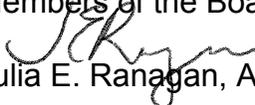




**February 11, 2011**

Memorandum

To: Members of the Board

From:  Julia E. Ranagan, Assistant Director

Through:  Wendy M. Payne, Executive Director

Subj: Exposure Draft: Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*  
Comment Letters Received through February 10, 2011<sup>1</sup> – **Tab K**

## MEETING OBJECTIVE

The purpose of this session is to review comments received on the subject exposure draft (ED) as well as related staff analysis and recommendations. Board decisions and direction on issues will enable staff to work towards submitting a final draft technical bulletin by e-mail after the February meeting. Attachment 3 contains staff's analysis of comments by question at pages 39 through 46.

**Staff is asking members to read the comment letters (Attachment 4) along with staff's summary and analysis (Attachments 1 and 3, respectively) and provide feedback on the enclosed draft technical bulletin (Appendix 1).**

## BRIEFING MATERIAL

- Attachment 1**, beginning on page 7 of this memo, provides the staff summary to all responses to the questions for respondents on pages 6 and 7 of the ED. The staff summary presents:
  - a) Tally Of Responses By Question,
  - b) Quick Table Of Responses By Question,
  - c) Detailed table of Answers and Comments by Question and by Respondent, and
  - d) Listing Of Additional Comments from Respondents.

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

- ❑ **Attachment 2**, beginning on page 21 of this memo, provides the full text of the comment letters organized by type of respondent. This is a copy of all comment letter text without the letterheads and transmittal paragraphs and is intended for quick reference purposes; it is not necessary to read this attachment in addition to the comment letters.
- ❑ **Attachment 3**, beginning on page 39 of this memo, contains the related staff analysis and recommendations.
- ❑ **Attachment 4**, beginning on page 47 of this memo, contains the complete set of comment letters in the order they were received.
- ❑ **Appendix 1** contains a draft Technical Bulletin 2011-1, Accounting for Federal Natural Resources Other than Oil and Gas, with respondent comments incorporated, as staff deemed appropriate.

## **NEXT STEPS**

If the board directs staff to prepare a final draft technical bulletin, staff will incorporate member comments into the draft technical bulletin at Appendix 1 and email to members for review on Wednesday, March 9, 2011.

## **BACKGROUND**

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.

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.

Nonetheless, the majority of the members believe that the standards developed for federal oil and gas resources may serve as a good framework for other categories of federal natural resources.<sup>1</sup>

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.

The Exposure Draft, 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.

## **SUMMARY OF OUTREACH EFFORTS**

Upon release of the exposure draft on January 5, 2011, notices and press releases were provided to:

- a) the FASAB email listserv;
- b) the Federal Register;
- c) the *Journal of Accountancy*, *AGA Today*, the *CPA Journal*, *Government Executive*, the *CPA Letter*, and *Government Accounting and Auditing Update*;
- d) the CFO Council, the Council of Inspectors General on Integrity and Efficiency, and the Financial Statement Audit Network; and,
- e) Committees of professional associations generally commenting on exposure drafts in the past (e.g., Greater Washington Society of CPAs, AGA Financial Management Standards Board).

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

- a) Relevant congressional committees
  - 1. Senate Committee on Energy and Natural Resources
  - 2. Senate Committee on Finance
  - 3. House Committee on Financial Services

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<sup>1</sup> SFFAS 34, Paragraph 7.

4. House Committee on Natural Resources

b) Public interest groups and think tanks

1. Alliance to Save Energy
2. The Brookings Institution
3. The Cato Institute
4. Center on Budget and Policy Priorities
5. Citizens Against Government Waste
6. The Concord Coalition
7. The Heritage Foundation
8. National Parks Conservation Association (NPCA)
9. Natural Resources Defense Council (NRDC)
10. OMB Watch
11. Resources for the Future (RFF)
12. Sierra Club
13. The Urban Institute
14. World Resources Institute (WRI)

c) Respondents to SFFAS 38 and related EDs (or their successors)

1. Helene A. Baker, AGA Regional VP-Elect
2. Christopher Osborne, Environmental Protection Agency (EPA)
3. Robert Childree AGA, FMSB
4. James Short DOD, (succeeded by Robert Hale in Comptroller position – contacts are DCFO Mark Easton or Assistant DCFO Dave Smith)
5. Joseph Bakies (API, current contacts are Jim Williams or Paula Watkins)
6. Jeanette Franzel, GAO FMA Managing Director
7. Andrew Lewis, GWSCPA chair

8. Osman Masahudu , Department of Agriculture, Forest Service
9. Jerry Tucker, Department of Housing and Urban Development, Director  
Financial Policies and Procedures Division
10. Stefan Silzer, EPA, OFM Director
11. Bert Edwards, Self

d) Agencies that manage and / or account for federal natural resources

1. Department of the Interior (DOI) Office of the Secretary
2. DOI Bureau of Land Management
3. DOI Bureau of Ocean Energy Management, Regulation and Enforcement
4. DOI U.S. Geological Service (USGS)
5. Department of Agriculture (USDA), Deputy CFO
6. USDA Forest Service

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

In addition, an invitation to participate in a field test of the proposed technical bulletin was emailed to the following agencies on January 6, 2011:

1. Department of the Interior (DOI) Office of Financial Management
2. DOI Bureau of Ocean Energy Management, Regulation, and Enforcement  
(BOEMRE)
3. DOI Bureau of Land Management
4. DOI U.S. Geological Service
5. U.S. Department of Agriculture (USDA) Office of the Chief Financial Officer
6. USDA Forest Service
7. Department of Defense (DOD)

On January 13, 2011, staff telephoned the individuals whom had been emailed the invitation to ensure that they had received the invitation, find out if their agencies were planning to participate, and answer any questions that they may have. Of those individuals staff spoke with, only DOD and BOEMRE indicated that they might be interested in participating (BOEMRE stated that they would need more time).

