



Federal Accounting Standards Advisory Board

**Accounting for Federal Natural Resources
Other than Oil and Gas**

Technical Bulletin 2011-1

July 6, 2011

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.

FASAB has authorized its staff to prepare FASAB technical bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board’s rules of procedure, as amended and restated through December 2003, and the procedures described in FASAB Technical Bulletin 2000-1, “*Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance*.” The provisions of technical bulletins need not be applied to immaterial items.

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

- “Memorandum of Understanding among the Government Accountability 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.

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Summary

Technical Bulletin 2011-1 clarifies that federal entities should report the value of the federal government's estimated royalties and other revenue from federal natural resources that are (1) under lease, contract or other long-term agreement and (2) reasonably estimable as of the reporting date in required supplementary information (RSI), consistent with the guidance contained in Statement of Federal Financial Accounting Standards 38, *Accounting for Federal Oil and Gas Resources*.

The guidance in this technical bulletin requires supplementary information and is effective for periods beginning after September 30, 2013. Earlier implementation is encouraged. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement recognition or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.

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Introduction

Purpose

1. Statement of Federal Financial Accounting Standards (SFFAS) 38, *Accounting for Federal Oil and Gas Resources*, requires the value of the federal government's **estimated petroleum royalties**¹ from the production of federal oil and gas **proved reserves** to be reported in required supplementary information (RSI) as part of a discussion of all significant **federal oil and gas resources** under management by the entity.
2. This technical bulletin clarifies that federal entities should report the value of the federal government's estimated royalties and other revenue for other **federal natural resources**² that are (1) under long-term lease, long-term contract or other long-term agreement³ and (2) **reasonably estimable** as of the reporting date in RSI, consistent with the guidance contained in SFFAS 38 for federal oil and gas proved reserves.

Materiality

3. The provisions of this technical bulletin 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.

Effective Date

4. The guidance in this technical bulletin is effective for periods beginning after September 30, 2013. Earlier implementation is encouraged.
5. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement **recognition** or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.

¹ Terms defined in the Glossary or Appendix C are shown in **bold-faced type** the first time they appear.

² The term "federal natural resources" should be viewed with its general meaning as defined in the glossary.

³ The shortened phrase "lease, contract, or other long-term agreement" is used throughout the remainder of this document to refer to all such long-term arrangements. Long-term is defined as longer than five years and applies to the original term of outstanding leases, contracts, or other long-term agreements as of the reporting date.

Technical Guidance

Scope

6. **What entities are affected by this technical bulletin?**
7. This guidance applies to federal entities that (a) manage federal natural resources and (b) prepare general purpose federal financial reports, including the consolidated financial report of the U.S. Government, in conformance with SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board (FASB)*.
8. **What accounting practices are addressed in this technical bulletin?**
9. This guidance clarifies the responsibility of federal entities to report the value of the federal government's estimated royalties and other revenue from federal natural resources under lease, contract or other long-term agreement in RSI, consistent with the guidance contained in SFFAS 38 for federal oil and gas resources.
10. **What are federal natural resources?**
11. Federal natural resources are resources that occur in nature (including **nonrenewable natural resources** and **renewable natural resources**) and meet all of the following criteria:
 - a. the federal government may exercise sovereign rights over the resources with respect to exploration and exploitation,
 - b. the federal government has the authority to derive revenues from the resources for its use, and
 - c. the resources are contained on federal lands or the federal government substantially manages and/or controls⁴ the resources.⁵

⁴ "Substantially manages and/or controls" means that the federal government manages and/or controls access to the economic benefits to be derived from the resources and, therefore, can obtain them and deny or regulate the access of other entities to them (Statement of Federal Financial Accounting Concepts (SFFAC) 5, par. 22). This criterion would not be met if the federal government's role is limited to the custodian of collections. For example, royalties collected by the federal government from resources produced from Indian lands on behalf of individual Indians and Indian tribal organizations from leases that are negotiated and signed by the individual Indians and Indian tribal organizations are considered custodial in nature and not federal resources.

