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Subject: Natural Disaster Liability Reporting Guidance

The Statement of Federal Financial Accounting Standards (SFFAS) 5: *Accounting for Liabilities of The Federal Government*, requires Federal agencies to recognize a liability for Government-related events if the future outflow of resources or other sacrifice is probable and the liability is measurable in the period the event occurs or as soon thereafter as it becomes probable and measurable. Government-related events include damage to Federal property, both real property and personal property, caused by natural forces. The attached guidance addresses the Department of the Interior's financial reporting and disclosure requirements for the Natural Disaster Liability.

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Attachment

cc: Asset Management Partnership
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Natural Disaster Liability Reporting Guidance

Introduction

Natural disasters such as hurricanes, tornadoes, floods, and earthquakes may have a significant impact on the Department of the Interior's (DOI) financial position. After a natural disaster has occurred, there may be costs associated with cleanup and damage to DOI-owned or DOI managed real property and personal property to return the assets and facilities to an acceptable operating condition. Per the Statement of Federal Financial Accounting Standards (SFFAS) 5: *Accounting for Liabilities of The Federal Government,* these costs are Government-related events that require liability recognition if the future outflow of resources or other sacrifice is probable and the liability is measurable. This guidance addresses the SFFAS 5 requirement to record and disclose the Natural Disaster Liability related to **cleanup costs** and **repair or replacement costs** to DOI assets and facilities caused by natural disasters. Asset impairments and destroyed assets reduce the net book value of the capitalized assets instead of creating a Natural Disaster Liability and thus are outside the scope of this guidance.[1]

For the purpose of Natural Disaster Liability reporting, there is no distinction between General Property, Plant, and Equipment (G-PP&E) and Heritage Assets and Stewardship Land as long as the assets are owned by DOI or managed by DOI where a legally binding agreement exists for cleanup or repairs. Liability for cleanup or other services <u>not</u> related to DOI assets and facilities (Government-acknowledged events) is discussed briefly in the last section of this document.

Criteria for the Recognizing the Natural Disaster Liability

The SFFAS 5 requires liability recognition when: (1) A past event or transaction has occurred; (2) A future outflow or other sacrifice of resources is probable; and (3) The future outflow or other sacrifice of resources is measurable. Damage to DOI-owned property caused by natural disasters is considered a Government-related event that requires liability recognition in the period that the natural disaster occurs if the future outflow or other sacrifice of resources is probable and the liability is measurable, or as soon thereafter as it becomes probable and measurable. For the purposes of Natural Disaster Liability financial reporting, a natural disaster is defined as an unusual natural occurrence such as a flood, hurricane, severe storm, tidal wave, earthquake, or landslide that causes heavy, major, or unusual damage over a wide area and which severely affects the operation, safety, and usability of multiple bureau sites and/or property.

All of the following conditions must exist before accruing a Natural Disaster Liability:

1. The damage from the natural disaster is to DOI-owned real property or personal property, or DOI-managed property where a legally binding agreement exists for cleanup and repairs;
2. The damage from the natural disaster has a material financial impact on bureau property or operations such that additional funding or resources are sought or expected from Congress;

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[1] For details on asset impairment reporting, refer to Financial Management Memorandum 2015–005, *Implementation Guidance for the Statement of Federal Financial Accounting Standards 44: Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.*

3. The Natural Disaster Liability applies to cleanup costs and repair or replacement costs; and
4. Bureaus have developed and documented a reasonable estimate of the costs to perform the cleanup and repairs equivalent to a Class C cost estimate[2]. Such estimates should be recorded in the bureau's asset/maintenance management systems.

Bureaus should not record a Natural Disaster Liability if the cleanup and repair is expected to be completed within the fiscal year that the natural disaster occurs.

Determining the Cleanup and Repair Costs of Natural Disasters

Natural disasters may have a material financial impact on DOI. After a natural disaster has occurred, there may be costs associated with clearing roads, removing debris, and other maintenance and repair activities. Bureaus should assess the extent of damages to determine the cleanup and repair costs to their real property and personal property. Costs may include services performed by DOI employees, contract services, equipment rentals, materials, and other expenses expected to be incurred in order to return the DOI facilities to an acceptable operating condition. Although costs for services performed by DOI employees such as salaries may be paid regardless of cleanup or repair efforts, the costs should be identified to the extent possible and matched to the natural disaster instead of program activities of the period.

When determining the costs for Natural Disaster Liability reporting, bureaus should exclude the costs of repairing the damaged asset if there is a management decision not to repair the asset, in which case the damage is considered permanent asset impairment if related to G-PP&E; impairments do not apply to Heritage Assets and Stewardship Land. In permanent asset impairment, the net book value of the capitalized asset is adjusted and a loss is recognized instead of incurring an expense and accruing a Natural Disaster Liability. Bureaus should follow the DOI guidance on permanent asset impairments as outlined in Financial Management Memorandum 2015-005, *Implementation Guidance for the Statement of Federal Financial Accounting Standards 44: Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*.

The DOI finance personnel should work with the DOI asset management and appropriate resource management communities to obtain an estimate of costs related to cleanup and repairs due to natural disasters. However, it must be acknowledged that estimates of damage sustained because of natural disasters are dependent on the availability, safety, and priorities of trained personnel. Accordingly, estimates needed for financial reporting may not be available until sometime after the event.

