CHAPTER 11

LIABILITIES

1. INTRODUCTION.

a. **Applicability.** The applicability of this chapter is specified in Chapter 1, "Accounting Overview."

b. **Background/Authorities.** This chapter prescribes the policies and general procedures for recording and reporting liabilities consistent with the Statement of Federal Financial Accounting Standards (SFFAS) or Government Accountability Office (GAO) Title 2 standards in the absence of SFFAS. Liabilities include accounts payable; accrued expenses; interest payable; accrued payroll and benefits; accrued leave; deferred revenues, including advances; deposit funds; debt issued under borrowing authority; bonds; loan guarantees and loan commitments; contingent liabilities; lease liabilities; and unfunded liabilities.

c. **Policy/Objectives.**

(1) All liabilities shall be measured and recorded as accurately as possible, given the circumstances under which the liability was created.

(2) Liabilities recorded in financial statements shall reflect invoices received and accruals for any costs incurred, and assets received for which progress billings, grant reimbursement requests, and other billings have not yet been received. Liabilities shall be recorded and/or footnoted irrespective of whether funds are available or authorized for payment.

(3) Contingent liabilities shall be recorded as incurred liabilities if the loss is probable and the amount can be reasonably estimated. Loss contingencies that are judged to have a reasonably possible chance of occurring or that cannot be estimated should be included as a footnote on the financial statements.

(4) Separate accounts are established for major categories of liabilities to facilitate their clear and full disclosure on financial statements. The accounting records will differentiate between Federal and non-Federal liabilities. Accounts will provide for the classifications contained in the Standard General Ledger Chart of Accounts (SGL).

(5) Maintain accounts on an accrual basis. Costs and revenues shall be identified with and recorded in the period in which they are incurred, even if receipt of the revenue or payment for the expenditure occurs in a subsequent accounting period. A balance should be maintained between the effort required to measure accrued costs precisely and the added value of such precision.

(6) Record deferred revenues, which are advances and prepayments received, as liabilities. When payment is earned, that is, goods or services have been delivered or contract terms have been met, the appropriate amount of revenues is recognized with a corresponding reduction in the liability.

2. TYPES OF LIABILITIES.

a. Accounts Payable. Amounts owed to others for goods and services received and assets acquired, for which a bill has been received or approved. Any percentage of amounts due to contractors that DOE retains as a guarantee of performance may remain in a special account established for retention. Document the accounts payable control account(s) with unpaid invoice files, subsidiary ledgers, or other forms of subsidiary records. The accounting records must distinguish between accounts payable to non-Federal entities and accounts payable to other Federal agencies.

b. Accruals. Amounts owed by the Department for items or services received, expenses incurred, assets acquired, or construction performed, for which a bill (e.g., progress billings, grant reimbursement requests, and other billings) has not been received or approved.

(1) Interest Payable. Interest payable represents liabilities for interest expense incurred but not yet paid. These expenses typically arise from interest due on long-term debts, capital lease obligations, and late payment of invoices. The accounting records must distinguish between interest payable to non-Federal entities and interest payable to other Federal agencies.

(2) Accrued Payroll and Benefits. Accrue the unpaid wages and benefits that employees have earned at the close of each accounting period. Generally, federal performance awards are excluded.

(3) Accrued Leave.

(a) Annual Leave. Record the liability for annual leave at the wage at which the leave is earned and adjusted each year to reflect pay increases, unused leave balances, statutory limitations to leave amounts, and to reflect employees transferred in or out during the year. Accrued leave for DOE employees will be recorded as a liability.

(b) **Compensatory Leave.** Record compensatory leave the same as annual leave for accrual purposes.

(c) **Sick Leave.** Accrue sick leave for contractor employees if a contractual requirement exists for employees to be paid for unused sick leave. A liability for DOE employees will not be accrued since payment is not made for unused sick leave.

(4) **Exceptions.** The following are minimum requirements for accruing costs related to the indicated procurement instruments. While the minimum requirements are intended to provide a proper balance between materiality and the high volume of cost accrual transactions, accruals should ensure that the yearend financial statements present fairly the aggregate cost accruals for the Department. Accrual procedures must meet or exceed the following requirements:

(a) **Non-Integrated Contracts and Purchase Orders.** Accrue non-invoiced costs monthly if the uncosted balance is greater than $1 million; and

(b) **Financial Assistance Instruments (Grants, Cooperative Agreements and Technology Investment Agreements).** For financial assistance instruments that are $750,000 or less, cost the entire amount at the time of obligation; otherwise, generally accrue monthly on a straight-line basis. Furthermore, financial assistance instruments must be trued-up annually, at a minimum, to reflect actual costs.