**RESULT**

As of February 10, 2011, we have received 7 responses from the following sources:

	<b>FEDERAL (Internal)</b>	<b>NON-FEDERAL (External)</b>
Users, academics, others	0	2
Auditors	0	0
Preparers and financial managers	5	0

In addition to the above responses, Dale Miller, Associate Director, Financial Policy and Planning Staff, Office of Financial Management, Environmental Protection Agency (EPA), sent an email stating that EPA has no comments on the exposure draft; and Bob Faber, Senior Advisor, Office of the Deputy Chief Financial Officer U.S. Department of the Treasury, sent an email stating that “Standard 38 does not impact the Department of the Treasury, therefore, the Department has no comments to offer.”

The complete set of comment letters is provided at Attachment 4. The comment letters include a table of contents and identify respondents in the order their responses were received. The comment letters appear as the final component of this memo to facilitate compilation and pagination. However, staff encourages you to read the letters in their entirety before reading staff’s summary at Attachment 1 and analysis at Attachment 3.

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If you require additional information or wish to suggest another alternative not considered in the staff paper, please contact me as soon as possible. If you have any questions or comments, please contact me by telephone at 202.512.7377 or by e-mail at [ranaganj@fasab.gov](mailto:ranaganj@fasab.gov).

- Attachments (4)
- Enclosure (1)

## ATTACHMENT 1 – STAFF SUMMARY OF RESPONSES

### Tally of Responses by Question

#### *Agree/Disagree-Type Questions*

QUESTION	YES / AGREE	NO / DISAGREE	OTHER	NO COMMENT
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.	3	1	1	1
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.	4		2	1
Q4a. 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.	2		3	2

QUESTION	YES / AGREE	NO / DISAGREE	OTHER	NO COMMENT
Q4b. 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.	3	1	1	2
Q4c. 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.	3		2	2

*Information-Seeking Questions*

QUESTION	NONE KNOWN	KNOWN	OTHER	NO COMMENT
Q2a. 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?	1	2	1	3
Q2b. 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.	4	1		2
Q2c. 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.	3			4

**Quick Table of Responses by Question**

No	Respondent	Organization	Category	Q1	Q2a	Q2b	Q2c	Q3	Q4a	Q4b	Q4c
1	Eric Berman	AGA FMSB	Non-Federal – Other	A	K	N	N	A	O	A	A
2	Janine Velasco	DOI/BLM - OCFO	Federal – Preparer	--	--	--	--	--	--	--	--
3	Connie Constance	USDA/FS - OCFO	Federal – Preparer	D	O	N	--	O	O	O	O
4	Andrew Lewis	GWSCPA FISC	Non-Federal – Other	A	--	N	--	A	A	A	A
5	Tammy Smutny	HUD - OCFO	Federal – Preparer	A	--	--	--	A	--	--	--
6	Mark Easton	DOD - OCFO	Federal – Preparer	O	N	N	N	O	O	A	O
7	Edward King	DOI - OCFO	Federal – Preparer	O	K	K	N	A	A	D	A

Agree (A) or None Known (N)	3	1	4	3	4	2	3	3
Disagree (D) or Known (K)	1	2	1	0	0	0	1	0
Other (O)	2	1	0	0	2	3	1	2
No Comment (--)	1	3	2	4	1	2	2	2

**Detailed Table of Answers and Comments by Question and by Respondent**

<b>Question 1 – Explicit Guidance on Other Natural Resources</b>	
<p>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.</p>	
No.	
1	We agree that applying SFFAS 38 to all federal natural resources will result in more complete, consistent and useful reporting of federal natural resources. <b>(YES / AGREE)</b>
2	No comment <b>(NO COMMENT)</b>
3	While the Forest Service agrees it is always better to be explicit in what requirements apply to an agency, we disagree with the Board’s decision to apply the subject requirements to the Forest Service for the reporting of mineral resources. The Forest