⁵ Adapted from SFFAS 38, available at <http://www.fasab.gov/codifica.html>; last accessed September 14, 2010.

Required Supplementary Information (RSI)

12. **How should federal entities apply the general principles of SFFAS 38 to the different types of federal natural resources other than oil and gas that are under management by the entity?**
13. Federal entities are required to apply the general principles of SFFAS 38 through the guidance provided in this technical bulletin and report the value of the federal government's estimated royalties and other revenue from nonrenewable resources that are (1) under lease, contract or other long-term agreement and (2) reasonably estimable as of the reporting date. This is consistent with SFFAS 38 requirements for reporting on federal oil and gas proved reserves.⁶
14. Federal entities are not required to, but may, apply the guidance in this technical bulletin and report the estimated value of other federal natural resources, including renewable natural resources, **electromagnetic spectrum**, or other nonrenewable resources that are not under lease, contract, or other long-term agreement.
15. The narrative discussion required in paragraph 27f should include those federal natural resources that are significant to the reporting entity but not required to be reported in the schedule described in paragraph 17 (for example, they are not measurable⁷ or not under lease, contract, or other long-term agreement).

Component Entity RSI

16. **What should be reported in component entity RSI for federal natural resources other than oil and gas?**
17. The value of the federal government's estimated royalties and other revenue from the reporting entity's federal natural resources that are (1) under lease, contract or other long-term agreement and (2) reasonably estimable as of the reporting date should be reported in a schedule in RSI as part of a discussion of the significant federal natural resources under management by the entity (SFFAS 38, paragraph 15).
18. The value of the federal government's estimated royalties and other revenue from the reporting entity's federal natural resources under lease, contract, or

⁶ While SFFAS 38 does not specifically address other types of federal natural resources, the Board believes that SFFAS 38 should be considered when applying the hierarchy of generally accepted accounting principles to other types of federal natural resources (SFFAS 38, paragraph 9).

⁷ As used in SFFAC 5, paragraph 5, the term measurable means that a monetary amount can be determined with reasonable certainty or is reasonably estimable.

- other long-term agreement should be reported by major types of natural resources. Resources may be further divided by subtype of commodity and calculated separately if material differences would otherwise result. Each of the individual calculations should be reported separately and summed together to arrive at the reporting entity's total estimated natural resources under lease, contract, or other long-term agreement (SFFAS 38, paragraph 21).
19. If a majority of the reporting entity's estimated revenue from natural resources under lease, contract, or other long-term agreement is designated to be distributed to others, the value of the revenue to be distributed should be estimated and reported in a schedule of estimated revenue to be distributed to others (SFFAS 38, paragraph 25).
 20. **How should the value of federal natural resources be determined?**
 21. The estimates that are developed should approximate the **present value** of future receipts of federal natural resources that are (1) under lease, contract or other long-term agreement and (2) reasonably estimable 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 (SFFAS 38, paragraph 17).
 22. Discount rates as of the reporting date for present value measurements of federal natural resources should be based on interest rates on **marketable Treasury securities** with maturities consistent with the cash flows being discounted (SFFAS 38, paragraph 18).
 23. The reporting 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 are consistent with sources independent of the reporting entity, an explanation of why the entity's own assumptions are preferred should be provided (SFFAS 38, paragraph 19).
 24. The preferred measurement method for valuing the reporting entity's federal natural resources is the present value of future receipts on federal natural resources that are (1) under lease, contract or other long-term agreement and (2) reasonably estimable as of the reporting date using a risk-free discount rate as described in paragraph 22; however, alternative methods for

