FASAB

Federal Accounting Standards Advisory Board

Accounting for

Federal Oil and Gas Resources

Statement of Federal Financial Accounting Standards

Revised Exposure Draft

Written comments are requested by September 8, 2009

July 6, 2009

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."

- "Mission Statement: Federal Accounting Standards Advisory Board", Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

Federal Accounting Standards Advisory Board
441 G Street, NW, Suite 6814
Mail stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
FAX – 202-512-7366
www.fasab.gov

This is a work of the U. S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from FASAB. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

Federal Accounting Standards Advisory Board

July 6, 2009

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the revised exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Accounting for Federal Oil and Gas Resources*. Substantive changes have been made to the original exposure draft issued on May 21, 2007.

Specific questions for your consideration begin on page 1 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. It should be noted that question nine (Q9) deals with an alternative view to recognition as an asset on the face of the basic financial statements (see alternative view in paragraphs A89 through A92). Responses are requested by September 8, 2009.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft. Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen
Chairman

441 G Street NW, Mailstop 6K17V, Washington, DC 20548 ♦(202) 512-7350 ♦fax (202) 512-7366

[This page intentionally left blank.]

Executive Summary

What is the Board proposing?

This exposure draft (ED) proposes accounting standards for federal oil and gas resources.[1] The proposed standards would result in the recognition of an asset and a liability. The asset is referred to in this ED as "estimated petroleum royalties." The asset's value would be the royalty share of the federal oil and gas resources classified as "proved reserves."[2] The liability would be for the royalty share of the federal proved reserves designated to be distributed to non-federal entities, e.g., state governments.[3] One Board member believes that the value of federal oil and gas resources and annual changes therein should be reported as basic information in the notes, rather than recognized on the face of the financial statements (see alternative view in paragraphs A89 through A92).

When federal oil and gas resources are extracted, revenue and a depletion expense equal to the revenue due would be recognized by the federal government. When revenue collections are distributed, the component entity that is responsible for collecting royalties would recognize a transfer out for revenue distributions to federal entities and a reduction in the liability for revenue distributions to non-federal entities. Gains and losses would be recognized based on an annual valuation of the asset with an adjustment to the liability for revenue distributions to non-federal entities. In addition, when rights to a future royalty stream are identified to be sold, the value of the related rights would be disclosed.

Transition to these proposed standards would require that the federal government's royalty share of oil and gas proved reserves be recognized as an asset as of the beginning of the reporting period in which the standards become effective. In addition, a liability for the portion that will be distributed to non-federal entities would be established at the same time. The net effect of recognizing an asset and establishing a liability for revenue distributions to non-federal entities at the beginning of the reporting period would be a change in accounting principle that increases the entity's net position.

[1] Federal oil and gas resources: Oil and gas resources over which the federal government may exercise sovereign rights with respect to exploration and exploitation and from which the federal government has the authority to derive revenues for its use. Federal oil and gas resources do not include resources over which the federal government acts as a fiduciary for the benefit of a non-federal party.

[2] A portion of the production value of proved oil and gas reserves are due to the federal government from the lessee in accordance with the royalty rate contained in the lease agreement.

[3] Upon collection, the majority of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves are distributed to state governments, other federal agencies, and the general fund of the U.S. Treasury in accordance with legislated allocation formulas.

The proposed standards would be effective as required supplementary information (RSI) for periods beginning after September 30, 2010, and as basic information for periods beginning after September 30, 2013, except where specifically designated as RSI. Earlier implementation is encouraged.

How would this proposal improve federal financial reporting and contribute to meeting the federal financial reporting objectives?

The federal government is accountable to the American citizens for proper stewardship of federal assets. Federal oil and gas resources represent federal assets. Accounting for and reporting information about these assets would enhance:

a. accountability for and stewardship over assets of the federal government;
b. consistency and understandability in accounting for assets of the federal government; and,
c. relevance, consistency, and comparability of information regarding revenue of the federal government.

Recognizing the federal government's royalty share of proved reserves as an asset on the balance sheet would provide transparency regarding the value and changes in value of these significant assets. Federal financial reports would be more relevant, consistent, and complete. In addition, recognizing federal oil and gas resources on the government's balance sheet would enable the federal government to clearly communicate the effect of some of the legislative changes related to federal oil and gas resources to the taxpayers in the period that the changes are made (e.g., opening additional lands for leasing or increasing the percentage of royalties to be distributed to the states). Additional disclosures about federal oil and gas resources would provide comprehensive information about federal assets, reveal changes in the quantity and status of federal oil and gas resources, and make quantity information more accessible to users of financial information.

Operating Performance Objective

Federal financial reporting should assist report users in evaluating the service efforts, costs, and accomplishments of the reporting entity; the manner in which these efforts and accomplishments have been financed; and the management of the entity's assets and liabilities. Federal financial reporting should provide information that helps the reader to determine

- the costs of providing specific programs and activities and the composition of, and changes in, these costs;
- the efforts and accomplishments associated with federal programs and the changes over time and in relation to costs; and
- the efficiency and effectiveness of the government's management of its assets and liabilities.

Source: SFFAC 1

Bonus bid, rent, and royalty collections – currently treated as nonexchange revenue due to the absence of cost information – would be accounted for and reported in accordance with exchange revenue standards. This treatment would improve the comparability of revenue information.

Of the four objectives outlined in Statement of Federal Financial Accounting Concepts Statement (SFFAC) 1, *Objectives of Federal Financial Reporting*, the operating performance and stewardship objectives were identified as most important for natural resources reporting.

With respect to meeting the operating performance reporting objective, the proposed standards would provide information useful in evaluating the reporting entity's management of assets relating to federal oil and gas resources. This information would allow financial report users to monitor changes in royalty rates and estimated reserve quantities, providing an indicator of how well the government's proved reserves were managed. In addition, the value of the estimated petroleum royalties at the end of each period would facilitate consideration of the potential cash flows from existing leases.

Currently, royalties from federal oil and gas leases are displayed on the statement of changes in net position with non-exchange revenue rather than on the statement of net cost with other exchange revenue. Presentation of revenues arising from federal oil and gas leasing activities as exchange revenue would assist users in understanding how the government's efforts and accomplishments were financed. The current practice of combining revenues derived from the sale of assets with revenues derived from taxation or other non-exchange sources may obscure the fact that costs were incurred to generate the revenues—the federal government exchanged proved reserves for a future stream of royalty payments.

With respect to meeting the stewardship reporting objective, the proposed standards would provide information useful in assessing whether federal government operations have contributed to the nation's current and future well-being. Recognition of estimated petroleum royalties as an asset would make available the value of an asset that generates cash to finance government operations over time. This would inform users about the financial position of the government and whether it was

Stewardship Objective

Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future. Federal financial reporting should provide information that helps the reader to determine whether

- the government's financial position improved or deteriorated over the period,
- future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due, and
- government operations have contributed to the nation's current and future well-being.

Source: SFFAC 1

improving or deteriorating over time. Information about potential oil and gas production and changes in potential production over time would allow users to consider how government operations and economic conditions have impacted the availability of oil and gas resources to future generations.

Table of Contents

Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by September 8, 2009.

Q1. The original exposure draft (ED) issued on May 21, 2007, contained detailed asset valuation implementation guidance for valuing federal oil and gas resources. As a result of feedback received from field testing efforts, the Board has removed that detailed guidance from this revised ED and is instead proposing to provide federal entities with flexibility in developing the asset valuation estimation methodology due to the constantly changing economic and technical conditions. Do you agree or disagree with the Board's position (see paragraphs 14 through 26, A47 and A48)? Please explain the reasons for your position in as much detail as possible.

Q2. The Board believes that the method for valuing the federal government's estimated petroleum royalties should approximate the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date as described in paragraphs 19 through 21. Discount rates as of the reporting date for present value measurements of federal oil and gas assets and liabilities should be based on interest rates on marketable Treasury securities with maturities consistent with the cash flows being discounted. Do you agree or disagree with the Board's position (see paragraphs 19 through 21 and A38 through A46)? Please explain the reasons for your position in as much detail as possible.

Q3. The Board is proposing to permit an alternative measurement method for valuing the federal government's estimated petroleum royalties if it is not reasonably possible to estimate the present value of future federal royalty receipts on proved reserves using the approach described in paragraphs 19 through 21. Specifically, the Board is permitting a market-based fair value measurement consistent with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards 157, *Fair Value Measurements*.[4] Do you agree or disagree with the Board's position (see paragraphs 24 and A38 through A46)? Please explain the reasons for your position in as much detail as possible.

Q4. The Board is proposing to permit federal entities to change its methodology for valuing the federal government's estimated petroleum royalties if environmental or other changes would provide for the development of an improved methodology. Do you agree or disagree with the Board's position (see paragraphs 25, 26 and A49 through A51)? Please explain the reasons for your position in as much detail as possible.

Q5. The Board believes that it would be appropriate to provide guidance regarding reporting gains and losses from changes in assumptions and selecting the discount rates similar to that provided in SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates,* to long-term assumptions about oil and gas when using the present value method. Do you agree or disagree with the Board's position (see paragraphs 20, 40, and A64 through A66)? Please explain the reasons for your position in as much detail as possible.

Q6. SFFAS 31, *Accounting for Fiduciary Activities*, requires that agencies report on assets held in a fiduciary capacity. The Department of Interior (DOI) manages oil and gas resources on behalf of individual Indians and Indian tribes. This proposed standard – because it classifies oil and gas resources as assets – would result in additional information being disclosed for oil and gas assets managed in a fiduciary capacity. Note, however, that fiduciary reporting does

[4] FASB Accounting Standards Codification™ (ASC) 820.10

not extend to inclusion of the additional disclosures or RSI that are proposed in this document for federal oil and gas resources. Thus, with respect to fiduciary activities, only disclosure of the assets, liabilities, and related inflows and outflows would result from this proposal.

Some members have expressed concern that the costs may exceed the benefits of disclosing fiduciary assets and liabilities measured in conformance with this proposed standard. Since this proposal may significantly increase the fiduciary assets disclosed, we requested input on the cost-benefit of the requirement with respect to fiduciary activities in the May 2007 ED. One respondent was in favor of the disclosures while four expressed their opinion that the information would most likely not be cost-beneficial. However, the Board has not received any substantive information to enable it to make an informed decision regarding cost/benefit.

Since the removal of the fiduciary oil and gas resource disclosure requirements would require an exception to the requirements of SFFAS 31, we are again requesting detailed input on the cost-benefit of the requirement with respect to fiduciary activities. See paragraph 46.

Q7. The Board is proposing to provide a three-year phase-in of the proposed requirements from required supplementary information (RSI) beginning with fiscal year 2011 to basic in fiscal year 2014. This transitional period is being provided to allow for the asset valuation methodology to be improved upon before an audit opinion is required. Do you agree or disagree with the Board's position (see paragraphs 51 and A87)? Please explain the reasons for your position in as much detail as possible.

Q8. This Statement addresses accounting for federal oil and gas resources only. While the Board may address accounting for other types of natural resources at some point in the future, the majority of the members acknowledge that it is not likely that a project devoted to other categories of natural resources will be marked as a high priority at future agenda-setting sessions due to their lesser significance. As a result, while not explicitly encouraging agencies to recognize other categories of natural resources, the Board included paragraph 10 to explicitly state that this Statement does not preclude entities from recognizing or otherwise reporting information about other types of federally-owned natural resources. Do you agree or disagree that the potential risk that the inclusion of paragraph 10 might lead to inaccurate or inconsistent reporting of other types of natural resources is outweighed by the potential benefits to financial statement users (see paragraphs 10, A9 and A10)? Please explain the reasons for your position in as much detail as possible.

Q9. After a three-year transition period of reporting as RSI, the ED proposes to recognize an asset on the balance sheet for the federal government's royalty share of federal oil and gas resources under lease (see paragraphs A29 through A37 for a discussion of factors regarding asset recognition considered by the Board in reaching this conclusion). An alternative view prepared by Mr. Dacey proposes that the value of federal oil and gas resources and annual changes therein be reported as RSI for a three-year transition period and then disclosed as basic information in the notes, rather than recognized on the face of the financial statements. The notes would be part of an integrated disclosure that would include the discussion of all of the government's natural resources, including oil and gas resources that are not currently under lease as well as values and information concerning all other significant natural resources, such as coal, timber, and grazing rights. Do you agree or disagree with the alternative view (see paragraphs A89 through A92)? Please explain the reasons for your position in as much detail as possible.

Introduction

Purpose

1. Statements of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*; 8, *Supplementary Stewardship Reporting*; and 29, *Heritage Assets and Stewardship Land*, establish standards related to federal lands, but specifically exclude natural resources from the scope of those standards. Extensive federal oil and gas resources exist on public lands throughout the country and on the Outer Continental Shelf (OCS). Currently, federal financial reporting does not provide information about the quantity or value of these assets. In addition, royalty revenues are recognized but expenses are not recognized for the asset exchanged to produce those revenues.

2. The Board believes that federal oil and gas resources represent federal assets and accounting for and reporting information about these assets would enhance:

   a. accountability for and stewardship over assets of the federal government;
   b. consistency and understandability in accounting for assets of the federal government; and,
   c. relevance, consistency, and comparability of information regarding revenue of the federal government.

3. This Statement provides for a more complete accounting for oil and gas resources available to the federal government. Recognizing the federal government's royalty share of proved reserves as an asset on the balance sheet would provide transparency regarding the value and changes in value of these significant assets and result in information that contributes to meeting federal financial reporting objectives.

Materiality

4. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Estimation Methodology

5. The Board believes that the detailed estimation methodology for valuing federal oil and gas resources should be developed by federal entities. In an environment heavily affected by changes in prices, technological advancements, economic and operating conditions, and known geological, engineering, and economic data, estimation methodologies may need to be regularly updated to reflect these changing conditions.

Effective Date

6. The proposed standards are effective as RSI for periods beginning after September 30, 2010, and as basic information for periods beginning after September 30, 2013, except where specifically designated as RSI. Earlier implementation is encouraged.

Proposed Standards

Scope

7. This Statement applies to federal entities that report information about federal oil and gas resources in general purpose financial reports, including the consolidated financial report of the U.S. Government (CFR), in conformance with proposed Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.[5]

8. This Statement articulates a general principle that should guide preparers of general purpose federal financial reports in accounting for federal oil and gas resources.

9. This Statement also amends SFFAS 7, *Accounting for Revenue and Other Financing Sources*, to account for and report bonus bid, rent, and royalty collections in accordance with exchange revenue standards.[6]

10. Federal lands contain a variety of natural resources other than oil and gas that are not specifically addressed by this Statement. This Statement does not preclude entities from recognizing or otherwise reporting information about other types of federally-owned natural resources.