Question 1 – Explicit Guidance on Other Natural Resources	
	Service’s charge is to manage the surface effects of mineral development rather than the mineral resource itself. As such, the agency has neither the authority nor the technical staff to independently determine the proved mineral reserves or the revenues derived from its use. <b>(NO / DISAGREE)</b>
4	The FISC generally agrees with the Board’s decision that being explicit will result in the more complete, consistent, and useful reporting of natural resources. However, although the list provided in Appendix B of the ED is robust, additional natural resources may be identified for which agencies may need to follow the hierarchy of generally accepted accounting principles (GAAP). <b>(AGREE)</b>
5	We agree that federal entities should apply the general principles of SFFAS 38 beyond just oil and gas to only those federal natural resources <i>under lease, contract or other long-term agreement and reasonably estimable as of the reporting date</i> . This is consistent with SFFAS 38 requirements for reporting on federal oil and gas proved reserves. <b>(YES / AGREE)</b>
6	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. <b>(OTHER)</b>
7	<p>We agree that explicitly applying SFFAS 38 to all federal natural resources is preferable to remaining silent, and that this will result in more complete, consistent, and useful reporting of federal natural resources. The clarification of appropriate accounting treatment for natural resources other than oil and gas, such as coal, will be beneficial, and will also help to ensure consistent treatment in the future, should a determination be made to record an estimated asset value in the financial statements. Clarification of the treatment for renewable natural resources will likewise help resolve questions and will result in more complete and consistent reporting.</p> <p>ONRR solid minerals experts believe that of the non oil and gas natural resources, only coal reserves and revenues are material enough to be subject to the reporting requirements at this time. Other non oil and gas resources could of course be added, if they become material.</p> <p>Some BLM respondents also agreed that providing explicit directions for mineral resources other than oil and gas is a good idea. They indicated however, that the guidance document refers to generic “resource” values. The term “resource” carries an implicit meaning in solid minerals. Generally, a “resource” is equal to all the mineral in the authorization and does not account for mining efficiency or unavoidable losses. As such, if a resource value is used, it will always be greater than the amount mined. If at the end of the authorization it is desired to have the “resource” exactly balance the amount mined, the BLM needs to be using reserve values.</p> <p>Other BLM experts expressed concern however, in regards to non-coal solid mineral leases. They did not think the determination of the remaining reserve value on potassium, sodium, etc. leases was “reasonably estimable,” since the definition of “reserve” at any particular time is dependent on wildly varying criteria, such as commodity price. Additionally, the BLM does not have or collect any “reserve” or “resource” information for mineral materials. BLM does not independently collect reserve data and applicants/purchasers are not required to collect or provide such data, nor does the BLM have funding</p>

**Question 1 – Explicit Guidance on Other Natural Resources**

or staffing to evaluate this massive amount of data if it were collected. Mineral materials that are sold now would technically be considered undiscovered recoverable or non-recoverable resources. Sales are made on the speculative presumption that the materials applied for (specific commodities) exist at the sale site in the quantity requested. Applicants are required to pay for the amounts authorized by contract unless they can show that the specified quantity of mineral material is not available within the authorized contract area. Unlike leases, contracts for mineral materials are issued for specific commodities, for a fixed quantity, under fixed contract terms (durations). There are no “royalties”. Materials are sold at in-place fair market value price. Most contracts are short-term, ranging from days to a maximum of ten years. The Bulletin would require collection or estimation of theoretical “reserve” information that would be difficult to obtain, as it is specific to sale sites that are typically small that have locations that cannot be reliably predicted, and could involve almost any Federal land. For example, in FY2010, the vast majority of contracts (2,446) had a duration of 90 days or less; a smaller number (351) were intermediate terms (1 day to five years), and a much smaller number (13) had longer terms (up to 10 years). There were 185 free use permits to government agencies and non-profit organizations. Further analysis will be required. **(OTHER)**

**Question 2a – Material Natural Resources**

**No. 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?**

1	Timber, oil and gas. <b>(KNOWN)</b>
2	No comment <b>(NO COMMENT)</b>
3	Leasable minerals (both solid and fluid, including renewable geothermal energy) result in annual receipts and/or collections from the National Forests; however the Department of Interior’s Office of Natural Resources Revenue (ONRR) is responsible for collecting and disbursing those funds, not the Forest Service.  Locatable minerals do not result in annual receipts and/or collections to a federal entity as there are no provisions in law for the federal government to receive revenue from producers of locatable minerals.  Mineral material and timber sales from the National Forests result in annual collections by the Forest Service. <b>(OTHER)</b>
4	No comment <b>(NO COMMENT)</b>
5	We currently do not have enough experience in this area to comment. <b>(NO COMMENT)</b>
6	None of categories would be material to DoD. <b>(NONE KNOWN)</b>
7	Based upon a preliminary analysis, coal is the predominate natural mineral resource other than oil and gas that would be expected to result in annual receipts that would be material to the Department of Interior over the life of the related leases.

**Question 2a – Material Natural Resources**

Estimates of the undiscounted value of other minerals generating receipts through the Office of Natural Resources Revenue (ONRR) indicate they may be immaterial in aggregate to the Department. However, further and more detailed analysis will be required. Also, it is likely that a similar type of analysis would be required for CFO auditors, to demonstrate that they are, indeed, immaterial. This will of course, be an additional significant effort, and could become an annual requirement.

BLM has identified the 3 categories below, some of which will also require a detailed analysis to determine their potential materiality to the Department.