c. **Deferred Revenues.** Deferred revenues represent advance payments from others to cover the cost of services, materials, or other assets that DOE will furnish in the future. The accounting records must distinguish between advances received from other Federal agencies and advances received from non-Federal entities. For additional guidance regarding advances for reimbursable work and co-sponsored projects, see Chapter 13, “Reimbursable Work, Revenues and Other Collections.” Costs incurred in the performance of work for Federal and non-Federal entities shall be accumulated and charged against the advances.

d. **Funds Held for Others.** A liability shall be established whenever DOE has physical possession or responsibility for non-Government personal property or cash. This includes certain funds that belong to others, such as payroll deductions and deposit funds. Funds held for others also include amounts held in suspense accounts awaiting disposition or reclassification. The individual details for each of these accounts reside in the asset accounts. The balances in these accounts must be supported by schedules of voucher deductions, collections, and transfers between accounts.

e. Suspense Accounts. Suspense accounts include amounts arising in the course of operations that cannot be analyzed readily and recorded to the proper account because of inadequate information, uniqueness of the transaction, or similar complications. Temporarily record such items to the suspense account to avoid undue delays to monthly closing. Determine the proper account for all suspense items and record them accordingly as soon as possible to ensure accurate financial reporting.

f. Appropriated Debt.

(1) DOE occasionally receives appropriations that provide programs with authority to borrow funds. Borrowing authority is limited by the amounts specified in the appropriation acts. Funds that are borrowed to finance appropriated obligational authority must be repaid into the General Fund of the Department of the Treasury (Treasury). Interest shall be charged from the date the funds are credited to the appropriation until the date of repayment.

(2) Power marketing administration legislation requires recoupment of appropriate funds over a specified time period and rate of interest. Power marketing administrations shall record the investment of the U.S. Government in power facilities as Proprietary Capital, Federal Investment, or Federal Appropriations. Interest expense or interest charged to construction shall be computed and repaid to the Treasury. Furthermore, appropriations received from the Reclamation Fund shall be repaid to the Department of the Interior.

g. Contingent Liabilities.

(1) General. Contingent liabilities are potential liabilities that might become actual if certain future events, beyond the Government's control, result in losses or impairments of assets or incurrence of liabilities.

(a) When a loss contingency exists, the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote.

1. *Probable:* The future event or events are likely to occur.

2. *Reasonably Possible:* The chances of the future event or events occurring are more than remote but less than likely.

3. *Remote:* The chances of the future event or events occurring are slight.

(b) Accrual and disclosure of contingencies, including programmatic impacts, vary depending on probability of occurrence.

1. *Probable and Estimable:* Losses that are deemed probable and can be reasonably estimated will be accrued as a liability. Disclosure of the nature of the accrual is necessary if the financial statements would be misleading without such disclosure.

2. *Probable but Inestimable:* If the contingency is deemed probable but cannot be estimated, a footnote disclosure should be made on the financial statements.

3. *Reasonably Possible:* May require disclosure depending upon significance and materiality.

4. *Remote:* No accrual or disclosure required.

(c) Reporting thresholds for contingencies relative to litigations are provided in annual guidance.

(2) **Loan Guarantees and Commitments.** Reserved

(3) **Tort Claims.** Tort claims are contingent liabilities and are disclosed in the financial statements, as discussed in paragraph 2g(1). Tort claims are claims against the United States for injury to or loss of property or personal injury or death caused by the negligent or wrongful act or omission of any employee of DOE while acting within the scope of office or employment. Refer to paragraph 2g(1)(b) for recognition of claim contingencies.

h. **Leases.**

(1) A capital lease shall be treated as the acquisition of an asset and the incurrence of a liability. All lease-purchases or capital leases are required to have up-front budget authority for the full liability of the lease.

