



OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

COMPTROLLER

FEB 8 2011

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

Dear Ms. Payne:

The Department of Defense (DoD) appreciates the opportunity to comment on the Federal Accounting Standards Advisory Board Technical Bulletin 2011-1 Exposure Draft, Accounting for Federal Natural Resources Other than Oil and Gas. We have reviewed the bulletin from the perspective of these resources being material to financial reporting. Although DoD's "Federal Natural Resources Other Than Oil and Gas" are immaterial on our financial statements, we agree with the rationale for the changes proposed in the exposure draft.

Responses to specific questions are enclosed. My contact is Ms. Carol A. Campbell. She can be reached at carol.campbell@osd.mil or 703-601-0129.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton", is written over the typed name and title.

Mark E. Easton
Deputy Chief Financial Officer

Enclosures:

1. Field Test Questionnaire
2. Questions for Respondents

**Exposure Draft – Technical Bulletin 2011-1,
Accounting for Federal Natural Resources Other than Oil and Gas**

FIELD TEST QUESTIONNAIRE

Field tests are part of the Federal Accounting Standards Advisory Board's (FASAB or the Board) due process and help FASAB to establish more effective guidance. Participating federal entities volunteer to go through the exercise of "implementing" the proposed guidance as if it 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 guidance and allow FASAB to gather valuable information about implementation costs.

This field test is intended to assist the Board in:

- Determining whether the proposed guidance in Technical Bulletin 2011-1 would have an impact on the information that is currently reported in agency financial reports;
- Determining whether the methodology developed for oil and gas in Statement of Federal Financial Accounting Standard 38 can be applied more broadly to other types of natural resources;
- Discovering critical issues preparers might have in applying the proposed methodology; and,
- Discovering material for a possible Implementation Guide.

We would appreciate a response to the attached field test questionnaire by **Monday, January 31, 2011**. Please submit your response to Julia Ranagan at ranaganj@fasab.gov.

This questionnaire was completed by (fill in information requested):

Organization Name:	Department of Defense (DoD) Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Office of the Deputy Chief Financial Officer (DCFO)
Contact Name:	Carol A. Campbell Accounting & Finance Policy Directorate
Contact Telephone Number:	(703) 602-0129
Contact E-mail Address:	Carol.campbell@osd.mil

Enclosure 1

Pro Forma Required Supplementary Information

Based on the guidance contained in the exposure draft, Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*:

1. Please prepare a pro forma schedule of the initial estimated value of the reporting entity's federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date (see proposed Technical Bulletin 2011-1 pars. 19-20 and 22-26) at http://www.fasab.gov/pdffiles/technical_bulletin_2011_1.pdf.

DoD did not complete the pro forma because it has no material federal natural resources other than oil and gas currently reported on its financial statements.

2. Please prepare a pro forma schedule of the initial estimated value of the reporting entity's revenue from natural resources under lease, contract, or other long-term agreement designated to be distributed to others (see proposed Technical Bulletin 2011-1 par. 21).

DoD did not complete the pro forma because it has no material federal natural resources other than oil and gas currently reported on its financial statements.

3. Using the information you gathered to prepare the pro forma schedules above, do you believe there are any federal natural resources other than oil and gas for which the value over the life of the long-term lease, contract, or other agreement would be material to the reporting entity? Please explain the reason for your position in as much detail as possible.

Not applicable

Time and Expense Information

4. Describe the system changes, if any, that would be necessary to implement the proposed guidance.

Not applicable

5. Estimate staff time and costs to complete the field test and to implement the proposed guidance.

Not applicable

Costs should include expenditures for system changes, consultants, and hardware and software acquisitions, and should **not** include a calculated value for staff time. Implementation estimates should distinguish between initial **implementation** and **ongoing** staff time and costs. All estimates should be **additional** time and cost incurred as a direct result of the proposed guidance.

Accounting for Federal Natural Resources Other than Oil and Gas

6. How did you estimate the initial value of federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date based on the proposed guidance in Technical Bulletin 2011-1?