- Leasable Minerals (royalty and rental)
- Locatable Minerals (holding fees on public lands and royalty and rental on acquired lands)
- Mineral Materials (royalty and rental)

BLM experts further identified potential royalties, rentals, and bonus bids derived from the leasing of non-coal solid minerals such as potassium, sodium, phosphate, and hardrock minerals on acquired lands (under Section 402 of Reorganization Plan No. 3 of 1946). Mineral materials, under the Materials Act of 1947 as amended, are essentially all common variety earth materials unless they are specifically identified as either leasable minerals or locatable minerals (which can include uncommon varieties of mineral materials). Mineral materials revenues include an in-place price and land rental for surface uses. The contracted materials price is adjusted or reappraised at least once every two years. Mineral material commodity categories include sand, gravel, stone, pumice, cinders, clay, calcium, caliche, soil, abrasives, and nonprecious gemstones. As stated above, further analysis will be required. **(KNOWN)**

**Question 2b – Resources Omitted from Listing**

**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.**

1	Not that we are aware of. <b>(NONE KNOWN)</b>
2	No comment <b>(NO COMMENT)</b>
3	Mineral resources are adequately addressed by the categories/types listed in Appendix B. <b>(NONE KNOWN)</b>
4	The FISC is not aware of any additional categories or types of federal natural resources that have been omitted from Appendix B. <b>(NONE KNOWN)</b>
5	We currently do not have enough experience in this area to comment. <b>(NO COMMENT)</b>
6	DoD is not aware of any categories/types of federal natural resources omitted from the listing in Appendix B. <b>(NONE KNOWN)</b>

**Question 2b – Resources Omitted from Listing**

7	Appendix B appears to be a fairly comprehensive list. BLM experts, however, also indicate that the category of “Leasable Minerals (Solid)” should also include, “hardrock minerals on acquired land”. Minerals such as copper, lead, zinc, gold, etc., which are locatable when found on public domain lands, are leasable when found on acquired federal land. For example, the lead/zinc mines in the Mark Twain National Forest, Missouri, mine from Federal solid mineral leases issued by the BLM, and pay very substantial royalties. <b>(KNOWN)</b>
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**Question 2c – Currently Reported as Assets**

**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.**

1	No. <b>(NONE KNOWN)</b>
2	No comment <b>(NO COMMENT)</b>
3	No comment <b>(NO COMMENT)</b>
4	No comment <b>(NO COMMENT)</b>
5	We currently do not have enough experience in this area to comment. <b>(NO COMMENT)</b>
6	No. <b>(NONE KNOWN)</b>
7	None are presently recognized by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) or the Office of Natural Resources Revenue (ONRR), nor did BLM identify any. <b>(NONE KNOWN)</b>

**Question 3 – Valuation Guidance Sufficient**

**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.**

1	We agree. <b>(YES / AGREE)</b>
2	No comment <b>(NO COMMENT)</b>
3	As stated earlier, the Forest Service manages surface effects of mineral development and not the mineral resources

Question 3 – Valuation Guidance Sufficient	
	themselves. In order to comply with the subject guidance, the Forest Service would be dependent upon other federal agencies within the Department of the Interior (U.S. Geological Survey and Office of Natural Resources Revenue) to provide information on the amount and value of mineral resources on the National Forests. Accordingly, we defer to those agencies on the adequacy of the proposed valuation guidance. <b>(OTHER)</b>
4	The FISC agrees with the guidance provided in the ED. <b>(YES / AGREE)</b>
5	We agree that the valuation guidance is sufficient, because it is based on the approximate <b>present value</b> of future receipts of federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date. The reporting entity is encouraged to use estimates that reflect its judgment about the outcome of events based on past experience and expectations about the future. The reporting entity is also encouraged to review assumptions about future cash flows used generally in the federal government as evidenced by sources independent of the reporting entity. <b>(YES / AGREE)</b>
6	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. <b>(OTHER)</b>
7	DOI agrees that the valuation guidance is reasonably sufficient, and provides adequate latitude in developing and selecting the most appropriate method to estimate the value of specific types of natural resources. However, developing an effective valuation methodology will involve much work and collaboration. ONRR solid mineral experts indicate that, for example, coal proven reserves reported by EIA are reported at too high of a level and do not provide a difference between coal reserves leased by BLM and those not leased. The EIA proven reserves incorporate Federal, State and Fee or private reserves into their estimated numbers. A new process could potentially be developed that would establish a recoverable reserve baseline at the federal lease level from data currently available. Once this is established, depletion of these recoverable reserves could potentially be monitored, and the adjusted values computed. However, this will at least initially be a significant effort requiring a great deal of collaboration, and will require resources and staff to maintain annually. BLM also notes that basing an estimated value on remaining proven reserves is acceptable. However, the question posed above asserts that this guidance is provided in paragraphs 23 through 27. BLM respondents strongly suggest that a reference to using proven reserves (recoverable reserves for coal) be provided someplace in the document. Additionally, developing the data for the analysis is currently beyond the capability of the BLM. There is no reference to proved reserves. Production varies with the economy and is not readily predictable. New operation/sale locations are common. Most operations are small and extremely short term. The valuation guidance for oil & gas is not applicable or readily translatable to other mineral materials. The nature of the resource and the demand is different. Ultimately, developing a valuation methodology will be a significant undertaking. <b>(YES / AGREE)</b>