Definitions

11. Definitions in paragraphs 12 and 13 are presented first in the proposed accounting standards because of their uniqueness in calculating the asset value of estimated petroleum royalties. Other terms shown in **boldface type** the first time they appear in this document are presented in the Glossary (see page 61). Reviewers of this document may want to examine all definitions before reviewing the proposed accounting standards and Basis for Conclusions.

12. **<u>Federal oil and gas resources</u>**: **Oil** and **gas** resources over which the federal government may exercise sovereign rights with respect to exploration and exploitation and from which the federal government has the authority to derive revenues for its use. Federal oil and gas resources do

[5] SFFAS 34 was approved by the Board and sent to the principals for a 90-day review period; the Board expects to issue SFFAS 34 as final in July 2009.
[6] These collections are currently treated as nonexchange revenue due to the absence of cost information.

not include resources over which the federal government acts as a fiduciary for the benefit of a non-federal party.

13. **Regional estimated petroleum royalties**: Regional estimated petroleum royalties means the estimated end-of-period value of the federal government's royalty share of proved oil and gas reserves from federal oil and gas resources in each region.

Asset Recognition and Measurement

14. Extensive federal oil and gas resources exist on public lands throughout the country and on the **Outer Continental Shelf** (OCS). These resources will provide economic benefits to the federal government through revenue from leasing activities and the collection of royalties on production. The federal government controls access to these resources.

15. Federal oil and gas resources are made up of two primary components – reserves and undiscovered resources. Reserves can be further defined as either proved or unproved while undiscovered resources can be further defined as either recoverable or non-recoverable. See *Illustration 1 – Components of Federal Oil and Gas Resources* on page 27 for an illustration of the universe of federal oil and gas resources and a further breakdown of its components.

16. Information is available in varying degrees and with varying reliability for each component. While all of the federal oil and gas resources meet the definition of an asset, the Board does not believe that the information for other than proved reserves is sufficiently reliable to be recognized.

17. An asset and corresponding revenue for the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves should be recognized by the component entity that is responsible for collecting royalties.

18. The Board believes that the detailed estimation methodology for valuing federal oil and gas resources should be developed by federal entities.[7] In an environment heavily affected by changes in prices, technological advancements, economic and operating conditions, and known geological, engineering, and economic data, estimation methodologies may need to be regularly updated to reflect these changing conditions.

[7] Estimates that do not lead to material misstatements are acceptable without guidance from the Board.

19. The estimates that are developed should approximate the **present value** of future federal royalty receipts on proved reserves known to exist as of the reporting date. The estimates should be based on the best information available at fiscal year-end, or as close to the fiscal year-end as possible.

20. Discount rates as of the reporting date for present value measurements of federal oil and gas assets and liabilities should be based on interest rates on **marketable Treasury securities** with maturities consistent with the cash flows being discounted.

21. The entity's estimates should reflect its judgment about the outcome of events based on past experience and expectations about the future. Estimates should reflect what is reasonable to assume under the circumstances. While the entity's own assumptions about future cash flows may be used, the entity should review assumptions used generally in the federal government as evidenced by sources independent of the reporting entity, for example, those used by the Bureau of Economic Analysis for the National Income and Product Accounts. If the entity's own assumptions do not reflect data that is consistent with sources independent of the reporting entity, an explanation of why it is inappropriate to do so should be disclosed.

22. The value of the federal government's estimated petroleum royalties should be computed based on the calculation of federal oil and gas proved reserves on a regional basis. For purposes of these standards, the regions used in determining and reporting regional amounts or factors should be collaboratively developed by all the component entities involved in federal oil and gas resource activities. Regions used in calculating regional estimated petroleum royalties and in applying these standards should be consistent and aligned with regions used internally by the component entities in administering federal oil and gas resource activities.

23. The estimates of future federal royalty receipts on proved reserves known to exist as of the reporting date should be divided further by commodity and type (e.g., wet gas, **dry gas**, oil and **lease condensate**, onshore, offshore, etc.) and calculated separately if material differences would otherwise result. Each of the individual calculations should be summed together to arrive at the federal government's total estimated petroleum royalties.

24. The preferred measurement method for valuing the federal government's estimated petroleum royalties is the present value of future federal royalty receipts on proved reserves using a risk-free discount rate as described in paragraphs 19 through 21; however, methods for measuring fair value that

are consistent with Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*,[8] may be acceptable if it is not reasonably possible to estimate present value of future federal royalty receipts on proved reserves using the methodology described in paragraphs 19 through 21.

25. Once established, the estimation methodology should be consistently followed and disclosed in the financial reports. If environmental or other changes would provide for the development of an improved methodology, the nature and reason for the change in methodology, as well as the effect of the change, should be disclosed. The net effect of a change in methodology after the initial year should be accounted for as a change in accounting estimate effected by a change in accounting principle.[9]

26. A change in accounting estimate should be accounted for in (a) the period of change if the change affects that period only or (b) the period of change and future periods if the change affects both. A change in accounting estimate should not be accounted for by restating or retrospectively adjusting amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.

Liability Recognition and Measurement

27. The majority of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves are distributed to state governments, other federal agencies, and the general fund of the U.S. Treasury in accordance with legislated allocation formulas. The legislated allocation formulas constitute a present obligation[10] of the component entity that is responsible for collecting royalties to provide assets to another entity, and the underlying legislation identifies the conditions under which these distributions will be made.

28. A long-term liability and corresponding expense for estimated petroleum royalty revenue distributions to non-federal entities (e.g., state governments)

---

[8] FASB ASC 820.10

[9] A change in accounting estimate effected by a change in accounting principle is a change in accounting estimate that is inseparable from the effect of a related change in accounting principle. An example of a change in estimate effected by a change in principle is a change in the method of depreciation, amortization, or depletion for long-lived, nonfinancial assets.

[10] The term obligation is used in this Statement with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.

should be recognized by the component entity that is responsible for collecting royalties in conjunction with the recognition of an asset for estimated petroleum royalties.[11] The amount of the liability should be estimated based on the portion of the royalty share of the federal proved oil and gas reserves designated to be distributed to non-federal entities. For example, the average annual share of the revenue distributed to non-federal entities over the preceding twelve (12) months may be an acceptable basis for estimating petroleum royalties to be distributed. Other methodologies may be acceptable. The corresponding expense should be recognized in a manner consistent with existing standards.

29. The estimated portion of the liability for royalty revenue distributions to non-federal entities expected to be distributed within 12 months of the fiscal year-end may be classified as current.

30. The cumulative net effect of recognizing an asset and establishing a liability for revenue distributions to non-federal entities at the beginning of the reporting period for which these standards are fully effective should be reported as a “change in accounting principle” that increases the entity‘s net position. The adjustment should be made to the beginning balance of cumulative results of operations on the statement of changes in net position for the period that the change is made in accordance with SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles.* In the initial year of implementation, prior year information should not be restated.

Revenue and Expense Recognition

31. **Bonus bid** and **rent** revenue relating to federal oil and gas resources should be recognized as exchange revenue on the statement of net cost of the component entity that is responsible for collecting royalties.[12] In addition, a liability[13] and corresponding expense for bonus bid and rent revenue distributions to non-federal entities should be recognized by the component entity that is responsible for collecting royalties in conjunction

[11] At this time, the Board is requiring liability recognition for estimated petroleum royalty revenue to be distributed to **non-federal** entities. An estimate of the estimated petroleum royalty revenue to be distributed to **federal** entities should be disclosed (see par. 42f).
[12] Per SFFAS 7, *Accounting for Revenue and Other Financing Sources*, paragraph 34.
[13] SFFAS 1, *Accounting for Selected Assets and Liabilities*, pars. 83-86, provides that other current liabilities may include unpaid expenses that are accrued for the fiscal year for which the financial statements are prepared and are expected to be paid within the fiscal year following the reporting date. Amounts of bonus bids and rent revenues to be distributed to non-federal entities may be classified as an other current liability consistent with SFFAS 1 if the definition is met.

with the recognition of the bonus bid and rent revenue. The amount of the liability should be the bonus bid and rent revenues designated to be distributed to non-federal entities, e.g., state governments. The corresponding expense should be recognized in a manner consistent with existing standards.

32. **Royalties** from the production of federal oil and gas proved reserves should be recognized as exchange revenue on the statement of net cost by the component entity that is responsible for collecting the royalty revenue. At the same time, an amount equal to the royalty revenue should be recognized as depletion expense on the statement of net cost of the component entity that is responsible for collecting the royalty revenue and the value of estimated petroleum royalties should be reduced by the depletion expense amount.[14]

Future Royalty Rights Identified for Sale

33. When rights to a stream of future royalties are identified for sale, the calculated value of those rights should be disclosed in the notes as “future royalty rights identified for sale.” The “future royalty rights identified for sale” should not be revalued or reclassified to a different asset category on the balance sheet and no gain or loss should be reported prior to the sale.

34. The calculated value disclosed for future royalty rights identified for sale should be based on the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date for the specific **field** to be sold.

35. When the future royalty rights identified for sale are sold, the calculated value of the future royalty rights sold should be removed from the estimated petroleum royalties account at the time of the sale. Any difference between this calculated value and the actual sales proceeds results in a net gain or loss.

36. The net gain or loss should be reported on the statement of net cost of the component entity that is responsible for collecting royalties. In addition, if the sale produced a net gain, the liability and a corresponding expense for the revenue distributions to non-federal entities should be increased by an amount equal to the amount of the gain designated to be distributed to non-

[14] The principle that a liability is reduced when funds are distributed is established in other FASAB standards. When bonus bid, rent, and royalties are distributed, the liability for bonus bid, rent, and royalty distributions should be reduced.

federal entities, e.g., state governments. If the sale produced a net loss, the liability and a corresponding expense for the revenue distributions to non-federal entities should be decreased by an amount equal to the amount of the loss, which will reduce future distributions to others.

Annual Valuation of Estimated Petroleum Royalties

37. The estimated petroleum royalties asset should be valued at the end of each fiscal year for financial statement reporting.

38. The calculated value of estimated petroleum royalties at year-end should be compared to the existing book value of the estimated petroleum royalties asset. If the calculated value of the estimated petroleum royalties asset at year-end is greater than the book value,[15] the book value should be increased to the new estimate and a gain should be recognized on the statement of net cost. If the calculated value of the estimated petroleum royalties asset at year-end is less than the book value, the book value should be decreased to the new estimate and a loss should be recognized on the statement of net cost.

39. In addition, if the calculated value of the estimated petroleum royalties asset at year-end is greater or less than the book value, the liability for revenue distributions to non-federal entities should be increased or decreased to the amount expected to be distributed.[16] If the revaluation resulted in a net gain, the liability and a corresponding expense for the revenue distributions to non-federal entities should be increased by an amount equal to the amount of the gain designated to be distributed to non-federal entities, e.g., state governments. If the revaluation resulted in a net loss, the liability and a corresponding expense for the revenue distributions to non-federal entities should be decreased by an amount equal to the amount of the loss, which will reduce future distributions to others.

40. For estimates that are developed using present value, component entities should display gains and losses from changes in **long-term assumptions** (i.e., discount rate and inflation rate) used to measure assets and liabilities for oil and gas as a separate line item or line items on the statement of net costs. See the pro forma illustration in Appendix B.

[15] The estimated petroleum royalties beginning balance would have been reduced by the amount of depletion expense recognized during the year.
[16] For example, the average annual share of the revenue distributed to others over the preceding twelve (12) months may be an acceptable basis to estimate future distributions. Other methodologies may be acceptable.

Disclosure Requirements and Required Supplementary Information

41. Notes to the financial statements are an integral part of the basic financial statements, essential for complete and fair presentation in conformity with generally accepted accounting principles for the federal government.

<u>Component Entity Report Disclosures</u>

42. The component entity responsible for collecting royalties should provide the following as note disclosures:

    a. A concise statement explaining how the management of federal oil and gas resources is important to the overall mission of the entity.

    b. A brief description of the entity's stewardship policies for federal oil and gas resources. The stewardship policies for federal oil and gas resources should describe the guiding principles established to: assess the oil and gas resource areas; offer those resources to interested developers; sell and assign **leases** to winning bidders; administer the leases; collect bonuses, rents, royalties, and **royalty-in-kind**; and distribute the collections consistent with statutory requirements, prohibitions, and limitations governing the entity.

    c. A narrative describing future royalty rights identified for sale, if applicable. The narrative should provide the value of the rights identified for future sale, the location of the field(s) involved in the future sale, and the best estimate of when the rights would be sold.

    d. A narrative describing and a display showing revenue reported by category for the reporting period should be presented for offshore and onshore revenues for the following categories: royalty revenue for oil and gas, rent revenue, bonus bid revenue for leases, and total revenue from all the above categories.

    e. A narrative describing and a display showing:

        i. the quantity of oil and gas for each reporting period;

        ii. the average of the Regional Average **First Purchase Prices** for oil and the average of the Regional Average **Wellhead Prices** for gas for each reporting period;

iii. the average **royalty rate** for oil and gas for each reporting period;

iv. the asset value for oil and gas by the commodities and types identified for use in calculating the federal government's total estimated petroleum royalties for each reporting period (see paragraph 23); and,

v. the value of estimated petroleum royalties at the end of each reporting period.

f. A schedule of the total amount of estimated petroleum royalties to be distributed to other federal entities, by entity.

g. A narrative describing and a display showing the reconciliation between the beginning and ending balances of the estimated petroleum royalties asset reported in the entity's balance sheet. The reconciliation is accomplished by adding to or subtracting from the beginning balance the dollar amounts of the following items: (1) revaluation gains and losses due to changes in quantity, price, royalty rates, and long-term assumptions (i.e., discount rate and inflation rate), (2) depletion, (3) sale of future royalty streams, and (4) other adjustments. Additional subcomponents may be presented. The narrative should include an explanation of the reasons for the changes in estimated petroleum royalties from one period to the next and be as brief as possible without detracting from understanding.

<u>Component Entity Required Supplementary Information (RSI)</u>

43. The component entity responsible for reporting the federal government's estimated petroleum royalties on its balance sheet should provide the following as RSI:

a. A narrative describing the estimation methodology used to calculate the value of the federal government's estimated petroleum royalties. At a minimum, the narrative explanation should include a "plain English" explanation of the measurement method (e.g., present value) and the significant assumptions incorporated into the estimate (e.g., discount rates used to calculate present value, production decline curve, portion of proved reserves under federal lands, future oil and gas prices, inflation rates, etc).

b. A reference to the source reports used to calculate the value of the federal government's estimated petroleum royalties.

c. A narrative describing and a display showing the **sales volume**, the **sales value**, the royalty revenue, and the **estimated value for royalty relief** produced from federal oil and gas resources for the reporting period. To the extent that regional information is available and would contribute to understanding, provide the information for each region.

d. A narrative describing other significant federal oil and gas resources that are not addressed by this Statement because they are not currently under lease (e.g., coastal plain of the Arctic National Wildlife Refuge). The narrative should be sufficient to enable the financial statement reader to gain an understanding of the full extent of federal oil and gas resources.