- measuring **fair value** or current price may be acceptable if it is not reasonably possible to estimate present value of future federal receipts using the methodology described in paragraphs 21 through 24 (SFFAS 38, paragraph 22).⁸
25. Once established, the estimation methodology should be consistently followed and explained 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 explained (SFFAS 38, paragraph 23).
26. **What else should be reported?**
27. The reporting entity should provide the following as a narrative⁹ to the schedules presented as RSI:
- a. A concise statement explaining how the management of the reporting entity's federal natural resources is important to the overall mission of the entity.
 - b. A brief description of the entity's stewardship policies for federal natural resources (e.g., the guiding principles established to: assess resource areas; offer those resources to interested developers; sell and assign leases to winning bidders; administer the leases; collect bonuses, rents, and royalties; and distribute the collections consistent with statutory requirements, prohibitions, and limitations governing the entity).
 - c. A narrative describing the estimation methodology used to calculate the value of the federal reporting entity's natural resources under lease, contract, or other long-term agreement. At a minimum, the narrative explanation should include a "plain English" explanation of the measurement attribute or method, the significant assumptions incorporated into the estimate, and any significant changes to the estimation methodology, including the underlying assumptions, from the prior year. As required by paragraph 25, the nature and reason for any changes, as well as the effect of the changes, should be explained.

⁸ Calculating the present value of future federal receipts employs the use of a number of estimates; unforeseen circumstances may result in situations where it is not possible for the entity to reasonably estimate the present value of future federal receipts. In these situations, it may be possible to estimate current price. Current price, sometimes referred to as a "fresh-start" or "remeasured" price, is a general term for various attributes measured as of a financial statement date subsequent to the period of initial recognition, including replacement price, market price, and settlement price.

⁹ Quantitative data is not required to be reported as part of the narrative discussion unless specifically required as part of a display that accompanies the narrative discussion (for example, in par. 27e, where quantitative information is required in display format).

- d. A reference to the source reports used to calculate the value of the federal reporting entity's estimated natural resources under lease, contract, or other long-term agreement.
- e. A narrative describing and a display showing the sales volume, the sales value, the royalty or other revenue, and the estimated value of **royalty relief** or other **foregone revenue**, if any, that resulted from the extraction and removal of federal natural resources under management by the reporting entity for the reporting period.
- f. A narrative describing other significant natural resources under management by the federal reporting entity that are not required to be reported in the schedule described in paragraph 17 (for example, they are not measurable¹⁰ or not under lease, contract, or other long-term agreement). The narrative should be sufficient to enable the financial statement reader to gain an understanding of the full extent of significant natural resources under management by the entity, including resources contained on land that has been legislatively or administratively withdrawn from leasing (SFFAS 38, paragraph 28).

Consolidated Financial Report of the U.S. Government RSI

28. **With regard to federal natural resources other than oil and gas, what should be reported in the consolidated financial report of the U.S. Government?**
29. The governmentwide entity should provide the following information related to federal natural resources in RSI as part of a discussion of the significant federal natural resources under management by the federal government:
 - a. A concise statement explaining the nature and valuation of federal natural resources.
 - b. The asset value of federal natural resources under lease, contract, or other long-term agreement by the types identified for use in calculating the value of the federal government's estimated royalties and other revenue from natural resources under lease, contract, or other long-term agreement as of the end of the reporting period (see paragraph 18). Related groups of resources that do not warrant classification and presentation in separate categories should be aggregated.
 - c. A reference to specific agency reports for additional information about federal natural resources (SFFAS 38, paragraph 29).

¹⁰ See footnote 7.

Effective Date

30. This technical bulletin is effective for periods beginning after September 30, 2013. Earlier implementation is encouraged.
31. It is the Board's intent that the information required by SFFAS 38 transition to basic information after being reported as RSI for a period of three years. Prior to the conclusion of the three-year RSI period, the Board plans to make a determination as to whether the information required by SFFAS 38 will transition to basic information as financial statement recognition or note disclosure. It is anticipated that a similar determination would be made for natural resources other than oil and gas based on agencies' experiences implementing the guidance in this technical bulletin.