(2) The maximum amount of the Government's liability for an operating lease is the full amount of the operating lease unless the lease includes a cancellation clause. In this case, the maximum liability is the amount of the lease payments over the minimum lease period plus any required cancellation payment. With operating leases, up-front budget authority must be available to cover the maximum amount of the Government's liability. For additional information on leases refer to Chapter 5, "Accounting for Obligations," paragraph 4a(7)(d), and Chapter 10, "Property, Plant and Equipment," paragraph 2e.

i. **Unfunded Liabilities.** Unfunded liabilities result from the receipt of goods or services or occurrences of eligible events in the current or prior periods 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 Department. The Department has established specific liability accounts to record unfunded liabilities. The use of these accounts is restricted to those liabilities specifically identified in the SGL. Where prior approval is required, requests and supporting documentation should be forwarded to the Office of Financial Policy (see Attachment 11-1). In addition, specific guidance for recognition of liabilities related to environmental liabilities, pensions, and postretirement benefits other than pensions will be issued by the CFO in annual information requests (see Attachments 11-2, 11-3 and 11-4 for examples of annual guidance).

j. **Other Liabilities.** Any other liabilities that have not been defined elsewhere should be disclosed in the financial statements. The principle of materiality and full disclosure should govern the inclusion of such liabilities. The nature of each liability should be identified and reported, either by a footnote to the financial statements or by actual inclusion of an amount in a liability account, if the potential amount due or a loss can be estimated.

ATTACHMENT 11-1

REQUEST FOR USE OF UNFUNDED LIABILITIES–OTHER LIABILITIES REQUIRING FUTURE FUNDING

Requesting Office: ___________________________________

Contact/Phone #: ___________________________________

Date of Request: ___________________________________

Field Office Chief Financial Officer: ___________________________________
Signature/Date

Cognizant Program Officer: ___________________________________
Signature/Date

Description of Liability:

Amount to be Recorded: ____________ Program Value: ______________

Check One: New Request ________ Increase _________ Decrease _______

Fiscal year payment is expected to be made: ________________________________

Approvals:

____
Director, Office of Financial Policy

Approve/Date: Yes _________ No __________

____
Director, Office of Finance and Oversight

Approve/Date: Yes _________ No __________

cc: Office of Budget

Department of Energy
Washington, DC 20585

June 8, 2006

MEMORANDUM FOR: FIELD CHIEF FINANCIAL OFFICERS

FROM: DEAN G. OLSON, DIRECTOR
OFFICE OF FINANCIAL POLICY

SUBJECT: FY 2006 ENVIRONMENTAL LIABILITY ESTIMATES

The purpose of this memorandum is to provide guidance for the development of the environmental liability estimates for the following major components to be reported in the FY 2006 Consolidated Financial Statements: (1) Office of Environmental Management's (EM) project baseline life-cycle cost estimates; (2) restructured environmental liabilities; and, (3) active and surplus facilities cost estimates. Due to the accelerated reporting requirements, the 3rd quarter financial statements must include fully updated environmental liability estimates with footnote disclosures. Yearend reporting requirements remain the same. Accordingly, please develop your FY 2006 liability estimates using the following guidance:

<u>EM Project Baseline Summaries</u>

Field offices should update their environmental liability estimates in the accounting system to reflect project life-cycle cost estimates. These liability estimates must be updated for subsequent life-cycle changes (i.e., changes after the Integrated Planning And Budgeting System cut-off date). The FY 2006 environmental liability estimates should be included in the 3rd quarter submissions along with footnote disclosures. These estimates and footnote disclosures will need to be updated as necessary and included in the September submissions. Please provide copies of your footnote disclosures to the Office of Financial Policy within 5 days of closing.

<u>Restructured Environmental Liabilities</u>

The restructuring of the EM program has involved the transfer of activities/functions to other Departmental programs, most notably long-term stewardship activities. At some sites, the EM liability estimate to be recorded for FY 2006 will have been adjusted for these transfers. The identification of and proper recording in the FY 2006 financial statements of any environmental liability associated with these transferred activities/functions are crucial. There may also be estimated costs for some transferred activities/functions included in the environmental liability in prior years that will no longer be classified as an environmental liability (e.g., infrastructure costs, site support services).

Also included in this category are any environmental liabilities that are not in the EM program or the Active Facilities estimates. These include contaminated soils, groundwater, and surplus materials. A report identifying these liabilities was issued by EM in 2003, *Final Report on Future Waste Management and Remediation Liabilities*. The information compiled for this report has been used as a basis for recording liabilities. Although many of these liability estimates have been updated over the past three years or removed due to duplication or incorporation into the EM program, several require further examination and updating for FY 2006. It is imperative that all existing liabilities be identified and recorded regardless of when the remediation will occur or which program will perform the activities.