Consolidated Financial Report (CFR) of the United States Government Disclosures

44. The governmentwide entity should display gains and losses from changes in assumptions as a separate line item or line items on the statement of net cost after a subtotal for all other costs and before total cost.

45. The disclosure related to federal oil and gas resources should provide:

a. A concise statement explaining the nature and valuation of federal oil and gas resources.

b. A narrative describing and a display showing:

i. The quantity of oil and gas for each reporting period.
ii. The average of the Regional Average First Purchase Prices for oil and the average of the Regional Average First Wellhead Prices for gas for each reporting period.
iii. The average royalty rate for oil and gas for each reporting period.
iv. The asset value for oil and gas by the commodities and types identified for use in calculating the federal government's total estimated petroleum royalties for each reporting period (see paragraph 23).
v. The value of estimated petroleum royalties at the end of each reporting period.

c. A reference to specific agency reports for additional information about federal oil and gas resources.

Fiduciary Oil and Gas Resources Disclosures

46. Fiduciary activities are defined in SFFAS 31, *Accounting for Fiduciary Activities*. Information consistent with the requirements of paragraphs 14 through 40 of this document should be presented as an integral part of the fiduciary activities Schedules of Fiduciary Activity and Net Assets. No additional disclosures or RSI are required by this Statement.

Federal Receiving Entity Accounting and Reporting

47. Each federal entity that is required to receive a portion of the estimated petroleum royalties asset should disclose in the notes to its financial statements its relationship with the royalty revenue program and an estimate of the total amount of estimated petroleum royalties to be distributed to it over time by the component entity that is responsible for collecting royalties. The amount should be calculated by the component entity that is responsible for collecting royalties using the same measurement method that is used to value the asset.

48. As distributions are received from the component entity responsible for collecting royalties, the federal receiving entity should record a transfer in and a corresponding increase to fund balance.

Effect on Existing Standards

49. This Statement affects existing standards dealing with “bonus bid, rent, and royalty revenues” in SFFAS 7. As a result, paragraph 45 of SFFAS 7 is amended as follows:

> [45] Under exceptional circumstances, such as revenues from the auction of the radio spectrum ~~rents and royalties on the Outer Continental Shelf~~, an entity recognizes virtually no costs (either during the current period or during past periods) in connection with earning revenue that it collects.

50. In addition, paragraphs 275, 276, and 277 of SFFAS 7 are deleted.

> ~~[275.] MMS does not recognize a depletion cost for various reasons, including the fact that under present accounting standards natural resources are not recognized as an asset and depletion is not recognized as a cost. As a result, this exchange revenue bears little relationship to the recognized cost of MMS and cannot be matched against its gross cost of~~

~~operations. Therefore, although the inflows are exchange revenue, they should not be subtracted from MMS's gross cost in determining its net cost of operations.~~

~~[276.] MMS collects rents, royalties, and bonuses and distributes the collections to the recipients designated by law: the General Fund, certain entities within the Government to which amounts are earmarked, the states, and Indian tribes and allottees. MMS collection activity for non-federal entities may meet the definition of fiduciary activity and, if so, should be accounted for in accordance with the requirements of SFFAS 31, Accounting for Fiduciary Activities. The amounts of revenue should be recognized and measured under the exchange revenue standards when they are due pursuant to the contractual agreement.~~

~~[277.] The rents, royalties, and bonuses transferred to Treasury for the General Fund, or to other Government reporting entities, should be recognized by them as exchange revenue. However, neither the Government as a whole nor the other recipient entities recognize the natural resources as an asset and depletion as a cost. Therefore, this exchange revenue should not offset their gross cost in determining their net cost of operations. It should instead be a financing source in determining their operating results and change in net position.~~

Effective Date

51. The following phase-in of reporting requirements as basic information provides for full implementation for reporting periods beginning after September 30, 2013.

    a. These standards are effective for periods beginning after September 30, 2010.

    b. Information should be reported as RSI for the first three years of implementation (fiscal years 2011, 2012, and 2013). Until such time that the information is presented as basic, information reported as RSI would be presented as part of a schedule of estimated petroleum royalties and not reported in the principal financial statements.

c. Beginning in fiscal year 2014, the required information should be presented as basic information, except where specifically designated as RSI (paragraph 43).

d. Earlier implementation is encouraged.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement–not the material in this appendix–should govern the accounting for specific transactions, events, or conditions.

Project History

A1. The project began with the formation of a task force to conduct research. The task force produced a discussion paper in June 2000 entitled *Accounting for the Natural Resources of the Federal Government* (see http://www.fasab.gov/pdffiles/natresrpt.pdf to access the report). In 2002, the Board resumed active consideration of the issues raised by the task force after a deferral to address other issues.

A2. The Board was interested in determining whether values for federal natural resources, or some surrogate, should be capitalized and reported on the balance sheet. The Board members believed that capitalizing federal natural resources could increase accountability for their management and improve the comprehensiveness, relevance, and consistency of federal financial statements. The Board members agreed to address each type of natural resource (e.g., fluid leasable minerals such as oil and gas, solid leasable minerals such as coal and timber) in separate phases. Federal oil and gas resources were addressed first because of the literature available in other domains, the extensive historical information on federal lease programs and royalty collections, and the large amount of revenue received in exchange for federal oil and gas resources.

A3. The Board indicated that the pertinent questions were (1) what, if anything, should be recognized as an asset; and, (2) what is the source and reliability of quantity information. They believed the source and the reliability of the information would have a bearing on where information should be reported.

A4. The extractive industries' activities for oil and gas can be divided into two categories—upstream activities (exploration and production activities) and downstream activities (transportation, refining, and marketing activities). Upstream activities can be divided into the following phases:

a. Prospecting[17]
b. Acquisition of mineral rights
c. Exploration
d. Appraisal and evaluation
e. Development
f. Production

A5. Downstream activities take place after the production phase of the upstream activities through to the point of sale and can be divided into the following phases:
a. Supply and trading
b. Shipping
c. Refining
d. Storage and distribution
e. Marketing and retail

A6. The national assessment of federal oil and gas resources performed by the federal government is similar to the prospecting phase of the extractive industries' upstream activities. It is the only activity performed by the federal government that is similar to the extractive industries' activities.

A7. The Board noted that, based on discussions about oil and gas lease activities in the private sector, new models for accounting and reporting the federal government's oil and gas activities would be needed because the current federal model is incomplete and federal activities are not similar to private sector activities.

A8. This exposure draft (ED) is the Board's second request for comments on its proposed requirements for accounting for federal oil and gas resources. The Board released the original ED, *Accounting for Federal Oil and Gas Resources*, on May 21, 2007. Substantive changes have been made to the original ED as a result of the comments received. Discussions about the new requirements as well as the changes from the original requirements are disbursed throughout the remainder of this appendix.

Accounting for Other Types of Natural Resources

A9. Federal lands contain a variety of natural resources that are not specifically addressed by this Statement, including coal, gold, and silver, as well as timber and grazing rights. Originally, the Board intended to address each category of

[17] Prospecting usually involves researching and analyzing an area's historic geologic data and carrying out topographical, geological, and geophysical studies.

resources in separate phases as noted in paragraph A2. Although in principle a broader application was desirable to several Board members, the majority believes that the Board has already devoted a substantial amount of time to the oil and gas standard and developing additional guidance would significantly delay implementation of a broad standard. Therefore, since federal oil and gas resources represent the most significant portion of all federal natural resources, the majority of members felt it was important to begin recognizing them as soon as possible.

A10. While the Board may address accounting for other types of natural resources at some point in the future, the majority of the members acknowledge that it is not likely that a project devoted to other categories of natural resources will be marked as a high priority at future agenda-setting sessions due to their lesser significance. Nonetheless, the majority of the members believe that the substance of the standards developed for federal oil and gas resources may serve as a good analogy for other categories of federal natural resources. Therefore, while this Statement does not specifically address other types of federal natural resources, the Board believes that this Statement should be considered when applying SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, to other types of federal natural resources that agencies are considering for recognition and reporting. As a result, while not explicitly encouraging agencies to recognize other categories of natural resources, the Board included paragraph 10 to explicitly state that this Statement does not preclude entities from recognizing or otherwise reporting information about other types of federally-owned natural resources.[18]

Overview of Federal Oil and Gas Resources

A11. Illustration 1, *Components of Federal Oil and Gas Resources* (illustration), presented on page 27 identifies the universe of federal oil and gas resources. The illustration presents accounting standards requirements and the components of federal oil and gas resources (total resources). Total resources incorporate "original in-place" resources, that is, resources in the earth before human intervention.

A12. The accounting standards presented in the illustration include current accounting standards and proposed accounting standards for each component of federal oil and gas resources. The components are those used in the

[18] SFFAS 34, Paragraph 7 (see footnote 5 regarding issuance of SFFAS 34)

industry. Information is available in varying degrees and with varying reliability for each component. The components are first separated into "undiscovered resources" and "reserves." Generally, undiscovered resources are not under lease, while reserves are under lease.

Undiscovered Resources

A13. The first major component of total resources is **undiscovered resources**. The undiscovered resources component is divided into the following subcomponents:

a. **undiscovered non-recoverable resources**
b. **undiscovered recoverable resources**
   i). **undiscovered conventionally recoverable resources**
   ii). **undiscovered economically recoverable resources**.

A14. Each component and subcomponent can be further divided between onshore and offshore resources. Onshore resources consist of resources on federal lands. Offshore resources consist of resources on the Outer Continental Shelf (OCS). This division between onshore and offshore resources is important operationally because the source and volume of information varies.

A15. There is no information available on undiscovered non-recoverable resources. These resources are not addressed or included in any type of assessment. Undiscovered non-recoverable resources are referred to as resources that are beyond conventional technologies to be estimated and are not assessed. However, in the realm of "original in-place" resources they may exist.

A16. Information on the two subcomponents of undiscovered recoverable resources is available for offshore oil and gas resources. This information is based on national assessments performed by the Minerals Management Service (MMS) approximately every 5 years, with updates on a yearly basis for certain geographic locations. The assessment considers recent geophysical, geological, technological, and economic information and uses a geologic **play** analysis approach for resource appraisal. Information on undiscovered conventionally recoverable resources and undiscovered economically recoverable resources is provided in the MMS assessment.

A17. For the onshore portion of undiscovered recoverable resources, the U.S. Geological Survey (USGS) formerly conducted national assessments. The last comprehensive national assessment was completed by the USGS in 1995, and since 2000 the USGS has been re-assessing basins of the U.S. that are considered to be priorities for the new assessment rather than assessing all of the basins of the U.S. As each **basin** is re-assessed, the assessment results are added to the assessment tables, and these new values replace the assessment results from 1995. The USGS assessment provides information on undiscovered conventionally recoverable resources but not on undiscovered economically recoverable resources like the MMS does.

A18. Under current FASAB accounting standards, there are no requirements to provide or present information about the undiscovered resource components in the financial statements. Information about technically recoverable resources has been gathered and maintained by the Energy Information Administration (EIA) in the past. However, EIA no longer reports on the technically recoverable resources under federal lands. Therefore, as there is no reliable source for this type of information, federal reporting on onshore and offshore undiscovered recoverable resources is not required.

Reserves

A19. The second major component of total resources is reserves. The reserves component is divided into the following subcomponents as follows:

a. **unproved reserves**
   - i). **unproved possible reserves**
   - ii). **unproved probable reserves**

b. proved reserves
   - i). **proved undeveloped reserves**
   - ii). **proved developed reserves**
     1. **proved developed non-producing reserves**
     2. **proved developed producing reserves**

A20. Under current FASAB accounting standards, there are no requirements to provide or present information about the unproved reserves components in the financial statements.

A21. Under the accounting standards proposed in the original ED, information about onshore and offshore unproved reserves would be included in the technically recoverable resources and reported as RSI. However, as noted in par. A18, although information about technically recoverable resources has been gathered and maintained by the EIA in the past, EIA no longer reports on the technically recoverable resources under federal lands. Therefore, as there is no reliable source for this type of information, federal reporting on unproved reserves is not required.

A22. Quantitative information in relation to onshore and offshore proved reserves, including new discoveries, production, and **adjustments** is submitted to the EIA by oil and gas well operators once a year. The due date for operators to submit the information is April 15 for activities from the preceding calendar year.

A23. Under current accounting standards, the bonus bid, rent (collected on the lease until oil and gas production begins), and royalty revenue (collected on production) are accounted for as a custodial activity (i.e., an amount collected for others) by MMS, the collecting entity. The collections and their distribution are reported on MMS's statement of custodial activities. Component entities receiving a distribution and the CFR of the United States government recognize the revenue as a financing source in their respective statement of changes in net position or statement of operations and changes in net position.

A24. Under the proposed accounting standards, the estimated federal royalty share of proved reserves would be recognized as estimated petroleum royalties by the component entity responsible for reporting the asset on its balance sheet. Also, royalty revenue due would be recognized as revenue along with a depletion expense in equal amounts on the statement of net cost. Changes in the asset amount due to year-end valuation would be reported as a gain or loss on the statement of net cost of the component entity responsible for reporting the asset on its balance sheet. Also, revenue received from rent and bonus bids would be recognized as exchange revenue on the statement of net cost. Any expenses incurred to collect the rent and bonus bids would be included in the operating expenses on the statement of net cost. The CFR would include these amounts in the consolidated financial statements.

A25. There are no current requirements to provide or present information about the production of oil and gas in the financial statements. However, under the proposed accounting standards, information on the quantity and consumption of proved reserves, including the sales volume, the sales value, the amount of royalty revenue, and the estimated value for royalty relief would be provided as RSI.

A26. On page 27, Illustration 1, entitled *Components of Federal Oil and Gas Resources*, provides a summary of the information presented in the preceding paragraphs. The shaded boxes in the illustration represent the availability of information as follows:

No quantity information available	
Technically recoverable resources quantity information provided by EIA[19]	
Proved reserves quantity information provided by EIA[20]	

The terms in Illustration 1 are defined in the Glossary under the subheading *Definitions of Resource and Reserve Components and Subcomponents*.

[19] Quantity information is published at the national level.
[20] Quantity information is published at the national level.