<p><b>Question 4a – Cost</b></p> <p><b>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.</b></p>	
No.	
1	We do not know. <b>(OTHER)</b>
2	No comment <b>(NO COMMENT)</b>
3	Similar to our response for Question 3, since the Forest Service would be dependent on information provided by agencies within the Department of the Interior to respond to the mineral information requested by the proposed technical bulletin, we defer to their response on the reasonableness of the subject document from a cost, timing, and benefits perspective. <b>(OTHER)</b>
4	The FISC agrees with the reasonableness of the proposed technical bulletin in terms of the ED’s cost, timing, and benefits. <b>(YES / AGREE)</b>
5	We currently do not have enough experience in this area to comment. <b>(NO COMMENT)</b>
6	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>(OTHER)</b>
7	<p>Significant audit costs could be incurred by providing information to the auditor that confirms “immateriality” and “completeness” especially if information is not centrally available.</p> <p>ONRR solid minerals experts have indicated that an efficient and reasonably accurate model could be developed, and once developed, could be repeatedly applied to estimating quantity and value specifically for coal. Thus the cost for this aspect of the requirements would not be expected to be prohibitive, however additional resources and system modification would be required to develop, populate and maintain the required tracking and reporting system. For the final RSI disclosures, a process can likewise be developed to allocate revenue and accruals to complete the required schedules. While not simplistic or easy, this could be done and once developed, is expected to also be repeatable and reasonably efficient, such that an overly significant cost would not be anticipated.</p> <p>BLM however, does anticipate significant additional cost. This will require a formal data request from field offices to report the pertinent data on a per lease or contract basis. This data will then need to be compiled in the Washington Office so that proprietary data is not released. In some cases significant research may be required to discover all applicable records that are needed to reply, and it would take substantial staff time to develop the data needed for such analysis. The geologic data necessary for these requirements does not exist, and would have to be generated, followed by development of hypothetical mining and reclamation plans for all possible commodities and sites on Federal lands. The BLM cannot predict where actual demand would occur, nor the actual prices for materials. Even if investigations were limited to existing disposal sites, the workload for identifying “reserves” would be enormous. Current revenues are based on actual appraised prices. The Bulletin</p>

**Question 4a – Cost**

requires speculative projections of the present value of unknown, unpredictable revenue streams of substantially variable durations for a multitude of commodities. However, materiality will require further analysis. **(YES / AGREE)**

**Question 4b – Timing**

**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.**

1	Yes, as most of the information should currently be tracked, we believe that a fiscal year 2012 date for implementation is reasonable. <b>(YES / AGREE)</b>
2	No comment <b>(NO COMMENT)</b>
3	Similar to our response for Question 3, since the Forest Service would be dependent on information provided by agencies within the Department of the Interior to respond to the mineral information requested by the proposed technical bulletin, we defer to their response on the reasonableness of the subject document from a cost, timing, and benefits perspective. <b>(OTHER)</b>
4	The FISC agrees with the reasonableness of the proposed technical bulletin in terms of the ED’s cost, timing, and benefits. <b>(YES / AGREE)</b>
5	We currently do not have enough experience in this area to comment. <b>(NO COMMENT)</b>
6	DoD agrees with the implementation date of fiscal year 2012 as most of the information is currently being tracked. <b>(YES / AGREE)</b>
7	No, we do not believe that a fiscal year 2012 implementation date is reasonable, primarily due to the 1-year delayed implementation date of SFFAS 38. Based upon this, and the complexities involved in developing an appropriate valuation method that all subject matter experts can agree upon, a later implementation date would better provide adequate time to accomplish these important efforts. Manual systems and processes will need to be developed, and staff resources dedicated to this work.  BLM indicates that the initial reporting in the first year will be difficult and time consuming to establish records and reporting procedures. A year advance notice would be helpful to establish reporting procedures and to complete any necessary data gathering in advance. In any case, they anticipate difficulty in the first year. Gathering mineral materials deposit data would vastly exceed program funding and staff capabilities. BLM does not have the necessary equipment to generate geologic data, nor could it develop mining plans for every possible location, and it cannot predict the location of future public demand to identify economically minable commodity sites. An efficient methodology will need to be carefully developed, and will require additional time to do so. <b>(NO / DISAGREE)</b>

**Question 4c – Benefits**

**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.**

1	We believe that the benefits will outweigh the costs. <b>(YES / AGREE)</b>
2	No comment <b>(NO COMMENT)</b>
3	Similar to our response for Question 3, since the Forest Service would be dependent on information provided by agencies within the Department of the Interior to respond to the mineral information requested by the proposed technical bulletin, we defer to their response on the reasonableness of the subject document from a cost, timing, and benefits perspective. <b>(OTHER)</b>
4	The FISC agrees with the reasonableness of the proposed technical bulletin in terms of the ED’s cost, timing, and benefits. <b>(YES / AGREE)</b>
5	We currently do not have enough experience in this area to comment. <b>(NO COMMENT)</b>
6	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. <b>(OTHER)</b>
7	<p>Yes, DOI generally does believe that the benefits of clarifying guidance, ensuring consistency and complete reporting and accounting, and helping to enhance the users’ understanding of this new requirement applicable to other natural resources, outweigh the costs of implementation. This will become especially important if a decision is made to capitalize oil, gas and other natural resources such as coal in the future, since other Standards such as SFFAS 7 would also be revised. This guidance helps ensure that users have the information they need to appropriately account for or disclose these other natural resources where applicable. It also provides a very helpful listing of those for which the requirements would not apply.</p> <p>However some BLM respondents expressed their belief that the costs and workload would exceed benefit to the BLM, the purchasers or permittees, or other external parties, and that this Bulletin would impose these costs and workload to result in hypothetical estimates. <b>(YES / AGREE)</b></p>