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

Appendix A: Basis for Conclusions

The Federal Accounting Standards Advisory Board has authorized its staff to prepare FASAB technical bulletins to provide timely guidance on certain financial accounting and reporting problems, in accordance with the Board's rules of procedure, as amended and restated through December 2003, and the procedures described in FASAB Technical Bulletin 2000-1, "*Purpose and Scope of FASAB Technical Bulletins and Procedures for Issuance.*" The provisions of technical bulletins need not be applied to immaterial items.

This appendix discusses some factors considered significant by staff in reaching the conclusions in this technical bulletin. It includes the reasons for accepting certain approaches and rejecting others. Some factors were given greater weight than other factors. The guidance enunciated in the technical guidance section – not the material in this appendix – should govern the accounting for specific transactions, events or conditions.

Project History

- A1. In April 2010, FASAB issued SFFAS 38, *Accounting for Federal Oil and Gas Resources*. SFFAS 38 requires the value of the federal government's estimated petroleum royalties from the production of federal oil and gas proved reserves to be reported in a schedule of estimated federal oil and gas petroleum royalties. SFFAS 38 also requires the value of estimated petroleum royalty revenue designated for others to be reported in a schedule of estimated federal oil and gas petroleum royalties to be distributed to others. These schedules are to be presented in required supplementary information (RSI) as part of a discussion of all significant federal oil and gas resources under management by the entity.
- A2. Federal lands contain a variety of natural resources that are not specifically addressed by SFFAS 38, including coal, gold, and silver, as well as timber and grazing rights. Originally, the Board intended to address each category of resources in separate phases as noted in paragraph A2 of SFFAS 38. 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 for the other types of resources would significantly delay implementation of a broad standard. Therefore, because 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.
- A3. Nonetheless, the majority of the members believe that the standards developed for federal oil and gas resources may serve as a good general

framework for other categories of federal natural resources.¹¹ Therefore, while SFFAS 38 does not specifically address other types of federal natural resources, the Board believes that SFFAS 38 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. As a result, while not explicitly encouraging agencies to recognize other categories of natural resources, the Board explicitly states that SFFAS 38 does not require or preclude entities from reporting information about other types of federally-owned natural resources; however, members believe SFFAS 38 should be considered in conjunction with SFFAS 7, *Accounting for Revenue and Other Financing Sources*, when applying SFFAS 34 to other types of federally-owned natural resources.¹²

- A4. During deliberations on SFFAS 38, the Board explicitly directed staff to apply the requirements of SFFAS 38 to other types of natural resources through the issuance of a technical bulletin. In doing so, the board members noted that the technical bulletin comment period would provide federal entities with an opportunity to comment on the standards as they would apply to the specific natural resources under their management.

Components of Federal Natural Resources

- A5. *Figure 1, Components of Federal Natural Resources Other than Oil and Gas*, presented on the next page identifies the universe of federal natural resources (total resources). Total resources incorporate “original in-place” resources, that is, resources in the earth before human intervention. The components are first separated into “undiscovered resources” and “discovered resources.”
- A6. The terms in Figure 1 are defined in Appendix C: Technical Terms under the subheading “Definitions of Federal Natural Resources Components and Subcomponents.”

¹¹ SFFAS 34, Paragraph 7.

¹² SFFAS 7, par. 45, requires, in instances where there are virtually no costs incurred in earning exchange revenue, that federal entities recognize the revenue as a financing source on the statement of changes in net position, rather than the statement of net cost (SFFAS 38, Paragraph 9).