Illustration 1 – Components of Federal Oil and Gas Resources

Accounting Standards	Components of Federal Oil and Gas Resources							
	Undiscovered Resources			Reserves				
	Undiscovered Non-Recoverable Resources	Technically Recoverable Resources				Proved Reserves		
		Undiscovered Recoverable Resources		Unproved Reserves				
		Undiscovered Conventionally Recoverable Resources	Undiscovered Economically Recoverable Resources	Unproved Possible Reserves	Unproved Probable Reserves	Proved Undeveloped Reserves	Proved Developed Reserves	
							Proved Developed Non-Producing Reserves	Proved Developed Producing Reserves
Current Accounting Standards				Bonus bid, rent, royalty revenue accounted for as custodial activity and recognized as a financing source on the CFR statement of operations and changes in net position				
Proposed Accounting Standards				• Recognize bonus bid and rent revenues as exchange revenue on SNC[21]		• Recognize projected federal royalty share as asset on BS[22] • Recognize designated distributions to non-federal entities as liability on BS • Recognize gains and losses from revaluation on SNC • Provide disclosures for proved reserves		• Recognize royalty revenues as revenue and depletion expense on SNC • Provide RSI/ Disclosure Information

[21] statement of net cost
[22] balance sheet

Conceptual Aspects of Federal Oil and Gas Resources as an Asset for Estimated Petroleum Royalties and a Liability for the Portion of Revenue to be Distributed to Non-Federal Entities

Recognition Criteria

A27. SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*, states that to be recognized as an element of the financial statements, an item must (a) meet the definition of an element of the financial statements and (b) be measurable. The term measurable means that a monetary amount can be determined with reasonable certainty or is reasonably estimable.[23]

A28. Measurement may require the use of estimates and approximations as well as an assessment, in a manner consistent with the attribute being measured, of the probability that future inflows or outflows of economic benefits or services will result from the item. Recognition decisions also incorporate the results of assessments of the materiality and benefit versus cost of recognizing the item measured. Thus, it is possible that an item that meets the basic recognition criteria would not be recognized due to measurement, materiality, or cost-benefit considerations.[24]

Asset Recognition

A29. Recognition of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves as an asset is based on SFFAC 5, paragraphs 18 through 35.

A30. An asset for federal accounting purposes is a resource that embodies economic benefits or services that the federal government controls.[25]

A31. To meet the definition of an asset of the federal government, a resource must possess two characteristics. First, it must embody economic benefits or services that can be used in the future. Second, the government must control access to the economic benefits or services and, therefore, can obtain them and deny or regulate the access of other entities.[26]

Oil and Gas Resources as a Federal Asset

---

[23] SFFAC 5, par. 5.
[24] SFFAC 5, par. 7.
[25] SFFAC 5, par. 18.
[26] SFFAC 5, par. 22.

A32. First, the Board established which federal oil and gas resources were being considered. *Illustration 1 – Components of Federal Oil and Gas Resources* on page 27 presents the federal oil and gas resources that were considered. The two major components are "undiscovered resources" and "reserves." All of the federal oil and gas resources qualify as federal government assets because the government can obtain economic benefits and regulate the access of other entities as provided under federal law.

A33. Since all federal oil and gas resources controlled by the federal government are assets, the Board's next step was to decide whether the federal oil and gas resources "asset" should be recognized on a federal component entity balance sheet. As noted in paragraph A27 above, the second criterion for recognition is that the asset "…be measurable."

A34. Estimates of the quantity of technically recoverable oil and gas resources were available through EIA in the past. With this quantity information, a monetary measure was technically feasible and, therefore, the asset qualified for consideration for recognition. However, the Board does not believe that the information is sufficiently reliable to be recognized in a cost-beneficial manner.

A35. The EIA information on other than proved reserves is derived from sporadic and incomplete national assessments and annual submissions by oil and gas producers. This makes it particularly uncertain. In addition, since these reserves are not currently under lease, determining the royalty share may be misleading since it is a current value measure but the underlying asset may be restricted and production may never occur. For those resources that are not restricted, production may occur but the timing and amount of royalties are very uncertain. Thus, applying the same measurement technique to other than proved reserves may not result in a value that represents what it purports to represent. Therefore, federal oil and gas resources not yet in the 'proved reserves' category would not be recognized on the federal balance sheet due to concerns regarding reliability of the proposed measure.

A36. SFFAC 1, *Objectives of Federal Financial Reporting,* provides the following with respect to reliability:

> 160. Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive. Nothing material should be omitted from the information necessary to represent faithfully the underlying events and conditions, nor should anything be included that would likely cause the information to be misleading to the intended report user. Reliability does not

imply precision or certainty, but reliability is affected by the degree of estimation in the measurement process and by uncertainties inherent in what is being measured. Financial reporting may need to include narrative explanations about the underlying assumptions and uncertainties inherent in this process. Under certain circumstances, a properly explained estimate provides more meaningful information than no estimate at all.

A37. Concerning the proved oil and gas reserves from federal oil and gas resources, the Board believes that both the quantity and the estimated federal royalty share would be reliable. Thus, in this case, since the quantity of the estimated federal proved oil and gas reserves can be reliably estimated and converted to monetary terms (estimated federal royalty share), the Board believes the estimated federal royalty share of proved oil and gas reserves should be recognized on the balance sheet.

Measurement Attributes and Methods Considered

A38. The FASAB's projects to reexamine and expand its conceptual framework include a project on measurement attributes (i.e., the aspect of an item that is measured, such as, for example, its historical cost or replacement cost) for reporting purposes. This project follows logically from SFFAC 5, which states that an item's being *measurable* is a criterion for recognition in the financial statements but does not address measurement attributes or measurement methods.

A39. As is true of other components of an expanded conceptual framework, this project on measurement attributes is expected to result in a concepts statement for the future guidance of, primarily, the Board itself. The statement may include definitions and a discussion of the features of different measurement attributes as well as other concepts that should assist the Board in developing future standards. The statement also should assist preparers and auditors in selecting appropriate measurement attributes in the absence of FASAB standards, and it should help users understand the importance of the selection of different measurement attributes. However, the concepts statement would not set standards. For example, although it might discuss the advantages and disadvantages of particular attributes, it would neither require nor recommend the selection of particular attributes in specific circumstances, nor would it amend or supersede existing standards for the selection of measurement attributes or other measurement concepts.

A40. While concepts to help guide the selection of appropriate measurement attributes should make a significant contribution to the Board's ability in the future to enhance the consistency of standards for the benefit of preparers, auditors, and users of federal financial statements and financial reports, such guiding concepts do not need to be finalized prior to FASAB issuing additional standards. Therefore, while the project on measurement attributes is underway, the Board will need to continue to select the measurement attributes for each standard under deliberation.

A41. Concerning the dollar amount to be recognized for the estimated federal royalty share of proved reserves, the Board considered various measurement attributes and methods, including the following:

a. Historical cost (historical proceeds) – The amount of cash, or its equivalent, paid to acquire an asset, commonly adjusted after acquisition for amortization or other allocations.

b. Fair value – When market transactions are available, fair value is the same as market value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c. Net realizable (settlement) value – The total non-discounted amount of cash, or its equivalent, into which an asset is expected to be converted in due course of business less direct costs, if any, necessary to make that conversion. The 'net realizable value' (NRV) requires a reasonable estimate of future flows (receipts and costs) associated with converting assets to cash.

d. Present (or discounted) value of future cash flows – The present or discounted value of future cash inflows into which an asset is expected to be converted in due course of business less present values of cash outflows necessary to obtain those inflows.

A42. After deliberating on the above attributes and methods, the Board decided that defining a measurement attribute in terms that are common to the oil and gas industry would be the best approach. Therefore, the Board proposed to use a regional average first purchase price for oil and lease condensate, a regional average first purchase price for **natural gas plant liquids (NGPLs)**, and a regional average wellhead price for gas to value federal estimated petroleum royalties. This measurement approach was included in the May 2007 ED.

A43. Also included in the May 2007 ED was an alternative view from the Board member representing the Congressional Budget Office, expressing the view that fair value is the appropriate basis for valuing federal oil and gas resources.

At the time, the other Board members had rejected fair value because of the lack of current transactions between market participants involving the sale of the federal royalty share for proved oil and gas reserves.

A44. In conjunction with the comment period on the May 2007 ED, the Board requested that the proposal be field tested by the Department of Interior (DOI). After reviewing the results of the field testing performed by DOI (see paragraphs A78 through A85) and talking with DOI representatives (see paragraphs A86 and A87) about the alternative methodology that it developed, the Board determined that the estimates that are developed should approximate the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date. The estimates should be based on the best information available at fiscal year-end, or as close to the fiscal year-end as possible. In addition, discount rates as of the reporting date for present value measurements of federal oil and gas assets and liabilities should be based on interest rates on marketable Treasury securities with maturities consistent with the cash flows being discounted.

A45. While present value is typically considered to be a method for measuring fair value, the present value measurement approach proposed in this ED is based on an entity-specific discount rate, specifically the interest rates on marketable Treasury securities, and does not consider the price that market participants demand for bearing the uncertainty inherent in the cash flows (i.e., neither the cash flows nor the discount rate is adjusted for a market risk premium). Under SFAS 157,[27] a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset. A measurement that does not include an adjustment for the market risk premium would not represent a fair value measurement since market participants would include one in pricing the petroleum royalties. Therefore, the present value measurement approach proposed in this ED is not a fair value measure consistent with SFAS 157.[28]

A46. There is some concern that DOI may not be able to implement and/or obtain a favorable audit opinion on the present value methodology that it proposed as a result of its field testing. To permit additional flexibility in the measurement methods for valuing federal estimated petroleum royalties, the Board has also determined that methods for measuring fair value that are consistent with SFAS 157[29] will be acceptable. Fair value incorporates the effects of uncertainty that are inherent in the cash flows expected in the future from oil

[27] FASB ASC 820.10
[28] Ibid
[29] Ibid

and gas activities, including the effects of the additional return demanded by market participants to assume the risk of that uncertainty. Therefore, the proposed standard provides for a measurement method that is based on either (1) the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date using a risk-free discount rate without incorporating market risk, or (2) a market-based fair value measurement consistent with SFAS 157.[30]

Asset Valuation Methodology

A47. The Board believes that the detailed estimation methodology for valuing federal oil and gas resources should be developed by federal entities. In an environment heavily affected by changes in prices, technological advancements, economic and operating conditions, and known geological, engineering, and economic data, estimation methodologies may need to be regularly updated to reflect these changing conditions. Sources of information that were once available to preparers may be replaced or become obsolete. On the other hand, new and more reliable data sources may become available. Permitting the preparers flexibility in developing an estimation methodology that keeps pace with the environment will prevent the accounting standards from becoming outdated.

A48. EIA has been used as the source of information on proved reserves data in the past and may prove to continue to be the appropriate source for such information in the future. However, the Board has chosen not to explicitly designate EIA as the source of information; an explicit designation of the source of information would prevent the preparer from fully complying with the standards if the source were no longer available at some point in the future.

Change in Methodology after the Initial Year of Implementation

A49. The net effect of a change in methodology after the initial year should be accounted for as a change in accounting estimate effected by a change in accounting principle.

A50. Distinguishing between a change in an accounting principle and a change in an accounting estimate is sometimes difficult. In some cases, a change in accounting estimate is effected by a change in accounting principle. A change in accounting estimate effected by a change in accounting principle is a change in accounting estimate that is inseparable from the effect of a related change in accounting principle. One example of this type of change is a change in

[30] Ibid

method of depreciation, amortization, or depletion for long-lived, nonfinancial assets (hereinafter referred to as depreciation method). The new depreciation method is adopted in partial or complete recognition of a change in the estimated future benefits inherent in the asset, the pattern of consumption of those benefits, or the information available to the entity about those benefits. The effect of the change in accounting principle, or the method of applying it, may be inseparable from the effect of the change in accounting estimate. Changes of that type often are related to the continuing process of obtaining additional information and revising estimates and, therefore, are considered changes in estimates for purposes of applying this Statement.

A51. Like other changes in accounting principle, a change in accounting estimate that is effected by a change in accounting principle may be made only if the new accounting principle is justifiable on the basis that it is preferable. For example, an entity that concludes that the pattern of consumption of the expected benefits of an asset has changed, and determines that a new depreciation method better reflects that pattern, may be justified in making a change in accounting estimate effected by a change in accounting principle.

Use of Regional Data to Value the Federal Asset "Estimated Petroleum Royalties"

A52. The Board believes that the most relevant, reliable, and cost-beneficial measurement of "estimated petroleum royalties" would be obtained by using regional information. The Board believes this approach would provide conservative, representative regional values of estimated petroleum royalties without having to calculate the value on a field-by-field basis. The Board believes it would not be practicable to make calculations on a field-by-field basis. There are more than 60,000 leases maintained by the DOI with approximately 115,000 producing wells.

<u>Liability Recognition</u>

A53. Recognition of royalty distributions to non-federal entities as a liability is based on SFFAC 5 paragraphs 36 through 48.

A54. A liability is a present obligation[31] of the federal government to provide assets or services to another entity at a determinable date, when a specified event occurs, or on demand.[32]

A55. A liability of the federal government has two essential characteristics. First, a liability constitutes a present obligation to provide assets or services to another entity. Second, either a law or an agreement or understanding between the government and another entity identifies conditions or events that will determine when the obligation will be settled.[33]

A56. In paragraph 17, the Board proposes that the federal government's estimated petroleum royalties be recognized as an asset on the balance sheet of the component entity that is responsible for collecting royalties. The asset's value would be based on the royalty share of the federal oil and gas resources classified as "proved reserves." In addition to the royalties that the component entity collects on proved reserves that are produced, it also collects lease sale and rent revenue from federal government oil and gas leases. The component entity distributes nearly all of these proceeds to others (e.g., the general fund of the U.S. Treasury, other federal agencies, and state governments) in accordance with legislated allocation formulas. The component entity also receives a very small portion of the revenue collected to fund its operations. The amount used to fund its operations is legislated by Congress as part of the component entity's annual appropriation. For example, the amount received by the component entity was approximately one percent (1%) of annual revenues collected in 2005.[34]

A57. The Board considered and agreed that a liability for revenue distributions to others should be recognized in conjunction with the recognition of an asset for estimated petroleum royalties. The Board believes a liability for revenue distributions to others should be recognized because nearly all of the revenue from royalties, lease sales, and rent are ultimately distributed to others (e.g., the general fund of the U.S. Treasury, other federal agencies, and state governments). As the proceeds are distributed, the liability would be reduced.

[31] The term obligation is used in this Statement with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.
[32] SFFAC 5, par. 39.
[33] SFFAC 5, par. 41.
[34] The one percent was derived by dividing [Note 21. Custodial Distributions to MMS, Revenues to Fund Operations] by [Total Revenue on the Statement of Custodial Activity] for 2005.

A58. The Board believes that if a liability for revenue distributions to others was not established, the component entity's and the federal government's net position would be overstated.

A59. Conceptually, it would be appropriate for the component entity to record a liability for the revenue to be distributed to both federal and non-federal parties. However, in its response to the field test questionnaires, the DOI field test team noted that each designated federal recipient would be required to record a corresponding receivable and transfer in their statements, with eliminations between entities to prevent double counting government wide. The field test team noted that this accounting becomes especially critical at quarter-ends and at fiscal year-end, where late adjustments required to accruals that are deemed related to federal oil and gas revenue will also require late adjustments by all downstream recipients, thus significantly hampering entities' ability to meet accelerated financial reporting due dates and potentially giving rise to audit findings.