Active and Surplus Facilities

The Active Facility Database Collection System (AFDCS) was opened for field input in February. Headquarters is currently reviewing the data submissions after which the liability modeling process will be run. Updated active facilities liability estimates will be available by June 23, 2006, and should be included in the 3rd quarter submissions. In September, sites will be asked whether there have been any significant changes; e.g., facilities remediated. If significant changes have occurred, the modeling process will be re-run and any resulting changes to the estimates will be included in the yearend reporting submissions. For those sites that develop estimates outside of the AFDCS, estimates must be updated to reflect current information as necessary. These estimates must be adjusted to FY 2006 constant dollars. In this regard, the beginning balances should be multiplied by the inflation factor of 1.0324. This factor is based upon deflators listed in Table 1.3 of the Historical Tables of the FY 2006 Budget of the U.S. Government. Supporting documentation for site-developed estimates must be maintained and is subject to audit review.

Field offices are responsible for ensuring there is sufficient documentation to support the environmental liability estimates. Support for the assertion that all contaminated facilities are included in the estimates, approaches used for removing duplicate costs, and any assertion of immateriality with regard to updating the estimates must also be documented. A determination of the need for (1) an adjustment to the estimate as a result of conditions that existed at September 30, 2006, (i.e., preexisting conditions) or (2) a footnote disclosure for conditions that arose after September 30, 2006, must be made for any life-cycle cost estimate updates that occur or are in process after September 30, 2006, that are expected to materially affect the estimates.

If you or your staff has any questions, please contact Lois Jessup at (202) 586-3959.

Department of Energy
Washington, DC 20585
March 9, 2006

MEMORANDUM FOR DISTRIBUTION

FROM: DEAN G. OLSON, DIRECTOR
OFFICE OF FINANCIAL POLICY

SUBJECT: CONTRACTOR PENSION OBLIGATIONS - FY 2006 PENSION INFORMATION REQUEST

The Department will continue to follow the requirements of Financial Accounting Standards Board (FASB), Statement No. 87, "Employers' Accounting for Pensions," of December 1985, for measuring and recognizing contractor pension obligations. In this regard, the requirements contained in the attached "Department of Energy Pension Benefit Plans, 2006 Fiscal Year Information Request," (information request) are applicable to any DOE contractor, whether or not a management and operating contractor, for which the Department has a continuing pension obligation. Your submissions will be reviewed by Headquarters and used in the development of yearend accrual estimates, as well as consolidated Departmental disclosures in accordance with the requirements of FASB Statement No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits." **A copy of the information request should be forwarded to applicable contractors immediately to allow sufficient time to complete the required reporting schedules.**

The required standardized assumptions contained in the information request have been reviewed and updated as needed (e.g., **the mortality table has been updated and the required discount rate selected is 5.25%**). Also, this year's information request includes Table A-8a, "Selected Valuation Information," and Table A-8b, "Minimum Funding Standard Account Bases," and requests the most recent Actuarial Valuation Report for each applicable contractor plan be included with your FAS 87 submissions. This information will provide our office more detailed data that will enable Headquarters to estimate the Departmentwide impact of any future change such as pension legislative reforms or changes in reporting requirements. In addition, the FY 2006 information request provides, as attachments, a copy of any FY 2005 individual contractor memoranda developed by Chet Andrzejewski of Aon Consulting, Inc. regarding any additional information requested as a result of the FY 2005 review process and applicable individual contractor disclosure sheets, "9/30/2005 Disclosure Information under FAS Statement No. 87." These disclosure sheets contain information needed for the completion of the FY 2006 information request. For example, the amount on Line D.5, "9/30/2005 Prepaid/(Accrued) Pension Benefit Cost," of the attached disclosure sheet(s) must be used on Table A-1, Line D.1, "Prepaid/(Accrued) Pension Cost at 9/30/2005," of the information request.

As required in previous information requests, the pension estimates must be developed by the contractors through the use of qualified actuarial support. Two (2) hard copies of the completed submissions should be forwarded to the Office of Financial Policy (CF-50) and one (1) hard copy to our Headquarters consulting actuary, Chet Andrzejewski, Aon Consulting, Inc., 500 East Pratt Street, Baltimore, Maryland 21202, by May 23, 2006. (Please note Aon's address has changed.) A diskette containing the attached reporting schedules and standardized assumptions has also been attached. One completed copy of the diskette using the prescribed formats **(Microsoft Word 2000 and Microsoft Excel 2000)** must be included with each contractor submission to CF-50 and to Aon Consulting, Inc. Any significant deviation from the information request requirements must be justified in writing and submitted to CF-50 for concurrence prior to processing the valuations. **Please note that due to the established schedule for audited Departmental financial statements, it is imperative that the completed submissions and any additional yearend information be provided to CF-50 and to our Headquarters consulting actuary on or before the due dates specified in the information request.**

Procedures established by the Energy Finance and Accounting Service Center shall be followed for recording the pension liability or asset. It should also be noted adjustments to the accrual estimates may be required to reflect minimum liability requirements and any additional information that becomes available by yearend (e.g., updated asset information on Table A-6 required by August 24, 2006).