Figure 1 – Components of Federal Natural Resources Other than Oil and Gas

Accounting Treatment	Components of Federal Natural Resources Other than Oil and Gas									
	Undiscovered Resources			Discovered Resources						
	Non-Recoverable	Recoverable		Not Available for Sale or Lease		Available for Sale or Lease				
	Undiscovered Conventionally Recoverable Resources	Undiscovered Economically Recoverable Resources	Legislatively Withdrawn	Administratively Withdrawn	Other	Planned to be Offered	Under Contract but Not Conveyed ¹³			
Existing Accounting Treatment Before SFFAS 38								Bonus bid, rent, royalty and other revenue accounted for by reporting entity either as (1) exchange revenue on the SNC or as (2) as a financing source on the CFR and reporting entity SOCNP ¹⁴		
New Accounting Treatment Based on SFFAS 38								<ul style="list-style-type: none"> Provide a narrative disclosure in Required Supplementary Information (RSI) of the full extent of natural resources under management by the reporting entity, including resources contained on land that has been legislatively or administratively withdrawn from leasing 	<ul style="list-style-type: none"> Revenue continues to be accounted for as either exchange revenue on the SNC or a financing source on the SOCNP Various RSI disclosures 	
									Not Reasonably Estimable	Reasonably Estimable ¹⁵
										<ul style="list-style-type: none"> Asset value and revenue to be distributed to others reported as RSI

¹³ “Under Contract” encompasses lease, contract, or other long-term agreement. “Not Conveyed” refers to the portion of actual resources under contract that have not yet been physically extracted or removed from federal lands.

¹⁴ SNC = statement of net cost, CFR = consolidated financial report of the U.S. Government, and SOCNP = Statement of Operations and Changes in Net Position.

¹⁵ Under contract and reasonably estimable is substantially equivalent to “proved reserves” under SFFAS 38.

Renewable Resources

- A7. Staff believes that it may not be appropriate to apply the guidance in this Technical Bulletin to renewable natural resources. Based on staff's review of the major characteristics of renewable resources, renewable resources may not be similar enough to oil and gas royalties that an appropriate analogy can be made under the principles contained in SFFAS 38. For example, costs to develop certain renewable resources may be incurred by the federal government while revenues may relate to annual production rather than extraction of long-standing reserves. Such revenue-producing renewable resources that result in exchange revenue that is matched against the economic cost of operations may not benefit from the additional reporting requirements of SFFAS 38. Therefore, federal entities are not required to, but may, apply the guidance in this technical bulletin to renewable natural resources.

Electromagnetic Spectrum

- A8. Staff believes that auctions of the electromagnetic spectrum may not be similar enough to oil and gas royalties that an appropriate analogy can be made under the principles contained in SFFAS 38. The spectrum is closer to a renewable resource in that it is inexhaustible in duration but limited in the amount of spectrum that is available per unit of time. Proceeds from auctions of the spectrum are not received on a consistent basis from year to year since the need for auction depends on the mutual exclusivity of the applications received in any given year (for example, auction proceeds were \$16.8 billion, \$1.8 billion, \$13.9 billion, and \$104 million in fiscal years 2009, 2008, 2007, and 2006, respectively). In addition, the asset that is being sold is the right to use the spectrum for a period of time, similar to a standard operating lease; nothing is being used up or depleted. Furthermore, auction proceeds are one-time payments made by each auction's winner; they are not made over the course of a lease, contract, or other long-term agreement. Therefore, federal entities are not required to, but may, apply the guidance in this technical bulletin to the electromagnetic spectrum.
- A9. The Board decided to add accounting for the electromagnetic spectrum to its list of potential projects for consideration at future agenda-setting sessions. If the project is selected for the agenda, the Board would determine if additional guidance is warranted (see SFFAS 7 paragraphs 145, 278 and 279). As of the issuance of this technical bulletin, this potential project has not been added to the Board's five-year agenda.

Other Natural Resources

A10. The guidance in this technical bulletin applies the general principles of SFFAS 38 to other natural resources where staff believes an analogy can be drawn. While staff thought it was appropriate to limit the guidance of this technical bulletin to those resources that most closely analogized with federal oil and gas proved reserves, federal entities may believe that additional reporting on other natural resources under its management is appropriate. Therefore, federal entities are not required to, but may, apply the guidance in this technical bulletin to other natural resources that are not under lease, contract, or other long-term agreement.