Not applicable

7. Do you foresee any problems preparing an annual valuation of federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date based on the proposed guidance?

Not applicable

8. Describe any problems experienced valuing estimated federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date using the proposed guidance:

- a. How were they resolved?

Not applicable

- b. How would you resolve them in actual implementation of the final Technical Bulletin?

Not applicable

Overall

9. Did any issues arise that should be included in the final Technical Bulletin 2011-1 or an Implementation Guide?

No

10. Please provide any other information or comments that you believe would be useful to the Board.

DoD has no additional information or comments.

Questions for Respondents

Exposure Draft, Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other Than Oil and Gas*.

Responses are requested by January 31, 2011.

If you are responding on behalf of a federal agency, please respond to the questions with information about your agency as well as any information you might have regarding other agencies.

- Q1. This proposed technical bulletin would explicitly apply the requirements of SFFAS 38, *Accounting for Federal Oil and Gas Resources*, to all federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date (see paragraphs 9 and 16.) The Board believes that explicitly applying SFFAS 38 to all federal natural resources is preferable to remaining silent and relying on preparers and auditors to follow the hierarchy of generally accepted accounting principles and apply SFFAS 38 to other federal natural resources through analogy. The Board believes that being explicit will result in more complete, consistent, and useful reporting of federal natural resources. Do you agree or disagree with the Board's decision? Please explain the reason for your position in as much detail as possible.

DoD remains neutral on the Board's decision until further research has been done to evaluate the materiality of its federal resources other than oil and gas natural resources. Technical bulletins are not applied to immaterial items.

- Q2. Appendix B: Federal Natural Resources is a listing of various categories/types of natural resources. It is intended as a general guide to the universe of natural resources that were considered during development of this technical bulletin (see Appendix B).

- a. Which categories/types of federal natural resources, if any, result in annual receipts and/or collections that would be material to a federal reporting entity over the life of the related lease, contract, or other long-term agreement?

None of the categories would be material to DoD.

- b. Are there any categories/types of federal natural resources omitted from the listing in Appendix B which result in annual receipts and/or collections that would be considered material to a federal reporting entity over the life of the related lease, contract, or other long-term agreement? If so, please explain.

DoD is not aware of any categories/types of federal natural resources omitted from the listing in Appendix B.

Enclosure 2

- c. Are there any categories/types of federal natural resources that a federal agency currently recognizes as an asset on the face of the balance sheet/ statement of financial position? If so, please explain.

No.

- Q3. This proposed technical bulletin applies the same valuation guidance contained in SFFAS 38 for federal oil and gas proved reserves to all federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date (see paragraphs 23 through 27.) Do you agree or disagree that the valuation guidance is sufficient? Please explain the reasons for your position in as much detail as possible.

DoD remains neutral on the Board's decision until further research has been done to evaluate the materiality of its federal resources other than oil and gas natural resources. Technical bulletins need not be applied to immaterial items.

- Q4. Please comment specifically on the reasonableness of the proposed technical bulletin from each of the following three perspectives:

- a. Cost – Considering the preparer and audit perspective, would any federal agency incur significant costs to implement the requirements of this proposed technical bulletin? Please explain the reason for your position in as much detail as possible.

It is unknown to DoD, at this time, whether any federal agency would incur significant costs to implement the technical bulletin requirements. DoD reports no material "Federal Natural Resources Other Than Oil and Gas", thus no costs would be incurred.

- b. Timing – Considering that the proposed requirements would be reported in RSI, is a fiscal year 2012 implementation date reasonable? Please explain the reason for your position in as much detail as possible.

DoD agrees with the implementation date of fiscal year 2012, as most of the information is currently being tracked.

- c. Benefits – Considering the user perspective (internal as well as external), would the benefits of this proposed technical bulletin outweigh the costs of implementation? Please explain the reason for your position in as much detail as possible.

It is unknown to DoD, at this time, whether the benefits of the technical bulletin would outweigh the cost of implementation for those federal agencies that would implement the technical bulletin requirements. DoD reports no material "Federal Natural Resources Other Than Oil and Gas", thus no costs would be incurred.