A60. Recognizing that the federal government's current environment results in a continuing strain on resources, the Board has become even more sensitive to developing accounting requirements that serve to provide meaningful information to financial statement users while trying to avoid requirements that are complied with merely for the sake of compliance.

A61. The original ED requirements would result in each of the receiving federal entities recognizing an account receivable and a transfer in their financial statements for the initial asset entry. Then, as the asset is subsequently revalued or adjusted by DOI or its auditors, the receiving federal entities would need to adjust their accounts receivable and transfer accounts. In addition, the intragovernmental elimination entries would need to be adjusted as well. This would be a lot of last minute adjusting for amounts that would be eliminated from the CFR. However, if the receivable entries were not made, the receiving entities would not be including these assets in their financial statements. The Board reconsidered the value of having the federal component entities record the receivable and transfer in their financial statements.

A62. Accounts receivable arise from claims to cash or other assets (SFFAS 1, par. 40). The purpose of recognizing accounts receivable for accrual-basis accounting is to recognize a resource that embodies economic benefits or services in the period that it becomes measurable (SFFAC 5, pars. 5 and 18). While the Board has decided that the estimated petroleum royalties asset upon which the receivable would be based can be reasonably estimated, it is doubtful that the federal receiving entity management would find much decision-useful information with the recognition of a receivable that would be extremely volatile and could not be relied upon for short or long-term budget decisions. In addition, it is doubtful that the financial statement users would find more value in recognition of a receivable on the face of the financial statement as opposed to a disclosure of an estimated amount in the notes to the financial statements. On the contrary, revaluations of the asset that result in large inflows or outflows to the receiving entity in any given year would require a detailed explanation to satisfy the user.

A63. The Board revised the requirements from the original ED so that only a liability for revenue to be distributed to non-federal entities (e.g., state governments) is required to be recognized while each federal receiving entity must disclose in the notes to its financial statements its relationship with the royalty revenue program and an estimate of the total amount of estimated petroleum royalties to be distributed to it.

Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates

A64. SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, requires that gains and losses from changes in long-term assumptions used to estimate federal employee pension, other retirement benefit (ORB), and other postemployment benefit (OPEB) liabilities should be displayed on the statement of net cost separately from other costs. This display provides more transparent information regarding the underlying costs associated with certain liabilities. SFFAS 33 also provides standards for selecting the discount rate assumption and valuation date for pension, ORB, and OPEB liabilities.

A65. SFFAS 33 does not preclude entities from displaying or disclosing any information about the effect of changes in any assumptions with regard to other types of activities. The original SFFAS 33 ED had proposed a broad scope; however, although in principle a broader application was desirable, the Board decided to limit the standards to federal employee pension, ORB, and OPEB liabilities. This decision was based on the Board’s desire to address its primary concern, which is to display the effect of assumption changes on employee compensation liabilities. Since respondents had requested more guidance regarding how the standards would apply to other long-term assumptions, the Board believed that developing additional guidance would significantly delay implementation of SFFAS 33.

A66. The Board believes that it would be appropriate to apply guidance similar to that provided in SFFAS 33 to long-term assumptions about oil and gas in order to increase the usefulness of reported operating results when the volatility of projections results in large variations in annual net cost from year to year.

Future Rights to Royalty Streams Identified for Sale

A67. When rights to a future royalty stream are identified to be sold, the value of those rights should be disclosed as "future royalty rights identified for sale." Future royalty rights identified for sale should not be revalued or reclassified to a different asset category on the balance sheet because the point in time for the sale of the future royalty rights may be uncertain and the identified fields may continue to produce oil and/or gas and generate royalties. These two factors make it difficult to establish and maintain valuation information in advance of the sale. No gain or loss on the future royalty rights identified for sale should be calculated since the rights for sale are only disclosed and are not revalued and reclassified to a different asset category on the balance sheet. Disclosure of the approximate value at the balance sheet date alerts the reader to the pending sale and the potential value of the asset to be sold.

A68. The value of the disclosed future royalty rights identified for sale is based on the specific field identified for sale. Because the fields are known, this provides a more field specific value for the rights identified to be sold.

A69. At the time the future royalty rights identified for sale are sold, the calculated value of the future royalty rights sold would be calculated based on the specific field. An amount equal to this calculated value would be removed from the value of estimated petroleum royalties at the time of the sale. This calculation is used to reduce the estimated petroleum royalties since the values of a specific field are known and the value of the future royalty rights sold can be more accurately calculated, which would provide a more realistic gain or loss on the sale. In addition, the liability for revenue distributions to non-federal entities should be adjusted by the amount of the gain or loss on the sale, if any, and reduced when the sale proceeds are distributed.

Disclosures

A70. The Board proposes that various types and amounts of information be disclosed in the notes or provided as RSI. For example, one proposed disclosure would require a narrative describing and a display showing revenue reported by category for the reporting period. That is, royalty revenue for oil and gas, rent revenue, bonus bid revenue for leases, and total revenue. The proposed RSI includes sales volume, the sales value, the royalty revenue, and the estimated value for royalty relief for oil and gas produced from federal oil and gas resources for the reporting period. This information would be presented for each region, to the extent that regional information is available and would contribute to understanding.

Original Exposure Draft

A71. The original exposure draft (ED), *Accounting for Federal Oil and Gas Resources*, was issued May 21, 2007 with comments requested by September 21, 2007. However, because the Board received a request for the comment period to be extended and because few responses had been received, the Board agreed to extend the comment period until January 11, 2008.

A72. Upon release of the original ED, notices and press releases were provided to The Federal Register, *FASAB News*, *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, *Government Accounting and Auditing Update*, the CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, the Federal Financial Managers Council, and committees of professional associations generally commenting on exposure drafts in the past.

A73. This broad announcement was followed by direct mailings or e-mails of the original ED to:

a. relevant congressional committees (Senate Committee on Energy and Natural Resources, Senate Committee on Finance, Senate Committee on Indian Affairs, House Committee on Financial Services, House Committee on Natural Resources);

b. federal agencies (Office of Financial Management, Department of the Interior (DOI); Office of the Special Trustee (OST), DOI; Office of Financial Management, Department of Energy; Reserves and Products Division, Office of Oil and Gas, Energy Information Administration (EIA), Department of Energy; Office of the Chief Accountant, Securities and Exchange Commission (SEC));

c. public interest groups (National Congress of American Indians (NCAI) President and Area (Regional) Vice Presidents); and,

d. oil and gas industry companies/professional organizations ((World Petroleum Congress (WPC), American Petroleum Institute (API), Society of Petroleum Engineers (SPE), Ryder Scott Company, National Petroleum Council (NPC), International Energy Agency (IEA), British Petroleum (BP), Royal Dutch Shell, Chevron, Exxon Mobil)).

A74. To encourage responses, reminder notices were provided on September 12, 2007, and January 9, 2008, to the FASAB listserv. In addition, staff contacted professional associations and affected agencies directly.

Comment Letters

A75. Eight comment letters were received from the following sources:

	FEDERAL (Internal)	**NON-FEDERAL (External)**
Users, academics, others		4
Auditors	1	
Preparers and financial managers	3	

A76. The following points present a high-level summary of the comments received:

a. The majority of respondents agreed with the overall concept of recognizing an asset for the federal government's natural resources and a liability for the related royalty revenues designated to be distributed to others.

b. Two of the eight respondents stated that standards on federal natural resources should include all federal natural resources and not be limited to only oil and gas resources.

c. One of the eight respondents commented on the complex nature of the original ED.

d. No respondents supported the use of the probabilistic method of estimation as proposed in the alternative view of the original ED.

e. Two respondents supported the use of present value or fair value with discounting (similar to the alternative view proposal) instead of the valuation method as proposed in the original ED that utilizes the average first purchase or wellhead price.

f. The majority of respondents agreed that the numerous disclosures proposed in the original ED appeared excessive and might not pass a cost/benefit test.

g. There was general support for royalty relief disclosures.

h. Of the five respondents that directly addressed the question on fiduciary disclosures, four stated that the cost of such disclosures would outweigh any perceived benefits.

i. The majority of respondents supported the recommendation for more limited disclosures in the CFR. However, one respondent stated that because natural resources are sovereign assets, the major disclosures would more appropriately appear in the CFR and not agency financial statements.

A77. The Board did not rely on the number in favor of or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised.

Field Testing

A78. In addition to the comment letters received on the original ED, the Board also considered the results of a field test of the proposed standards performed by a DOI field test team. The field test team consisted of Minerals Management Service (MMS) Offshore Minerals Management Economics and Resource Evaluation experts and petroleum engineers; Bureau of Land Management petroleum engineers and resource evaluation experts; and MMS Custodial Reporting Branch senior accountants with expertise in financial reporting.

A79. Field tests are part of FASAB's due process and help FASAB to establish effective standards. Participating federal entities volunteer to go through the exercise of "implementing" the proposed standards as if they were in place and then provide feedback to FASAB regarding the process. Field tests can proactively identify potential problems related to the implementation of proposed standards and allow FASAB to gather valuable information about implementation costs.

A80. The field test team presented the Board with a number of significant considerations, including the lack of availability of quantity information on proved reserves under federal lands. The original ED had proposed that the valuation of federal oil and gas resources be based on information to be provided by EIA on quantity of proved reserves under federal lands. However, this information has not been made available as of the date of this revised ED, and does not appear to be forthcoming.

A81. In addition to the reliance on proved reserves data required to be provided by EIA, the field test team noted a number of other concerns, including:

a. the desire to divide proved reserves by type of commodity (e.g., crude oil, lease condensate, and natural gas) and compute the asset value separately;

b. the need to develop a methodology for determining what portion of all proved reserves fall under federal domain;

c. the need to exclude royalty relief volumes and estimate the value of commodities received in kind and delivered to the Department of Energy to fill the Strategic Petroleum Reserve;

d. the effect of intermediate production between the effective date of the reserves estimate and the effective date of the booked value;

e. the effect of estimates such as the royalty accrual and prior year production adjustments made in the current year;

f. how to distinguish between long and short-term liabilities for the associated liability for revenue distributions to others;

g. appropriate treatment of interest payments related to oil and gas or commodities other than oil and gas once the custodial provisions are deleted from SFFAS 7 (paragraphs 45, 275, 276, and 277);

h. the impact of material intragovernmental transactions and eliminations on the year-end reporting process; and,

i. the need to revise all, or almost all, of the existing posting models in the accounting system.

A82. The field test team also completed a field test questionnaire using a present value approach. This questionnaire included a lot of the same concerns as noted in paragraphs A80 and A81 above. In addition, the present value approach also incorporated present value calculations for factors such as the present value of royalties received over time, estimates of future gas prices, transportation allowances, and discount and inflation rates.

A83. In both estimates (the ED view as well as the present value view), the field test team used share of production as a proxy for share of proved reserves. One of the members expressed concerns about the use of production as a proxy for underlying reserves since it assumes (1) the same percentage of reserves are brought to market each year from all locations (or at least, on average between federal and non-federal) and (2) too much year to year variance in production patterns makes underlying reserve estimates fluctuate by an equal amount.

A84. Staff asked an oil and gas analyst at the Congressional Budget Office for his thoughts on the methodology. He responded that he understands the concern with the first assumption because it is likely that not the same fraction of reserves will be accessed in each year. However, he stated that averaging between federal and non-federal would control for some of that variance, though it is not possible to know just how much. He stated that this simplifying assumption is fairly reasonable given the approximate nature of the analysis. The analyst noted that with the second assumption, the variance might be eliminated or reduced by using a moving average rather than a year-to-year measure. For example, a 5-year or 10-year moving average of total federal production over total production would control some of the yearly differences between federal and non-federal.

A85. The field test questionnaires were extremely useful in helping the Board develop the standards proposed in this ED.

Discussion with DOI Representatives

A86. In addition to the Board's consideration of the comment letters received and the field test questionnaires, three members of the field test team and two representatives from the DOI Office of the Secretary met with the Board at the October 23, 2008, meeting to discuss issues raised in its comment letter on the original ED and the related field test questionnaires.

A87. At that meeting, the DOI representatives indicated that they would be open to having less detailed implementation guidance in the standards if they were given a longer implementation period (two to three years) with a phase-in from RSI to basic, and the ability to return to FASAB for implementation guidance if a reasonable methodology could not be agreed to by the auditors.

Significant Changes Made to the Original Exposure Draft

A88. The significant changes made to the original ED as a result of the Board's consideration of the comments received, the field test questionnaires, and discussions with DOI representatives are summarized below:

a. Removed specific reference to "proved oil and lease condensate, natural gas plant liquids (NGPLs), and gas reserves"; the revised ED refers more broadly to "proved oil and gas reserves." Further breakdown by commodity and type of oil and gas will be considered by the federal entity as part of the estimation methodology.

b. Removed detailed asset valuation implementation guidance. Federal entities are provided flexibility in developing the estimation methodology for valuing federal oil and gas resources. In an environment heavily affected by changes in prices, technological advancements, economic and operating conditions, and known geological, engineering, and economic data, estimation methodologies may need to be regularly updated to reflect these changing conditions. The Board believes that the detailed estimation methodology for valuing federal oil and gas resources should be developed by federal entities.[35] The Board reached this conclusion based on discussions about recent changes that have occurred since the original ED was issued and the need to continually update the accounting standards as a result of volatile conditions in the oil and gas industry. The Board also considered DOI's willingness to develop the methodology and work with the auditors to phase in the required reporting from RSI to basic over a period of two or three years and return to FASAB only on issues that could not be resolved with the auditors.

c. Removed the illustrative disclosure and RSI presentations.

d. Selected present value using a risk-free discount rate as the preferred measurement method.

e. Stated that the preferred measurement method for valuing the federal government's estimated petroleum royalties is the present value of future federal royalty receipts on proved reserves using a risk-free discount rate described in paragraphs 19 through 21; however methods for measuring fair value that are consistent with SFAS 157, *Fair Value Measurements*,[36] may be acceptable if it is not reasonably possible to estimate present value of future federal royalty receipts on proved reserves using the methodology described in paragraphs 19 through 21.

f. Permitted a change in methodology (see paragraphs 25 and 26) that is to be accounted for as a change in estimate effected by a change in principle.

g. Revised the component entity RSI disclosures.

h. Revised the requirement to recognize a liability for revenue distributions to others (e.g., the general fund of the U.S. Treasury, other federal agencies, and state governments) to only recognize the portion of the revenue to be distributed to non-federal entities (e.g., state governments).