Due Process

A11. The Exposure Draft (ED), Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*, was released on January 5, 2011, with comments requested by January 31, 2011.

A12. Upon release of the ED, notices and press releases were provided to the FASAB email listserv, the Federal Register, *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, *Government Accounting and Auditing Update*, the CFO Council, the Council of Inspectors General on Integrity and Efficiency, and the Financial Statement Audit Network, and committees of professional associations generally commenting on exposure drafts in the past (e.g., Greater Washington Society of CPAs, AGA Financial Management Standards Board).

A13. This broad announcement was followed by direct e-mailings of the press release to:

- a) Relevant congressional committees: Senate Committee on Energy and Natural Resources, Senate Committee on Finance, House Committee on Financial Services, and House Committee on Natural Resources;
- b) Public interest groups and think tanks: Alliance to Save Energy, the Brookings Institution, the Cato Institute, the Center on Budget and Policy Priorities, Citizens Against Government Waste, The Concord Coalition, The Heritage Foundation, National Parks Conservation Association, Natural Resources Defense Council, OMB Watch, Resources for the Future, the Sierra Club, the Urban Institute, and World Resources Institute;
- c) Respondents to SFFAS 38 and related EDs (or their successors);

- d) Agencies that manage and/or account for federal natural resources: Department of the Interior (DOI) Office of the Secretary; DOI Bureau of Land Management ; DOI Bureau of Ocean Energy Management, Regulation and Enforcement; DOI U.S. Geological Service; Department of Agriculture (USDA), Deputy CFO; and USDA Forest Service.

A14. To encourage responses, reminder notices were provided to the FASAB email listserv on January 28, 2011, and February 8, 2011.

Comment Letters

A15. Eight comment letters were received from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others	0	2
Auditors	1	0
Preparers and financial managers	5	0

A16. Responses to the exposure draft were considered at the February 24, 2011, public Board meeting. Staff 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 and staff considered the arguments in each response and weighed the merits of the points raised. The respondents' comments are summarized below.

A17. Respondents generally agreed with the proposed guidance; the respondents that expressed the most reservations are the ones that would need to determine whether they have material natural resources that are (1) under lease, contract, or other long-term agreement and (2) reasonably estimable as of the reporting date. Staff does not believe that an agency's current inability to determine materiality should be a barrier to issuing the proposal because it would seem that agencies that are leasing the federal government's natural resources over a long period of time (greater than five years) should have a reasonable idea of the amount that the federal government should be receiving for those nonrenewable natural resources assuming stable economic conditions and where the reasonably estimable hurdle is overcome. If the agencies do not know whether something is material or not, federal financial reporting objectives such as being able to determine whether the federal government is being a good steward cannot be met.

- A18. One of the respondents stated that they do not believe the information is reasonably estimable. If the information is not reasonably estimable, it would not meet one of the primary requirements for being included in the schedule (under lease, contract, or other long-term agreement **and reasonably estimable as of the reporting date**) and would only need to be included in the narrative discussion proposed in paragraph 27f.
- A19. One respondent stated that significant audit costs could be incurred by providing information to the auditor that confirms “immateriality” and “completeness” especially if information is not centrally available. Because materiality assessments require both qualitative and quantitative judgments, specific guidance limiting preparer and auditor considerations of information would not be appropriate.
- A20. One respondent stated that the technical bulletin should explain the rationale for using the five-year term as the basis for the definition of “long-term.” Staff selected a five-year term based on the definition of “long-term assumptions” that was established 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*, which states, “Assumptions are considered long-term if the underlying event about which the assumption is made will not occur for five years or more.”