In addition to the aforementioned pension reporting requirements, you should be aware that the Pension Benefit Guaranty Corporation (PBGC) premium requirements have changed and will result in increased PBGC premium costs for many of the Department's site/facility management contractors. Also, you should be aware there is a potential for other changes in pension funding requirements that may result from future pension legislative reforms which could have a significant impact on resource requirements.

Please forward the name, phone number, fax number, and e-mail address of a point of contact to CF-50 by March 31, 2006. If you or your staff should have any questions concerning this memorandum, please contact Michael Lynch of my staff on (202) 586-6894.

Attachments

Department of Energy
Washington, DC 20585
March 9, 2006

MEMORANDUM FOR DISTRIBUTION

FROM: DEAN G. OLSON, DIRECTOR
OFFICE OF FINANCIAL POLICY

SUBJECT: POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (PRB) FY 2006 INFORMATION REQUEST

The Department will continue to follow the requirements of Financial Accounting Standards Board (FASB), Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," of December 1990, for measuring and recognizing costs and liabilities associated with contractor PRB. The Department will use unfunded liability transactions to annually accrue the incremental PRB costs and liabilities (i.e., amounts required beyond "pay-as-you-go" requirements). In this regard, the requirements contained in the attached "Department of Energy Postretirement Benefit Plans, 2006 Fiscal Year Information Request," (information request) are applicable to any DOE contractor, whether or not a management and operating contractor, for which the Department has a continuing PRB obligation. Your submissions will be reviewed by Headquarters and used in the development of yearend accrual estimates, as well as consolidated Departmental disclosures in accordance with the requirements of FASB Statement No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits." **A copy of the information request should be forwarded to applicable contractors immediately to allow sufficient time to complete the required reporting schedules.**

The required standardized assumptions contained in the information request have been reviewed and updated as needed (e.g., **the medical trend rates have been adjusted; the mortality table has been updated; and the required discount rate selected is 5.25%**). Also, Table A-2b, "Postretirement Benefit Obligation Over/Under 65" and Table A-2c, "Trend Sensitivity," have been added to this year's information request. This information will provide a further breakdown of the liability and the effect of a one-percentage-point increase/decrease in the assumed health care cost trend rates. In addition, the FY 2006 information request provides, as attachments, a copy of any FY 2005 individual contractor memoranda developed by Chet Andrzejewski of Aon Consulting, Inc. regarding any additional information requested as a result of the FY 2005 review process and applicable individual contractor disclosure sheets, "9/30/2005 Disclosure Information under FAS Statement No. 106." These disclosure sheets contain information necessary for the completion of the FY 2006 information request. For example, the amount on Line D.5, "9/30/2005 Total Accrued Postretirement Benefit Cost," of the attached disclosure sheet(s) must be used on Table A-1, Line A.1, "Accrued Postretirement Benefit Cost at 9/30/2005," of the information request.

As required in previous information requests, the PRB estimates must be developed by the contractors through the use of qualified actuarial support. Two (2) hard copies of the completed submissions should be forwarded to the Office of Financial Policy (CF-50) and one (1) hard copy to our Headquarters consulting actuary, Chet Andrzejewski, Aon Consulting, Inc., 500 East Pratt Street, Baltimore, Maryland 21202, by June 19, 2006. (Please note Aon's address has changed.) A diskette containing the attached reporting schedules and standardized assumptions has also been attached. One completed copy of the diskette using the prescribed formats **(Microsoft Word 2000 and Microsoft Excel 2000)** must be included with each contractor submission to CF-50 and to Aon Consulting, Inc. Any significant deviation from the information request requirements must be justified in writing and submitted to CF-50 for concurrence prior to processing the valuations. **Please note that due to the established schedule for audited Departmental financial statements, it is imperative that the completed submissions and any additional yearend information be provided to CF-50 and to our Headquarters consulting actuary on or before the due dates specified in the information request.**

Procedures established by the Energy Finance and Accounting Service Center shall be followed for recording PRB liabilities. It should also be noted adjustments to the accrual estimates may be required as additional information becomes available by yearend (e.g., actual employer cash costs for the fiscal year and updated asset information, if applicable, required by August 24, 2006).

Please forward the name, phone number, fax number, and e-mail address of a point of contact to CF-50 by March 31, 2006. If you or your staff should have any questions concerning this memorandum, please contact Michael Lynch of my staff on (202) 586-6894.

Attachments