[35] Estimates that do not lead to material misstatements are acceptable without guidance from the Board.
[36] FASB ASC 820.10

i. Included a discussion of the classification of the liability for revenue to be distributed to non-federal entities as long-term vs. short-term.

j. Incorporated guidance for displaying gains and losses from changes in assumptions and selecting discount rates.

k. Incorporated accounting and disclosure requirements for the federal receiving entities.

l. Updated the effective date of the standards to provide for a three-year phase-in from RSI to basic information.

m. Updated the basis for conclusions.

n. Updated questions for respondents to request feedback on changes made to the original exposure draft.

Alternative View

A89. Individual members sometimes choose to express an alternative view when they disagree with the Board's majority position on one or more points in a proposed standard . Alternative views discuss the precise point or points of disagreement with the majority position and the reasons therefore. The ideas, opinions, and statements presented in alternative views are those of the individual member alone. However, an individual member's alternative view may contain general or other statements that may not conflict with the majority position, and in fact may be shared by other members. The following material was prepared by Robert Dacey and is presented as an alternative view.

A90. After a three-year transition period of reporting as RSI, the value of federal oil and gas resources and annual changes therein should be disclosed as basic information in the notes rather than recognized on the face of the financial statements as proposed in this ED. The disclosures should include an integrated discussion of all of the federal government's natural resources, including oil and gas resources that are not currently under lease as well as values for resources under lease and similar information concerning all other significant federal natural resources, such as coal, timber, and grazing rights. This type of reporting would be similar to current reporting for stewardship assets. Such reporting in the notes would provide transparency as to the value and changes in value of these significant assets and result in information that contributes to meeting federal financial reporting objectives. As basic financial information, this information would be subject to audit. Similar to stewardship assets, FASAB could require a non-financial disclosure on the balance sheet that refers to the note without an asset dollar amount being shown.

A91. Rationale for disclosing the information in the notes rather than on the face of the statements include the following:

a. The federal government's financial statements should include an integrated disclosure of all of the federal government's natural resources, rather than recognizing on the balance sheet only those resources that are assigned a value because they are currently under lease. Absent such an integrated disclosure, users of the financial statements could be misled as to the full extent of the federal government's natural resources. For example, the value of oil and gas resources presented on the balance sheet would exclude potentially significant federally owned oil and gas resources located in areas that are either prohibited from leasing or not currently under lease in accordance with current government policy (e.g., the Arctic National Wildlife Refuge and certain areas of the Gulf of Mexico). Nonetheless, they are owned by the federal government and represent a valuable economic resource to the federal government. Also, the federal government has a stewardship responsibility for such assets.

b. The value of the natural resources in the financial statements is likely to be subject to significant annual fluctuations based on the changing market prices for the resource and changes in quantities based on recoverability. These fluctuations would occur even though the resources can only be extracted over a period of time, rather than in the short term after the end of the year. Such fluctuations could materially impact the net cost and net operating cost in the government's consolidated financial statements and reduce the usefulness of reported operating results of the government's operations during the year. Such fluctuations would require significant explanation that could be distracting to users. Similar types of concerns were expressed by the Board concerning fluctuations in actuarial liabilities due to changes in discount rates. Also, changes in oil and gas resources subject to royalties would immediately be reflected in revenues and net operating cost, rather than over the periods that such resources were extracted.

c. The valuation methodology in the exposure draft essentially capitalizes all future royalty revenues and shifts the recognition of revenues (gains) to the period the lease is signed. Collection of royalties will not result in any net revenue since an equal amount of depletion expense will be recognized. Consequently, the periods in which the resources are extracted would not include any net operating results related to the actual royalty stream because the revenues, and gains/losses arising from changes in value and the passage of time, were recognized previously. As a result, the revenues would not be matched with the related costs and periods benefited.

d. In addition to significant valuation uncertainty, the valuation methodology in the ED provides significant flexibility in the methodology used, including the ability of the preparer to significantly change the methodology based on environmental or other changes. Consequently, given this flexibility, reporting values for natural resources would be more appropriately reflected in the notes.

A92. Similarly, for the reasons stated above, such natural resources should be excluded from reporting as assets on the schedule of fiduciary net assets. Instead, fiduciary reporting should consist of appropriate narrative describing the general nature and extent of such resources.

Appendix B: Pro Forma Transactions and Financial Statements

PLEASE NOTE: The sample accounting entries and financial statements in Appendix B illustrate pro forma accounting transactions pertaining to federal oil and gas resources and the resulting financial statements. Data used in the pro forma transactions are based on hypothetical numbers for purposes of simplification. These illustrative examples are not intended to provide guidance on determining the application of materiality.

The following pro forma transactions are compressed and simplified, and appropriately do not contain all of the detail associated with an event. Budgetary and additional proprietary account entries would be made by the collecting entity to track and report on greater detail than is illustrated in this appendix. For example, in transaction number two, the one-fifth bonus is invested until leases are accepted. Any interest accrued is refunded on bids subsequently rejected and returned. The illustration omits transactions internal to the entity, such as transfers between sub-component entities. In addition, a greater degree of detail and certain reclassifications would occur in practice.

Readers should not rely on these pro forma accounting transactions and resulting financial statements as a complete model for agency accounting. Certain omitted entries may be required in actual practice but are omitted since they are not required to understand the effect of the proposal on agency financial statements.

At the beginning of the fiscal year for which the accounting standards for oil and gas resources are effective, the following transaction is recorded by the component entity responsible for collecting royalties.

1. Record initial value of estimated petroleum royalties and the liability for revenue distributions to non-federal entities.

The initial value of estimated petroleum royalties used in this pro forma transaction is $150,677,667, a hypothetical number used for illustrative purposes only. The actual value of the federal government's estimated petroleum royalties would be calculated on a regional basis and should approximate the present value of future royalty receipts on proved reserves known to exist as of the reporting date using a risk-free discount rate.

The illustrative pro forma entry to record the initial value of the federal government's estimated petroleum royalties as well as the liability for revenue to be distributed to non-federal entities is presented below. The asset's value would be the royalty share of the federal oil and gas resources classified as "proved reserves." The liability for revenue to be distributed to non-federal entities would be for the royalty share of the federal oil and gas resources classified as "proved reserves" designated to be distributed to non-federal entities, e.g., state governments. The proposed treatment of the distribution of revenue to non-federal entities creates a non-federal liability for the component entity responsible for collecting royalties.

The net effect of recognizing an asset and establishing a liability at the beginning of the reporting period would be a "change in accounting principle" in accordance with SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles.* The adjustment would be made to the beginning net position on the statement of changes in net position for the component entity responsible for collecting royalties in the period the change is made.

To obtain the value of the prior period adjustment, the total estimated petroleum royalties is multiplied by the average share of the revenue distributed to the component entity responsible for collecting royalties and other federal entities. For this illustration, 85 percent was used as the average annual share of the revenue distributed to federal component entities, including the 1%

expected to be retained by the federal component entity responsible for collecting royalties, based on the average distribution for 2005.[37] To record the liability for revenue to be distributed to non-federal entities, the total estimated petroleum royalties is multiplied by the average share of the revenue distributed to state governments and other non-federal entities. For this illustration, 15 percent was used as an average annual share of the revenue distributed to state governments and other non-federal entities based on the average distribution for 2005.[38] These calculations are presented below:

$150,677,667 X .85 = $128,076,017 (federal portion)
$150,677,667 X .15 = $22,601,650 (non-federal portion)

Dr Estimated Petroleum Royalties	150,677,667	
Cr Prior Period Adjustment: Change in Accounting Principle		128,076,017
Cr Liability for Revenue Distribution to Others – Non-Federal		22,601,650

To record initial value of estimated petroleum royalties due to change in accounting principle and the liabilities for revenue distributions to non-federal entities (the 84% expected to be distributed to federal entities increases the net position of the entity responsible for making royalty collections until such time that the collections are distributed and recognized as a transfer out).

Transactions two through ten will be recorded throughout the fiscal year by the component entity responsible for collecting royalties and, in some cases, the receiving federal entity.

2. Record payment of the one-fifth bonus bid amounts.

For a competitive lease sale, a notice of lease sale is published in the Federal Register. Each lease bid must include a payment for one-fifth of the bonus bid amount unless the bidder is otherwise directed by the Secretary. For purposes of this illustrative accounting event, four bonus bids were received with payment of the one-fifth bonus bid amount. Bonus bid number one was $1,850, bonus bid number two was $1,900, bonus bid number three was $1,950, and bonus bid number four was $2,000. The total payment relating to the four bonus bids was $1,540 (bonus bid number one for $370, bonus bid number two for $380, bonus bid number three for $390, and bonus bid number four for $400) and was recorded with the following entry by the component entity responsible for collecting royalties.

Dr Fund Balance with Treasury	1,540	
Cr Unearned Revenue		1,540

To record collection of the one-fifth bonus bids for the four bonus bids.

[37] The 85 percent was derived by dividing [Note 21. Custodial Distributions to MMS, Revenues to Fund Operations] plus [Transfers-out to other federal component entities on the Statement of Custodial Activity] by [Total Revenue on the Statement of Custodial Activity] for 2005.
[38] The 15 percent was derived by dividing [Note 21. Payments to States] by [Total Revenue on the Statement of Custodial Activity] for 2005.

3. Record remaining payment by the successful bidder and the annual rental fee and the liability for revenue distributions to non-federal entities.

Payment of the unpaid balance of the bonus bid amount and the first year's rental fee are to be received from the successful bidder on the 11th business day after receipt of the lease forms by the successful bidder. The successful bid was bonus bid number four in the amount of $2,000. The remaining four-fifths bonus bid of $1,600 and the first year rental fee in the amount of $360 is received. According to various legislative requirements, rental fees are required to be paid one year in advance and are recorded as revenue from rent when received because there is no obligation to refund unearned portions. The following entries are recorded by the component entity responsible for collecting royalties.

Dr Unearned Revenue	400	
Dr Fund Balance with Treasury	1,960	
Cr Revenue from Rent		360
Cr Revenue from Bonus Bid		2,000

To record remaining bonus payment and the annual rental fee by the successful bidder.

The increase in the liability for revenue distributions to non-federal entities is calculated by multiplying the revenue from rent and bonus bid by the average share of the revenue distributed to state governments and other non-federal entities. For this illustration, 15 percent was used as the average annual share of the revenue distributed to state governments and other non-federal entities based on the average distribution for 2005.[39] This calculation is presented below:

$2,360 X .15 = $354

Dr Revenue Designated for Others – Non-Federal[40]	354	
Cr Liability for Revenue Distribution to Others – Non-Federal		354

To record the increase in the liability for revenue distributions to non-federal entities.

4. Receive the annual rental fee from pre-existing leases and record the liability for revenue distributions to non-federal entities.

For illustrative purposes, the total amount of annual rent collected for the year for offshore leases was $193,274 and the rental fee for onshore leases was $46,588 for a total of $239,862. Since $360 was previously received in connection with the new lease (see entry 3 above), the rental payments remaining are $239,502 ($239,862 less $360). The following entry is recorded by the component entity responsible for collecting royalties.

Dr Fund Balance with Treasury	239,502	
Cr Revenue from Rent		239,502

To record rental payments on leases for the year.

---

[39] See footnote 38.
[40] This and certain other titles were selected for illustrative purposes. The entity has the option of selecting another account title, such as grant, that may be more appropriate.

The increase in the liability for the rent revenue to be distributed to non-federal entities is calculated by multiplying the revenue from rent by the average share of the revenue distributed to state governments and other non-federal entities. For this illustration, 15 percent was used as an average annual share of the revenue distributed to state governments and other non-federal entities based on the average distribution for 2005.[41] This calculation is presented below:

$$\$239{,}502 \text{ X } .15 = \$35{,}925$$

Dr Revenue Designated for Others – Non-Federal	35,925	
Cr Liability for Revenue Distribution to Others – Non-Federal		35,925

To record the increase in the liability for revenue distributions to non-federal entities.

5. Refund unsuccessful bidders' bonus bid deposits.

Bonus bid deposits submitted by unsuccessful bidders are refunded to respective bidders after bids are opened, recorded, and ranked. Bonus bid number one in the amount of $370, bonus bid number two in the amount of $380, and bonus bid number three in the amount of $390 for a total of $1,140 are returned to respective bidders. The following entry is recorded by the component entity responsible for collecting royalties.

Dr Unearned Revenue	1,140	
Cr Fund Balance with Treasury		1,140

To record refund of losing bonus bids.

6. Record royalty revenue and depletion expense.

Royalty revenue should be recognized as exchange revenue by the component entity that is responsible for collecting the royalties. At the same time, an amount equal to the royalty collections should be recognized as depletion expense and the value of estimated petroleum reserves should be reduced by the depletion expense amount. Sales value and royalty payment information are due on or before the last of the month following the month the oil or gas produced from federal oil and gas resources was sold or removed from the lease. For example, oil or gas sold in June must be reported by July 31, the end of the following month.

For illustrative purposes, the total amount of royalty revenue for the fiscal year for offshore and onshore rental leases was used in this calculation. The royalty revenue during the fiscal year for offshore leases was $3,563,922 and the royalty revenue during the fiscal year for onshore leases was $852,331 for a total of $4,416,253. The following entries are recorded by the component entity responsible for collecting royalties.

Dr Accounts Receivable	4,416,253	
Cr Revenue from Royalties for Federal Oil and Gas Reserves		4,416,253

To record royalty revenue.

[41] See footnote 38.

Dr Oil and Gas Depletion Expense	4,416,253	
Cr Estimated Petroleum Royalties		4,416,253

To record depletion expense for federal oil and gas resources.

7. Record collection of royalty revenue.

Royalty payments are due on or before the last of the month following the month the oil or gas produced from federal oil and gas resources are sold or removed from the lease, unless lease terms state that royalties are due otherwise. A year-to-date total of royalty revenue collected is in the amount of $4,048,232. The following entry is recorded by the component entity responsible for collecting royalties.

Dr Fund Balance with Treasury	4,048,232	
Cr Accounts Receivable		4,048,232

To record collection of royalty revenue.

8. Record distribution of bonus bid, rent, and royalty collections and the reduction in the liability for the revenue distributed to non-federal entities.

The component entity responsible for collecting royalty revenue is required to distribute the bonus bid, rent, and royalty revenue in accordance with authoritative formulas to recipients designated by law upon matching the revenue collections to specific leases. The component entity distributing bonus bid, rent, and royalty revenue from federal oil and gas resources should recognize the distribution to component entities in accordance with existing accounting standards. The federal component entity receiving the distribution should recognize the receipt as a transfer in when calculating its operating results. For purposes of this illustrative accounting event, the bonus bid collected was $2,000, the rent collected was $239,862, and the royalties collected was $4,048,232, for total collections of $4,290,094.