Meeting with DOI Representatives

- A21. At the February meeting, several board members expressed significant concern about the potential cost of the proposal based on DOI’s letter and the conflicting views presented by DOI bureaus. The members asked for additional information from DOI.
- A22. Staff asked DOI to clarify its response to the Exposure Draft and invited representatives from DOI to the April meeting to allow the board members to ask questions about DOI’s response.
- A23. As a result of DOI’s revised response received on April 15, 2011, and its meeting with the Board, it was determined that DOI had interpreted the technical bulletin as requiring an estimate of the entire asset instead of just the estimated inflows to the federal government. Board members believe, and DOI confirmed, that it should be able to obtain this information by reviewing the actual lease agreements and developing an estimate based on the terms of the leases. DOI stated that it believes it can gather the information but would like to have until 2014 to implement the requirements of the technical bulletin because its resources are already dedicated to implementation of SFFAS 38 and rolling out a new core financial system. Staff agreed with a fiscal year 2014 implementation date and revised the effective date accordingly.

Board Review

A24. The Board has reviewed this Technical Bulletin, and a majority of its members do not object to its issuance.

Appendix B: Abbreviations

CFR	Consolidated Financial Report of the U.S. Government
DOI	U.S. Department of the Interior
EIA	U.S. Energy Information Administration
FASAB	Federal Accounting Standards Advisory Board
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SOCNP	Statement of Operations and Changes in Net Position
U.S.C.	United States Code
USDA	U.S. Department of Agriculture

Appendix C: Technical Terms

The terms explained in Appendix C have specific application to federal natural resources and may be useful in applying the requirements of this Technical Bulletin.

Definitions of Federal Natural Resources Components and Subcomponents

Provided below are definitions used in this technical bulletin to describe federal natural resource components and subcomponents.¹⁶ This section of Appendix C defines the terms used in *Figure 1 – Components of Federal Natural Resources Other than Oil and Gas*.

Undiscovered Resources

Resources surmised to exist on the basis of broad geologic knowledge and theory.¹⁷

- **Undiscovered Non-Recoverable Resources** – The portion of undiscovered federal natural resources not currently considered to be recoverable. A portion of these resources may become recoverable in the future as commercial circumstances change, technological developments occur, or additional data are required.
- **Undiscovered Recoverable Resources** – The portion of undiscovered federal natural resources that are estimated to exist in favorable geologic settings.¹⁸
 - **Undiscovered Conventionally Recoverable Resources**: The portion of undiscovered federal natural resources that is producible, using present or reasonably foreseeable technology, without any consideration of economic feasibility.
 - **Undiscovered Economically Recoverable Resources**: The portion of undiscovered federal natural resources that is economically recoverable under imposed economic scenarios.

¹⁶ Unless otherwise noted, definitions in this section were adapted from SFFAS 38, Appendix D: Technical Terms.

¹⁷ Adapted from the Energy Information Administration (EIA) Glossary, available at <http://www.eia.doe.gov/glossary/>; last accessed October 4, 2010.

¹⁸ Ibid.

Discovered Resources

Resources whose location and quantity are known or estimated from specific geologic evidence.

- Not Available for Sale or Lease – Resources that are not available for sale or transfer because they have been legislatively or administratively withdrawn.
 - Legislatively withdrawn resources: Those resources that by law can not be offered for transfer to private entities (e.g., resources in Wilderness Areas, National Parks, and Recreation Areas).
 - Administratively withdrawn resources: Those resources in areas which by law could be offered for transfer to private entities, but which have been administratively withdrawn. Such resources could be made available for future transfer by administrative decision without change in law (e.g., locatable minerals in scenic or recreational areas).
- Available for Sale or Lease – Those resources that are available for sale or transfer because they have not been legislatively or administratively withdrawn.
 - Planned to be offered: Resources planned to be offered are those resources for which it has been determined that specific types of resources in specific locations or within specific areas will be made available for sale or transfer to private entities (e.g., areas open to claims under the Mining Law of 1872).
 - Under contract but not conveyed: Resources “under contract” are resources that have been offered for sale through a lease, contract, or other long-term agreement but have not yet been conveyed to the purchaser.
 - *Reasonably Estimable*: Reasonably estimable resources under contract but not yet conveyed are those resources that are under lease, contract, or other long-term agreement; known to exist as of year-end; and for which the value can be reasonably estimated.
 - *Not Reasonably Estimable*: Not reasonably estimable resources under contract but not conveyed are those resources that are under lease, contract, or other long-term

agreement; known to exist as of year-end; but for which the value cannot be reasonably estimated.