**Listing Of Additional Comments from Respondents**

No.	COMMENT
2	<p>The Bureau of Land Management (BLM) is grateful for the opportunity to provide comments regarding Technical Bulletin 2011-1, Accounting for Federal Natural Resources Other than Oil and Gas. As an entity that is the steward for public lands and numerous natural resources we appreciate the opportunity to provide feedback on the valuation of federal national resources and the effects of the proposed policy.</p> <p>While we understand the need to document an understanding of the Federal government’s role in managing natural resources and to provide transparency in their use, the BLM still feels obligated to offer the following observations.</p> <p>The principle purpose of the Technical Bulletin in question is to provide the value of all federal natural resources under long-term lease, contract or other agreement (other than oil and gas). Currently BLM obtains historical receipt/collections information for categories centrally via the Financial Business Management System (FBMS). No calculations are presently made to obtain the present value (PV) of future receipts under lease or other long-term agreements.</p> <p>This change in policy will create a new business process where forecasting would have to be based on prior year historical data (in arrears) with estimated discounted rates per Technical Guidance provided. Furthermore, new data collection requirements may require wide-ranging and costly changes to existing BLM procedures, business processes and system requirements. These may include, but are not limited to, methods of collecting data and consolidating data, additional programming in FBMS, while at the same time conforming to Departmental standards and policies.</p> <p>In terms of current categories- several of BLM’s receipts (regardless of materiality) include the following: Grazing, Timber, Helium, and more. BLM also maintains a helium stockpile inventory on its Balance Sheet, which is stored in a partially depleted natural gas reservoir. The inventory is at cost and the volume of helium is accounted for on a perpetual basis and annually verified by collecting data and using generally accepted petroleum engineering principles to calculate volume (Agency Financial Report, 2010).</p> <p>During this time the BLM is still examining whether the value of federal natural resources are material. Nevertheless, if values are significant, with information from a variety of categories arriving from different areas, could lead to potential ramifications including the inability to meet accelerated financial reporting due dates, higher labor costs, inability to provide the level of accurate detailed information required, and potential audit findings.</p>
4	<p>We recommend that the references in paragraph 29(c), 29(d), and 29(f) to the federal government be replaced with reference to the reporting entity. For example, in paragraph 29(c), the current reference requires the component entity to disclose narrative “describing the estimation methodology used to calculate the value of the federal government’s natural resources under lease,</p>

No.	COMMENT
	<p>contract, or other long-term agreement” (emphasis added). This requirement may be considered overly broad by the individual reporting entity to address government-wide reporting matters. Rather, requiring the component entity to describe its individual estimation methodology, and that the component entity’s approach is consistent with generally accepted accounting standards, would be more meaningful to a reader of the individual component’s financial report.</p>
<p>7</p>	<p><u>Appendix A, Figure 1</u>                      BLM experts suggest that it does not add value to provide resource information for lands that have been withdrawn from leasing. If the lands are withdrawn, there most like has been no exploration and any subsurface mineral estimation would necessarily be excessively speculative. Further, if the lands are already withdrawn from leasing, then there is no way to know how much mineral might be there because it can never be leased or placed under contract. If the mineral cannot be placed under contract, its economic value is effectively zero. Additionally, BLM again questions the terminology “under contract but not conveyed”. The contract is the instrument of conveyance. This appears contradictory and perhaps clarification would be beneficial.</p> <p><u>Appendix D, Undiscovered Resources</u>                      The BLM does not assess undiscovered resources for coal.</p> <p><u>Appendix D, Discovered Resources</u>                      Some of the BLM respondents expressed that generally, there will be no information for any withdrawn area because if the area is withdrawn, no leasing action can occur. And there is additional confusion regarding the definition for “under contract but not conveyed”. BLM respondents indicate this would evidently only include the narrow time frame between acceptance of an offer for a lease and the actual issuance of the lease, a time period of about three months. Because the lease is the conveyance, all leases already issued would seem to be excluded. As well, all pending lease applications are assumed to fall included under the “Planned to be offered” category. Only the resource amount would be reported, which should be readily available. However, under the “Other” category in Figure 1 and as defined in Appendix D, BLM is unsure if they would be required to report all Federal coal reserves that are: 1) not withdrawn;                      2) not under contract; and 3) not planned to be offered. This is a global reserve estimate. The BLM does not have this value and it would be excessively expensive to achieve a reliably reportable value. Any methodology would need to be carefully determined and agreed upon by subject matter experts.</p> <p><u>Appendix D, Proved Reserves</u>                      BLM respondents indicate that specifically for minerals other than oil and gas, the common usage is “proven reserves.” They also suggest the following alliteration:                      For minerals other than oil and gas, the proven reserve proprietary information; The proven reserve is the estimated quantity that</p>