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[2] Class C Construction Cost Estimates are referred to as conceptual estimates by the design and construction industry. These estimates are generally prepared without a fully defined scope of work. They are general in nature, representative of a broad based vision rather than focused on specific details and require a great deal of interpretation and assumptions on the part of the estimator to fill in the blanks between programmed elements. Class C estimates are generally used for feasibility studies.

Recording the Natural Disaster Liability
Bureaus should record the following entries for the Natural Disaster Liability:

Debit 6800.00000 Future Funded Expenses[3]
Credit 2990.H0000 Natural Disaster Liability

Note that at the time the Natural Disaster Liability is recorded, there is no impact on budgetary entries until actual cleanup or repair activities take place.

Reducing the Natural Disaster Liability
As the cleanup and repair activities take place and expenditures are incurred, expenses and liabilities will be incurred and recorded in the normal course of business such as debiting the appropriate expense account and crediting a payable account when goods or services are received. Bureaus should reduce the accrued Natural Disaster Liability for actual work done during the period. Bureaus should review expenditures incurred related to natural disasters at least **quarterly** and reduce the Natural Disaster Liability balance accordingly. The following are entries when reducing the Natural Disaster Liability:

Debit 2990.H0000 Natural Disaster Liability
Credit 6800.0000 Future Funded Expenses

Bureaus should identify and track the expenses separately for each natural disaster if the Liability is recorded for multiple events. Bureaus may use one or more project codes to track costs related to natural disasters.

Evaluating the Natural Disaster Liability Balance
In addition to the quarterly review of the Natural Disaster Liability for work done, bureaus shall review their Natural Disaster Liability periodically to determine if the balance needs to be adjusted. For example, as damage is assessed over time and more-accurate estimates become available, bureaus should adjust the liability to reflect the more accurate estimates. If the liability is funded, any remaining balance should be removed when the cleanup or repair activities are completed, or any unobligated balance in the funded Natural Disaster Liability should be removed when funds expire. If the liability is not funded, if funding does not cover the cleanup or repair activities in the entirety, and the bureau does not expect additional funding or resources for the cleanup or repair related to the natural disaster, bureaus may consider the following:

- If the unfunded repair costs are related to capitalized G-PP&E with a net book value greater than zero, bureaus may consider recognizing an impairment[4] and reducing the Natural Disaster Liability;

[3] These are Financial and Business Management System general ledger accounts. Business Process Consolidation equivalent general ledger accounts are 6800 and 299H, respectively.
[4] For impairment recognition, follow guidance in Financial Management Memorandum 2015–005, *Implementation Guidance for the Statement of Federal Financial Accounting Standards 44: Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.*

- If the unfunded cleanup costs are related to cleaning up of hazardous contaminants on DOI-owned property, bureaus may recognize an Environmental and Disposal Liability (EDL) and reduce the Natural Disaster Liability. Bureaus should follow the DOI guidance in the *Environmental and Disposal Liabilities Identification, Documentation and Reporting Handbook* in reporting and disclosing the EDL liability. The EDL Handbook can be found in the Office of Environmental, Policy and Compliance (OEPC) website at www.doi.gov/pmb/oepc/eclm/documents.cfm;

- If the unfunded repair costs are reported as deferred maintenance and repairs, reduce the Natural Disaster Liability; and

- Bureaus may consider reducing immaterial unfunded Natural Disaster Liability balances.

Documentation

Bureaus should document the cost estimation methodology or methodologies applied and retain the documentation supporting the cost estimates. In addition, bureaus should retain documentation for costs incurred in response to natural disasters or decisions to support the reduction in the Natural Disaster Liability.

Reporting and Disclosing the Natural Disaster Liability in the Financial Statements

- **Management Discussion and Analysis (MD&A):** Bureaus whose assets and/or operations were materially impacted by a natural disaster should address the expected future impact of that event in MD&A. In addition, the financial impact of the event should be discussed in the Financial Statement Analysis section of MD&A.

- **Balance Sheet:** Natural Disaster Liability should be reported in the Balance Sheet.

- **Statement of Net Cost:** The expenses related to the Natural Disaster Liability should be reported as Non-Program Cost.

- **Liabilities Analysis Note:** The Natural Disaster Liability should be disclosed as Current or Non-Current, Covered or Not Covered by Budgetary Resources.

Liability Related to Government-Acknowledged Events

Per SFFAS 5, Government-acknowledged events are events that are of financial consequence to the Federal Government because it chooses to respond to the event. Government-acknowledged events may include damages by natural disasters to non-DOI property, disaster loans, outright grants to individuals, contracting work paid by DOI, search and rescue operations and cleanup of non-DOI facilities performed by DOI personnel, and other activities to which DOI chooses to respond. These transactions can be an exchange (i.e., transactions in which each party to the transaction sacrifices value and receives value in return) or non-exchange (i.e., transactions in which one party to the transaction receives value without directly giving or promising value in return, such as grant and certain entitlement programs). The costs incurred associated with exchange transactions will be recognized as liabilities when goods are delivered or work is performed. For non-exchange transactions, a liability should be recognized for any unpaid amounts due as of the reporting date.