- **Other:** Other resources available for sale are those resources which are neither restricted by law nor administratively withdrawn, are outside of areas for which there are contracts to convey a resource, and are outside of areas for which the determination has been made to offer the resource for sale.

End of the terms in Figure 1 that are defined under the subheading “Definitions of Federal Natural Resources Components and Subcomponents.”

Other Definitions

Electromagnetic Spectrum: The range of electromagnetic radio frequencies (waves per second) used to transmit sound, data, and video across the country. It carries voice between cell phones, television shows from broadcasters to the television, and online information from one computer to the next, wirelessly. The electromagnetic spectrum includes (from longest wavelength to shortest): radio waves, microwaves, infrared, optical (or visible), ultraviolet, x-rays, and gamma-rays.¹⁹

Estimated Petroleum Royalties: 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.

Federal Natural Resources: Federal natural resources are resources that occur in nature (including nonrenewable and renewable natural resources) and meet all of the following criteria: (a) the federal government may exercise sovereign rights over the resources with respect to exploration and exploitation; (b) the federal government has the authority to derive revenues from the resources for its use; and, (c) the resources are contained on federal lands or the federal government substantially manages and/or controls the resources.²⁰

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.

¹⁹ Federal Communications Commission, available online at <http://reboot.fcc.gov/reform/systems/spectrum-dashboard/about>; last accessed September 22, 2010.

²⁰ Adapted from SFFAS 38, available at <http://www.fasab.gov/codifica.html>; last accessed September 14, 2010.

Foregone Revenue: Foregone revenue is the reduction, modification, or elimination of any royalty or other fee to operators to promote development, increase production, or encourage production of marginal resources on certain leases or categories of leases.²¹

Nonrenewable Natural Resources: Resources that cannot be easily made or "renewed," such as oil, natural gas, and coal.²²

Proved Reserves: For crude oil and gas, proved reserves are the estimated quantities that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. For lease condensate and natural gas plant liquids, proved reserves are the estimated quantities demonstrated with reasonable certainty to be recoverable in future years in conjunction with the production of proved gas reserves, under existing economic and operating conditions. The total quantity of proved reserves is calculated by adding the quantity of reserves reported as revisions and adjustments, net of sales and acquisitions, total recoveries and deducting estimated production during the report year.

Renewable Natural Resources: Resources that are naturally replenishing but flow-limited. They are virtually inexhaustible in duration but limited in the amount of resources that are available per unit of time. Renewable resources include, but are not limited to, timber, biomass, hydropower, geothermal energy, solar, wind, water, fish, wildlife, ocean thermal, wave action, and tidal action.²³ The opposite of renewable is depletable, which refers to resources that are diminished after use, such as coal, oil, and gas.

Royalty Relief: Existing statutes authorize DOI to grant royalty relief to operators on the production of oil and gas resources 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.²⁴

²¹ Adapted from definition of royalty relief from 43 U.S.C. § 1337(a).

²² Adapted from EIA Glossary, available at <http://www.eia.doe.gov/glossary/>; last accessed May 10, 2011.

²³ 43 United States Code (U.S.C.) § 1337(a).

²⁴ Adapted from EIA Glossary.

²⁴ 43 U.S.C. § 1337(a).

Appendix D: Glossary

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 property, plant and equipment 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.

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.

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.

Reasonably Estimable: The ability to reliably quantify in monetary terms the outflow of resources that will be required.

Recognition: The terms recognition and recognize refer to the process of formally recording or incorporating an element into the financial statements of an entity. Recognition comprises depiction of an element in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements.

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