No.	COMMENT
	<p>geological data and engineering analysis indicate with reasonable certainty to be potentially recoverable in future years from known deposits under specified economic and operating conditions and that are under contract for development at the time of the analysis. The reportable quantity proven reserves is calculated by adding the reserves under lease at the end of the prior reporting year to reported reserves revisions, adjustments, modifications, or new leasing completed during the reporting year, and subtracting estimated production during the reporting year.</p> <p><u>Additional Comments:</u></p> <p>The comment period is too short and should be extended to allow Agencies a more complete review. Furthermore, SFFAS No. 29, Footnote 17 states, “The Board presently has an active project to address standards for natural resources, for which the Board is considering developing individual standards for each type of natural resource separately. To begin the project, the Board will be addressing oil and gas resources. The framework for the oil and gas resource phase of the project will be used as a model when addressing the other types or logical sets of natural resources (e.g., timber, grazing land, solid leasable minerals) in subsequent phases of the project.” It is unclear how and which Agencies were involved in the subsequent phase of the project to allow sufficient input into the draft of Technical Bulletin 2011-1.</p> <p>Recommend that the Table in Appendix B: Federal Natural Resources include whether the resources are considered “renewable” or non-renewable” or a statement that the determination of status is up to the preparer.</p> <p>The term “federal natural resources” used throughout this document is confusing especially if the reader misses the exclusion of renewable natural resources and electromagnetic spectrum as stated in Paragraph 14.</p> <p>Recommend that information required in Paragraph 29.f. remain as RSI. Recommend that the Board consult with Agencies before determining whether the information will transition to basic information as financial statement recognition or note disclosure.</p> <p>The auditing of the information Agencies would present to satisfy the reporting requirements of Paragraph 29.f. is concerning. The information is likely subjective and might cause conflict between the preparer and the auditor. The Agency might have to prove that “materiality” and “completeness” tests were performed; especially if the Board transitions the information from RSI to basic. For example, the table in Appendix B lists “Mineral Materials” as “sand, gravel, and stones.” Great Sand Dunes National Park and Preserve contains “sand.” It is unclear how reporting the existence of sand in this national park or others would be considered important to the financial statement reader. The reader would be better served by going to the National Park website to learn more vs. depending on narrative information presented in an Agency Financial Report.</p>

## ATTACHMENT 2 – FULL TEXT OF COMMENT LETTERS ORGANIZED BY TYPE OF RESPONDENT

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### FP – Janine Velasco, Department of the Interior (DOI) Bureau of Land Management (#2)

#### Key / Legend

FP = federal preparer  
NFO = non-federal other  
(#) = comment letter number

The Bureau of Land Management (BLM) is grateful for the opportunity to provide comments regarding Technical Bulletin 2011-1, *Accounting for Federal*

*Natural Resources Other than Oil and Gas*. As an entity that is the steward for public lands and numerous natural resources we appreciate the opportunity to provide feedback on the valuation of federal national resources and the effects of the proposed policy.

While we understand the need to document an understanding of the Federal government's role in managing natural resources and to provide transparency in their use, the BLM still feels obligated to offer the following observations.

The principle purpose of the Technical Bulletin in question is to provide the value of all federal natural resources under long-term lease, contract or other agreement (other than oil and gas). Currently BLM obtains historical receipt/collections information for categories centrally via the Financial Business Management System (FBMS). No calculations are presently made to obtain the present value (PV) of future receipts under lease or other long-term agreements.

This change in policy will create a new business process where forecasting would have to be based on prior year historical data (in arrears) with estimated discounted rates per Technical Guidance provided. Furthermore, new data collection requirements may require wide-ranging and costly changes to existing BLM procedures, business processes and system requirements. These may include, but are not limited to, methods of collecting data and consolidating data, additional programming in FBMS, while at the same time conforming to Departmental standards and policies.

In terms of current categories- several of BLM's receipts (regardless of materiality) include the following: Grazing, Timber, Helium, and more. BLM also maintains a helium stockpile inventory on its Balance Sheet, which is stored in a partially depleted natural gas reservoir. The inventory is at cost and the volume of helium is accounted for on a perpetual basis and annually verified by collecting data and using generally accepted petroleum engineering principles to calculate volume (Agency Financial Report, 2010).

During this time the BLM is still examining whether the value of federal natural resources are material. Nevertheless, if values are significant, with information from a variety of categories arriving from different areas, could lead to potential ramifications including the inability to meet accelerated financial reporting due dates, higher labor costs, inability to provide the level of accurate detailed information required, and potential audit findings.

**FP – Connie Constance, U.S. Department of Agriculture, Forest Service (#3)**

Q1. Do you agree or disagree with the Board’s decision to 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 reasonable estimable as of the reporting date? The Board believes that being explicit will result in more complete, consistent, and useful reporting of federal natural resources. Explain the reason for your position in as much detail as possible.

**Response:** *While the Forest Service agrees it is always better to be explicit in what requirements apply to an agency, we disagree with the Board’s decision to apply the subject requirements to the Forest Service for the reporting of mineral resources. The Forest Service’s charge is to manage the surface effects of mineral development rather than the mineral resource itself. As such, the agency has neither the authority nor the technical staff to independently determine the proved mineral reserves or the revenues derived from its use.*

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.

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-term agreement?

