with that asset and any previously accrued liability should be removed from the bureau’s books.

Costs associated with asbestos cleanup during the demolition for disposal will be treated as current year expenses.

Financial Statements and Note Disclosure

The implementation of Technical Bulletin 2006-1 will affect the following financial statements and note disclosure:

- Financial Statements
 - Balance Sheet - The asbestos cleanup liability will be shown as a liability on the balance sheet.
 - Statement of Change in Net Position (SCNP) – In FY 2013, the cumulative effect of the change on prior periods will be reported as a “Prior-Period Adjustment Due

to Change in Accounting Principle”, and the adjustment will be made to the beginning balance of cumulative results of operations in the SCNP.

Financial statements presented for comparative purposes should be presented as previously reported.

- Note Disclosure

Technical Bulletin 2006-1 requires note disclosure for material changes in total estimated asbestos-related cleanup costs due to changes in laws, technology, or plans, and the nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations. The following will be disclosed in the Department’s notes to the financial statements:

- **Summary of Significant Accounting Policies Note**

The Department’s policies related to the asbestos cleanup liability reporting such as implementation approach and assumptions will be disclosed in the Summary of Significant Accounting Policies note.

- **Liabilities Analysis Note**

The asbestos cleanup liability will be shown in the Liabilities Analysis note as Non-Current, Not Covered by Budgetary Resources. The following will be disclosed in the Liabilities Analysis Note.

- Applicable standards and guidance related to asbestos cleanup liability reporting
- The Department’s methodology for estimation
 - Implementation approach
 - Assumptions, including exemptions
 - Cost factors
 - ❖ For assets built prior to 1980
 - ❖ For assets built 1980 and after
 - Average survey cost
 - Useful life analysis for liability recognition point
- Material changes in total estimated asbestos-related cleanup costs due to change in cost factors
- Change in the liability due to inflation or deflation
- Other relevant disclosure

- **Changes in Accounting Principle Note**

The implementation of Technical Bulletin 2006-1 is considered a change in accounting principle. The nature of the change and its effect on relevant balances

should be disclosed in the Changes in Accounting Principle note in FY 2013. Financial statements of subsequent periods need not repeat the disclosure.

- **Restatement Note**

Any material adjustments to the accrued liability subsequent to FY 2013 as a result of cost factor or average survey cost refinement will be reported as Prior-Period Adjustments in the Restatement note.

If you have any questions, please contact Sherry Lee, Staff Accountant in the Office of Financial Management, at (202) 219-4096 or via e-mail at Sherry_Lee@ios.doi.gov.

Attachment

cc: Financial Statement Guidance Team
Finance Officers Partnership

Cancellation – This FMM cancels FMM 2012-019.