The bonus bid, rent, and royalty revenue collections distributed and the reduction in the liability for revenue distribution to non-federal entities is calculated in two parts. The first part is based on revenue collections designated as payments to non-federal entities while the second is based on collections designated as payments to other federal component entities. The revenue collections from bonus bid, rent, and royalties are multiplied by the average share of the revenue distributed to state governments and other non-federal entities to obtain the value of the collections to be distributed to non-federal entities. For this illustration, 15 percent was used as an average annual share of the revenue distributed to non-federal entities based on the average distribution for 2005.[42] The revenue collections from bonus bid, rent, and royalties are multiplied by the average share of the revenue distributed to other federal component entities to obtain the value of the rent revenue to be distributed to other federal component entities. For this illustration, 84 percent was used as an average annual share of the revenue distributed to other federal component entities based on the average distribution for 2005.[43] These calculations are presented below:

[42] See footnote 38.
[43] The 84 percent was derived by dividing [Transfers-out to other federal component entities on the Statement of Custodial Activity] by [Total Revenue on the Statement of Custodial Activity] for 2005.

$4,290,094 X .15 = $643,514
$4,290,094 X .84 = $3,603,678

Dr Liability for Revenue Distribution to Others – Non-Federal	643,514	
Dr Transfers-Out	3,603,678	
Cr Fund Balance with Treasury		4,247,192

To record distribution of bonus bid, rent, and royalty revenue collections, the transfer out to other federal component entities, and the reduction in liabilities for revenue distribution to non-federal entities. (The remaining 1% is permanently retained by the entity responsible for making royalty collections).[44]

Other federal entity entry:

Dr Fund Balance with Treasury	3,603,678	
Cr Transfer-in		3,603,678

To increase the fund balance with treasury and recognize a transfer-in for distributions received.

9. Disclose rights to future royalty streams identified for sale.

When rights to a future royalty stream are identified to be sold, the value of those rights should be disclosed as future royalty rights held for sale. They should be disclosed rather than reclassified because (1) the point in time for the sale of the future royalty rights may be uncertain or undecided and (2) the identified fields may continue to produce oil and/or gas and generate royalties. These two factors make it difficult to establish and maintain precise valuation information in advance of the sale. Disclosure of the approximate value at the balance sheet date alerts the reader to the pending sale and the potential value of the asset to be sold. The value of the rights identified for sale should be based on the present value of future federal royalty receipts on proved reserves known to exist as of the reporting date for each specific field identified for potential sale.

Future royalty streams from two specific oil fields have been identified to be sold sometime during the next fiscal year.

The estimated value of the future royalty stream identified to be sold from field number one is $5,305 based on the following calculation: 1,000 barrels to be sold X $42.44 per barrel per field number one first purchase price for oil X the 12.5% royalty rate for field number one.

The estimated value of the future royalty stream identified to be sold from field number two is $3,245 based on the following calculation: 750 barrels to be sold X $34.61 per barrel per field number two first purchase price for oil X the 12.5% royalty rate for field number two.

[44] See footnote 34.

10. Record sale of future royalty streams identified for sale and the change in the liability for revenue distributions to non-federal entities.

At the time the future royalty rights identified for sale are sold, the asset value is calculated based on the quantity of proved oil reserves involved in the sale, the first purchase price or the wellhead price for the field at the time of sale, and the royalty rate for the specific field. Any difference between the asset value of the future royalty rights sold and the sales proceeds results in a net gain or loss. The net gain or loss should be reported on the statement of net cost of the component entity responsible for collecting royalty revenue. For purposes of this illustrative accounting event, the rights to future royalty rights held for sale for field number one had an asset value of $5,375 based on the following calculation: 1,000 barrels of proved oil reserves involved in the sale X $43.00 per barrel per field number one first purchase price X the 12.5% royalty rate for field number one. The rights to a future royalty stream from field number one were sold for $3,950. As a result, there is a loss of $1,425 on the sale of the future royalty stream from field number one, which should be reported on the statement of net cost.

Dr. Fund Balance with Treasury	3,950	
Dr. Loss on Sale of Estimated Petroleum Royalties	1,425	
Cr. Estimated Petroleum Royalties		5,375

To record sale of future royalties.

The loss on the sale of estimated petroleum royalties is multiplied by the average share of the revenue distributed to state governments and other non-federal entities to obtain the reduction in the liabilities for revenue distributions to non-federal entities. For this illustration, 15 percent was used as an average annual share of the revenue distributed to state governments and other non-federal entities based on the average distribution for 2005.[45] This calculation is presented below:

$1,425 X .15 = $214

Dr Liability for Revenue Distributions to Others – Non-Federal	214	
Cr Revenue Designated for Others – Non-Federal		214

To record the reduction in the liabilities and revenue designated for non-federal entities as a result of the loss on the sale of estimated petroleum royalties.

The collections from the sale of revenue streams are multiplied by the average share of the revenue distributed to state governments and other non-federal entities to obtain the value of the collections to be distributed to non-federal entities. For this illustration, 15 percent was used as an average annual share of the revenue distributed to non-federal entities based on the average distribution for 2005.[46] The collections from the sale of revenue streams are multiplied by the average share of the revenue distributed to other federal component entities to obtain the value of the rent revenue to be distributed to other federal component entities. For this illustration, 84 percent was used as an average annual share of the revenue distributed to other

[45] See footnote 38.
[46] See footnote 38.

federal component entities based on the average distribution for 2005.[47] These calculations are presented below:

$3,950 X .15 = $593
$3,950 X .84 = $3,318

Dr Transfers-Out	3,318	
Dr Liability for Revenue Distributions to Others – Non-Federal	593	
Cr Fund Balance with Treasury		3,911

To record the distribution of collections from the sale of revenue streams, the transfer out to other federal component entities, and the reduction in the liability for revenue distributions to non-federal entities. (The remaining 1% is permanently retained by the entity responsible for making royalty collections).[48]

<u>*Other federal entity entry:*</u>

Dr. Fund Balance with Treasury	3,318	
Cr. Transfer-in		3,318

To increase the fund balance with treasury and recognize a transfer-in for distributions received.

At the end of each fiscal year, the following transaction is recorded by the component entity responsible for collecting royalties.

11. Record annual valuation of estimated petroleum royalties and the change in the liability for revenue distributions to non-federal entities.

The calculated value of the federal government's estimated petroleum royalties for financial statement reporting at year-end should be compared to the book value of estimated petroleum royalties at year-end. If the calculated value of estimated petroleum royalties at year-end is greater than the year-end book value,[49] the book value should be increased to the new estimate and a gain should be recorded on the statement of net cost of the reporting entity responsible for collecting revenue. If the calculated value of estimated petroleum royalties at year-end is less than the year-end book value, the book value should be decreased to the new estimate and a loss should be recorded on the statement of net cost of the reporting entity responsible for collecting royalty revenue. For illustrative purposes, the valuation of estimated petroleum royalties as of as of the year ended September 30 produced a gain of $25,210,226 that is based on the following calculations.

The revaluation value of estimated petroleum royalties for federal oil and gas is hypothetically valued at $171,466,265. The current value of estimated petroleum royalties ($171,466,265) less the book value of estimated petroleum royalties (the initial value of estimated petroleum royalties at the beginning of the year (October) less depletion expense for estimated petroleum royalties through the end of the year (September 30), less the asset value of estimated petroleum

[47] See footnote 43.
[48] See footnote 34.
[49] The estimated petroleum royalties beginning balance would have been reduced by the amount of depletion expense recognized during the year.

royalties sold), equals the net gain to be recorded:

$171,466,265 – (150,677,667 – 4,416,253 – 5,375) = $25,210,226

Dr Estimated Petroleum Royalties	25,210,226	
Cr Gain on Revaluation of Estimated Petroleum Royalties		25,210,226

To record revaluation of estimated petroleum royalties.

Gains and losses from changes in long-term assumptions (i.e., discount rate and inflation rate) used to measure assets and liabilities for federal oil and gas should be displayed as a separate line item or line items on the statement of net costs. For this illustration, changes in the discount rate assumption accounted for $200,500 of the gain on revaluation while changes in other assumptions accounted for a $500 loss, resulting in a net gain of $200,000 due to changes in assumptions. See the pro forma illustration on page 59.

To record the increase in the liability for the revenue distributions to non-federal entities, the amount that the total estimated petroleum royalties was increased due to revaluation is multiplied by the average share of the revenue distributed to state governments and other non-federal entities. For this illustration, 15 percent was used as an average annual share of the revenue distributed to state governments and other non-federal entities based on the average distribution for 2005.[50] This calculation is presented below:

$25,210,226 X .15 = $3,781,534

Dr Revenue Designated for Others – Non-Federal	3,781,534	
Cr Liability for Revenue Distributions to Others – Non-Federal		3,781,534

To record the year-end increase in the liabilities for the revenue distributions to non-federal entities (the 84% expected to be distributed to federal entities increases the net position of the entity responsible for making royalty collections until such time that the collections are distributed and recognized as a transfer out).

The pro forma financial statements that follow are illustrative of the departmental entries presented in this appendix. The “other federal component entity” financial statements and the consolidated financial statements of the United States Government are not illustrated.

[50] See footnote 38.

The following pro forma financial statements are illustrative of the presentation of basic information. Until such time that the information is presented as basic, information reported as RSI would be presented as part of a schedule of estimated petroleum royalties and not reported in the principal financial statements.

Pro Forma Financial Statements – for fiscal year ended 9/30/20XX
(For Illustrative Purposes Only)

Balance Sheet	
Assets	
Fund Balance with Treasury	$ 42,941
Accounts Receivable	368,021
Estimated Petroleum Royalties	171,466,265
Total Assets	$ 171,877,227
Liabilities	
Liability for Revenue Distributions to Others – Non-Federal	25,775,142
Total Liabilities	25,775,142
Net Position	
Cumulative Results of Operations	146,102,085
Total Liabilities and Net Position	$ 171,877,227

Statement of Net Cost	
Oil and Gas Resources Program	
Leasing Activities:	
Costs (Oil and Gas Depletion Expense)	$ 4,416,253
Less: Revenue	(4,658,115)
Net Cost/(Revenue) from Leasing Operations	(241,862)
Loss/(Gain) on Revaluation of Estimated Petroleum Royalties	(25,010,226)
Less: Revenue Designated for Others – Non-Federal	3,817,599
Less: Loss on Sale of Future Royalty Rights	1,425
Net Cost/(Revenue) for Program before (gain)/loss from changes in assumptions	$ (21,433,064)

(Gain)/Loss on assumption changes:	
Discount rate assumption	(200,500)
Other assumptions	500
Net (gain)/loss on assumption changes	(200,000)
Net Cost/(Revenue) for Program	$(21,633,064)

<u>Statement of Changes in Net Position</u>	
Beginning Net Position	$ 0
Adjustment: Change in Accounting Principle	128,076,017
Beginning Balance, as adjusted	128,076,017
Net Revenue for Program	21,633,064
Transfers In/(Out)	(3,606,996)
Ending Net Position	$ 146,102,085

(For Illustrative Purposes Only)

Appendix C: Abbreviations

ASC	FASB Accounting Standards Codification™
Bbl	Barrels
CFR	Consolidated Financial Report
CFR	Code of Federal Regulations
DOI	Department of Interior
ED	Exposure Draft
EIA	Energy Information Administration
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
Mcf	Thousand Cubic Feet
MMS	Minerals Management Service
OCS	Outer Continental Shelf
NGPLs	Natural Gas Plant Liquids
RSI	Required Supplementary Information
SEC	Securities and Exchange Commission
SFAC	Statement of Financial Accounting Concepts
SFFAC	Statement of Federal Financial Accounting Concepts
SFAS	Statement of Financial Accounting Standards
SFFAS	Statement of Federal Financial Accounting Standards
U.S.	United States
USGS	U.S. Geological Survey

Appendix D: Glossary

- -

Definitions of Resource and Reserve Components and Subcomponents

Provided below are definitions used by federal entities to describe oil and gas resource and reserve components and subcomponents. The source of these definitions is OCS Report MMS 2003-050 unless otherwise noted.

Resources estimated from broad geologic knowledge or theory and existing outside of known fields or known accumulations are undiscovered resources. Undiscovered resources can exist in untested prospects on unleased acreage, or on undrilled lease acreage, or in known fields. In known fields, undiscovered resources occur in undiscovered pools that are controlled by distinctly separate structural features or stratigraphic conditions.

The Mineral Management Service (MMS) and the U.S. Geological Survey (USGS) formerly conducted national assessments of undiscovered oil and gas resources together. The former was responsible for the offshore while the latter was responsible for onshore and state waters. The last such assessment was in 1995. MMS updates their assessment approximately every five years in accordance with the Department of Interior's five-year leasing program, with the last update in 2000. Since 1995, the USGS has not conducted an overall update for onshore and state waters, but has conducted assessments updates on a basin or area level.

The assessment considers recent geophysical, geological, technological, and economic information and uses a geologic play analysis approach for resource appraisal.

<u>Undiscovered Resources</u>

Undiscovered resources are **hydrocarbons** estimated on the basis of geologic knowledge and theory to exist outside of known accumulations. They are presumed to occur in unmapped and unexplored areas. The speculative and hypothetical resource categories comprise undiscovered resources. Undiscovered resources are classified as either “undiscovered non-recoverable resources” or “undiscovered recoverable resources”.

- Undiscovered Non-Recoverable Resources

The portion of undiscovered petroleum-initially-in-place quantities not currently considered to be recoverable. A portion of these quantities may become recoverable in the future as commercial circumstances change, technological developments occur, or additional data are acquired.

- Undiscovered Recoverable Resources

An assessment provides estimates of undiscovered recoverable resources in two categories for federal offshore oil and gas resources. However assessments for federal onshore oil and gas resources provide information for only one, the undiscovered, conventionally recoverable resources. Both are described below:

1. Undiscovered, conventionally recoverable resources: The portion of the hydrocarbon potential that is producible, using present or reasonably foreseeable technology, without any consideration of economic feasibility.

2. Undiscovered, economically recoverable resources: The portion of the undiscovered conventionally recoverable resources that is economically recoverable under imposed economic scenarios.

Reserves

In accordance with the Society of Petroleum Engineers (SPE), the World Petroleum Congresses (WPC), and the American Association of Petroleum Geologists (AAPG), the definition for "reserves" and the following explanatory paragraphs are presented as follows[51]:

> "Reserves are those quantities of petroleum which are anticipated to be commercially recovered from known accumulations from a given date forward. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geologic and engineering data available at the time of the estimate and the interpretation of these data."

The relative degree of uncertainty may be conveyed by placing reserves into one of two principal classifications, either 1) unproved or 2) proved.

Unproved Reserves

After a lease qualifies under 30 CFR 250.11, the MMS Field Naming Committee reviews the new producible lease to assign it to an existing field or, if the lease is not associated with an established geologic structure, to a new field. Regardless of where the lease is assigned, the reserves associated with the lease are initially considered to be unproved reserves. Unproved reserves are based on geologic or engineering information similar to that used in estimates of proved reserves; but technical, contractual, economic, or regulatory uncertainties preclude such reserves from being classified as proved.

Unproved reserves may be divided into two subclassifications, possible and probable, which are similarly based on the level of uncertainty.

> "Unproved possible reserves are less certain than unproved probable reserves and can be estimated with a low degree of certainty, which is insufficient to indicate whether they are more likely to be recovered than not. Reservoir characteristics are such that a reasonable doubt exists that the project will be commercial" (SPE, 1987). After a lease qualifies under 30 CFR 250.11, the reserves associated with the lease are initially classified as unproved possible.

[51] WPC/SPE/AAPG Petroleum Reserves and Resources Definitions.

"Unproved probable reserves are less certain than proved reserves and can be estimated with a degree of certainty sufficient to indicate they are more likely to be recovered than not" (SPE, 1987). Reserves in fields for which a schedule leading to a Development and Production Plan (DPP) has been submitted to the MMS have been classified as unproved probable.

Proved Reserves

"Proved reserves can be estimated with reasonable certainty to be recoverable under current economic conditions, such as prices and costs prevailing at the time of the estimate. Proved reserves must either have facilities that are operational at the time of the estimate to process and transport those reserves to market or a commitment or reasonable expectation to install such facilities in the future" (SPE, 1987). Proved reserves can be subdivided into undeveloped and developed.

Proved undeveloped reserves are classified proved undeveloped when a relatively large expenditure is required to install production and/or transportation facilities, a commitment by the operator is made, and a timeframe to begin production is established. Proved undeveloped reserves are reserves expected to be recovered from (1) yet undrilled wells, (2) deepening existing wells, or (3) existing wells for which a relatively large expenditure is required for recompletion.

Proved developed reserves are classified as proved developed when the reserves are expected to be recovered from existing wells (including reserves behind pipe). Reserves are considered developed only after necessary production and transportation equipment have been installed or when the installation costs are relatively minor. Proved developed reserves are subcategorized as producing or non-producing" (SPE, 1987). This distinction is made at the reservoir level and not at the field level.

- Any developed reservoir in a developed field that has not produced or has not had sustained production during the past year is considered to contain proved developed non-producing reserves. This category includes reserves contained in non-producing reservoirs, contained reserves behind-pipe, and reservoirs awaiting well workovers or transportation facilities.
- Once the first reservoir in a field begins production, the reservoir is considered to contain proved developed producing reserves, and the field is considered on production. If a reservoir had sustained production during the last year, it is considered to contain proved developed producing reserves.

End of the terms in Illustration 1 that are defined under the subheading **Definitions of Resource and Reserve Components and Subcomponents**

- -

Other Definitions

Adjustments: The quantity which preserves an exact annual reserves balance within each State or State subdivision of the following form:

> These adjustments are the yearly changes in the published reserve estimates that cannot be attributed to the estimates for other reserve change categories because of the survey and statistical estimation methods employed. For example, variations as a result of changes in the operator frame, different random samples or imputations for missing or unreported reserve changes, could contribute to adjustments.

Basin: The site of accumulation of a large thickness of sediments.[52]

Bonus Bid: Leases issued in areas known to contain minerals are awarded through a competitive bidding process. A bonus bid**,** as used in this Statement, represents the cash amount successfully bid to win the rights to a lease.[53]

Crude oil is a mixture of hydrocarbons that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric pressure after passing through surface separating facilities. Crude oil may also include: 1) small amounts of hydrocarbons that exist in the gaseous phase in natural underground reservoirs but are liquid at atmospheric pressure after being recovered from oil well gas in lease separators, and that subsequently are commingled with the crude oil stream[54] without being separately measured; and, 2) small amounts of nonhydrocarbons produced with the oil.

Dry Gas: The actual or calculated volumes of natural gas which remain after: 1. The liquefiable hydrocarbon portion has been removed from the gas stream (i.e., gas after lease, field, and/or plant separation) 2. Any volumes of nonhydrocarbon gases have been removed where they occur in sufficient quantity to render the gas unmarketable.

Estimated petroleum royalties means the estimated end-of-period value of the federal government's royalty share of proved oil and gas reserves from federal oil and gas resources.

Estimated Production: The volumes of oil and gas that are extracted or withdrawn from reservoirs during the report year.

Estimated Value for Royalty Relief: Existing statutes authorize the Minerals Management Service (MMS) to grant royalty relief to operators on the production of oil and gas resources

---

[52] U.S. Geological Survey, Geologic Glossary.
[53] Glossary of Mineral Terms, Minerals Revenue Management, Minerals Management Service, U.S. Department of the Interior (Glossary of Mineral Terms)
[54] A crude oil stream is crude oil produced in a particular field or a collection of crude oils with similar qualities from fields in close proximity, which the petroleum industry usually describes with a specific name, such as West Texas Intermediate.

from federal oil and gas leases. Royalty relief is the reduction, modification, or elimination of any royalty to operators to promote development, increase production, or encourage production of marginal resources on certain leases or categories of leases. The estimated value for royalty relief is the calculated approximation of royalty relief based on a formula developed by the Department of the Interior.

Extensions: The reserves credited to a reservoir because of enlargement of its proved area. Normally the ultimate size of newly discovered fields, or newly discovered reservoirs in old fields, is determined by wells drilled in years subsequent to discovery. When such wells add to the proved area of a previously discovered reservoir, the increase in proved reserves is classified as an extension.

Fair Value: Value determined by bona fide bargain between well-informed buyers and sellers, usually over a period of time; the price for which a PP&E item can be bought or sold in an arm's length transaction between unrelated parties; value in a sale between a willing buyer and a willing seller, other than in a forced or liquidation sale; an estimate of such value in the absence of sales or quotations.

Federal Oil and Gas Resources: Oil and gas resources over which the federal government may exercise sovereign rights with respect to exploration and exploitation and from which the federal government has the authority to derive revenues for its use. Federal oil and gas resources do not include resources over which the federal government acts as a fiduciary for the benefit of a non-federal party.

Federal jurisdiction is defined under accepted principles of international law. The seaward limit is defined as the farthest of 200 nautical miles seaward of the baseline from which the breadth of the territorial sea is measured or, if the continental shelf can be shown to exceed 200 nautical miles, a distance not greater than a line 100 nautical miles from the 2,500-meter isobath or a line 350 nautical miles from the baseline.

Field is an area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field that are separated vertically by intervening impervious strata or laterally by local geologic barriers, or by both. The area may include one lease, a portion of a lease, or a group of leases with one or more wells that have been approved as producible.

First purchase price is the actual amount paid by the first purchaser for crude oil as it leaves the lease on which it was produced.[55] A "first purchase" constitutes a transfer of ownership of crude oil during or immediately after the physical removal of the crude oil from a production property for the first time.

Gas: A mixture of hydrocarbon compounds and small quantities of various nonhydrocarbons existing in the gaseous phase or in solution with crude oil in natural underground reservoirs at reservoir conditions.

---

[55] EIA-182 Domestic Crude Oil First Purchase Report Instructions.

Hydrocarbon: An organic chemical compound of hydrogen and carbon in the gaseous, liquid, or solid phase. The molecular structure of hydrocarbon compounds varies from the simplest (methane, a constituent of natural gas) to the very heavy and very complex.

Lease: "Lease," as used in this Statement, means any contract, profit-share arrangement, joint venture, or other agreement issued or approved by the United States under a mineral leasing law that authorizes exploration for, extraction of, and/or removal of oil or gas.[56]

Lease condensate: A mixture consisting primarily of pentanes and heavier hydrocarbons which is recovered as a liquid from natural gas in lease separation facilities. This category excludes natural gas plant liquids, such as butane and propane, which are recovered at downstream natural gas processing plants or facilities.

Long-term assumptions: Assumptions are considered long-term if the underlying event about which the assumption is made will not occur for five years or more. If the event is one of a series of events the entire series should be considered the event and, thus, the payment may commence within one year but would be required to extend at least five years. Otherwise, the asset or liability would be classified as short-term.

Marketable Treasury Securities: Debt securities, including Treasury bills, notes, and bonds, that the U.S. Treasury offers to the public and are traded in the marketplace. Their bid and ask prices are quoted on securities exchange markets.

Natural gas plant liquids (NGPLs): Those hydrocarbons in natural gas that are separated as liquids at natural gas processing plants, fractionating and cycling plants, and, in some instances, field facilities. Lease condensate is excluded. Products obtained include ethane; liquefied petroleum gases (propane, butanes, propane-butane mixtures, ethane-propane mixtures); isopentane; and other small quantities of finished products, such as motor gasoline, special naphthas, jet fuel, kerosene, and distillate fuel oil.

Net of Sales and Acquisitions[57]: the net change in the quantity of reserve estimates, either positive or negative, as a result of reserves gained through purchase and deducted through sale during the report year.

New Field Discoveries: The volumes of proved reserves of crude oil, natural gas and/or natural gas liquids discovered in new fields during the report year.

New Reservoir Discoveries in Old Fields: The volumes of proved reserves of crude oil, natural gas, and/or natural gas liquids discovered during the report year in new reservoir(s) located in old fields.

Oil: A mixture of hydrocarbons that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric pressure after passing through surface separating facilities.

---

[56] 30 U.S.C. §1702 (5).
[57] Acquisitions are the volume of proved reserves gained by the purchase of existing fields or properties, from the date of purchase or transfer.

Outer Continental Shelf (OCS): The federal Government administers the submerged lands, subsoil, and seabed lying between the seaward extent of the **States' jurisdiction** and the seaward extent of **federal jurisdiction**.[58]

Play: A group of **pools** that share a common history of hydrocarbon generation, migration, reservoir development, and entrapment.[59]

Pool: A discovered or undiscovered accumulation of hydrocarbons, typically within a single stratigraphic interval.[60]

Present Value: The value of future cash flows discounted to the present at a certain interest rate (such as the reporting entity's cost of capital), assuming compound interest.

Proved Reserves: The total quantity of proved reserves which is calculated by adding the quantity of reserves reported as revisions and adjustment, net of sales and acquisitions, total recoveries and deducting **estimated production** during the report year.

Regional Estimated Petroleum Royalties: Regional estimated petroleum royalties means the estimated end-of-period value of the federal government's royalty share of proved oil and gas reserves from federal oil and gas resources in each region.

Rent: Rent, as used in this Statement, are annual payments, normally a fixed dollar amount per acre, required to preserve the rights to a lease while the lease is not in production. A rent schedule is established at the time a lease is issued.[61]

Reservoir: A porous and permeable underground formation containing an individual and separate natural accumulation of producible hydrocarbons (oil and/or gas) which is confined by impermeable rock or water barriers and is characterized by a single natural pressure system.[62]

Revisions: Changes to prior year-end proved reserves estimates, either positive or negative, resulting from new information other than an increase in proved acreage (extension). Revisions include increases of proved reserves associated with the installation of improved recovery techniques or equipment. They also include correction of prior report year arithmetical or clerical errors and adjustments to prior year-end production volumes to the extent that these alter reported prior year reserves estimates.

Revisions and Adjustments: the net change in the quantity of reserve estimates, either positive or negative, as a result of adding changes reported as revisions and adjustments during the report year.

[58] Glossary of Mineral Terms.
[59] Ibid.
[60] Ibid.
[61] Ibid.
[62] Ibid.

Royalty: Royalty, as used in this Statement, means any payment based on the value or volume of production which is due to the United States on production of oil or gas from the Outer Continental Shelf or federal lands, or any minimum royalty owed to the United States under any provision of a lease.[63]

Royalty-in-kind: A program operated under the provisions of the Mineral Leasing Act of 1920 and the Outer Continental Shelf Lands Act of 1953. The federal government, as lessor, may take part or all of its oil and gas royalties "in kind" (a volume of the commodity) as opposed to "in value" (money). Under the oil royalty-in-kind program, the government sells oil at fair market value to eligible refiners who do not have access to an adequate supply of crude oil at equitable prices. The Minerals Management Service conducted a gas royalty-in-kind pilot program in 1995, entering into contracts to sell selected Gulf of Mexico natural gas by competitive bid to gas marketers. Two additional oil and gas pilot programs began in 1998, and a third gas pilot program began in 1999.[64]

Royalty rate: A proportionate interest in the production value of mineral deposits due the lessor from the lessee in accordance with a lease agreement.

Sales: The volume of proved reserves deducted from an operator's total reserves when selling an existing field or property, during the calendar year.

Sales Value: The proceeds received for the sale of a product. Sales value is calculated by multiplying the sales volume by unit price.

Sales Volume: The volume, or quantity, of the product that is sold. The sales volume is measured in thousand cubic feet (mcf) for gas and in barrels (bbl) for oil.

States' jurisdiction is defined as follows:

- Texas and the Gulf coast of Florida are extended 3 marine leagues (9 nautical miles) seaward from the baseline from which the breadth of the territorial sea is measured.
- Louisiana is extended 3 imperial nautical miles (imperial nautical mile = 6080.2 feet) seaward of the baseline from which the breadth of the territorial sea is measured.
- All other States' seaward limits are extended 3 nautical miles (approximately 3.3 statute miles) seaward of the baseline from which the breadth of the territorial sea is measured.

Technically recoverable resources: For purposes of this Statement, the term used to describe the total quantity of undiscovered recoverable resources and unproved reserves. Proved reserves are not included in the estimated quantity of technically recoverable resources.

Total Discoveries: the total quantity of additional discovered reserves which is calculated by adding the quantity of reserves reported as a result of extensions, the quantity of reserves

[63] Adapted from 30 U.S.C. § 1702 (14).
[64] Glossary of Mineral Terms.

reported as a result of new field discoveries, and the quantity of reserves reported as a result of new discoveries in old fields during the report year.

Wellhead price is the value of the purchased natural gas at the mouth of the well. In general, the wellhead price is considered to be the sales price obtainable from a third party in an arm's length transaction. Posted prices, requested prices, or prices as defined by lease agreements, contracts, or tax regulations should be used where applicable.[65]

[65] Energy Information Administration Glossary, http://www.eia.doe.gov/glossary/glossary_w.htm.

FASAB Board Members

Tom L. Allen, Chair

Congressional Budget Office

Robert F. Dacey

John A. Farrell (through June 30, 2009)

Nancy Fleetwood

Norwood J. Jackson, Jr.

James M. Patton (through June 30, 2009)

Alan H. Schumacher

Harold I. Steinberg

Danny Werfel

FASAB Staff

Wendy M. Payne, Executive Director

Project Staff

Julia Ranagan

Federal Accounting Standards Advisory Board
441 G Street NW, Suite 6814
Mail Stop 6K17V
Washington, DC 20548
Telephone 202-512-7350
FAX 202-512-7366
www.fasab.gov