**Response:** *Leasable minerals (both solid and fluid, including renewable geothermal energy) result in annual receipts and/or collections from the National Forests; however the Department of Interior’s Office of Natural Resources Revenue (ONRR) is responsible for collecting and disbursing those funds, not the Forest Service.*

*Locatable minerals do not result in annual receipts and/or collections to a federal entity as there are no provisions in law for the federal government to receive revenue from producers of locatable minerals.*

*Mineral material and timber sales from the National Forests result in annual collections by the Forest Service.*

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.

**Response:** *Mineral resources are adequately addressed by the categories/types listed in Appendix B.*

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.

FP – Connie Constance, U.S. Department of Agriculture, Forest Service (#3) contd.

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. Do you agree or disagree that the valuation guidance is sufficient? Please explain the reasons for your position in as much detail as possible.

**Response:** *As stated earlier, the Forest Service manages surface effects of mineral development and not the mineral resources themselves. In order to comply with the subject guidance, the Forest Service would be dependent upon other federal agencies within the Department of the Interior (U.S. Geological Survey and Office of Natural Resources Revenue) to provide information on the amount and value of mineral resources on the National Forests. Accordingly, we defer to those agencies on the adequacy of the proposed valuation guidance.*

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.
- 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.
- 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.

**Response:** *Similar to our response for Question 3, since the Forest Service would be dependent on information provided by agencies within the Department of the Interior to respond to the mineral information requested by the proposed technical bulletin, we defer to their response on the reasonableness of the subject document from a cost, timing, and benefits perspective.*

FP – Tammy Smutny, U.S. Department of Housing and Urban Development (#5)

Q1. Do you agree or disagree with the Board's decision to 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 reasonable estimable as of the reporting date? The Board believes that being explicit will result in more complete, consistent, and useful reporting of federal natural resources. Explain the reason for your position in as much detail as possible.

**Response:** *We agree that federal entities should apply the general principles of SFFAS 38 beyond just oil and gas to only those federal natural resources under*

FP – Tammy Smutny, U.S. Department of Housing and Urban Development (#5) contd.

*lease, contract or other long-term agreement and reasonably estimable as of the reporting date. This is consistent with SFFAS 38 requirements for reporting on federal oil and gas proved reserves.*

- 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.
- 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-term agreement?
  - 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.
  - 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.

**Response:** *We currently do not have enough experience in this area to comment.*

- 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. Do you agree or disagree that the valuation guidance is sufficient? Please explain the reasons for your position in as much detail as possible.

**Response:** *We agree that the valuation guidance is sufficient, because it is based on the approximate **present value** of future receipts of federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date. The reporting entity is encouraged to use estimates that reflect its judgment about the outcome of events based on past experience and expectations about the future. The reporting entity is also encouraged to review assumptions about future cash flows used generally in the federal government as evidenced by sources independent of the reporting entity.*

- 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.

**FP – Tammy Smutny, U.S. Department of Housing and Urban Development (#5) contd.**

- 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.
- 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.

**Response:** *We currently do not have enough experience in this area to comment.*

**FP – Mark Easton, U.S. Department of Defense (#6)**

- Q1. Do you agree or disagree with the Board’s decision to 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 reasonable estimable as of the reporting date? The Board believes that being explicit will result in more complete, consistent, and useful reporting of federal natural resources. 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.
- 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-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.*

- 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.

FP – Mark Easton, U.S. Department of Defense (#6) contd.

- 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. 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.*

**FP – Edward King, U.S. Department of the Interior (#7)**

Q1. Do you agree or disagree with the Board’s decision to 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 reasonable estimable as of the reporting date? The Board believes that being explicit will result in more complete, consistent, and useful reporting of federal natural resources. Explain the reason for your position in as much detail as possible.

*We agree that explicitly applying SFFAS 38 to all federal natural resources is preferable to remaining silent, and that this will result in more complete, consistent, and useful reporting of federal natural resources. The clarification of appropriate accounting treatment for natural resources other than oil and gas, such as coal, will be beneficial, and will also help to ensure consistent treatment in the future, should a determination be made to record an estimated asset value in the financial statements. Clarification of the treatment for renewable natural resources will likewise help resolve questions and will result in more complete and consistent reporting.*

*ONRR solid minerals experts believe that of the non oil and gas natural resources, only coal reserves and revenues are material enough to be subject to the reporting requirements at this time. Other non oil and gas resources could of course be added, if they become material.*

*Some BLM respondents also agreed that providing explicit directions for mineral resources other than oil and gas is a good idea. They indicated however, that the guidance document refers to generic “resource” values. The term “resource” carries an implicit meaning in solid minerals. Generally, a “resource” is equal to all the mineral in the authorization and does not account for mining efficiency or unavoidable losses. As such, if a resource value is used, it will always be greater than the amount mining. If at the end of the authorization it is desired to have the “resource” exactly balance the amount mined, the BLM needs to be using reserve values.*

*Other BLM experts expressed concern however, in regards to non-coal solid mineral leases. They did not think the determination of the remaining reserve value on potassium, sodium, etc. leases was “reasonably estimable,” since the definition of “reserve” at any particular time is dependent on wildly varying criteria, such as commodity price. Additionally, the BLM does not have or collect any “reserve” or “resource” information for mineral materials. BLM does not independently collect reserve data and applicants/purchasers are not required to collect or provide such data, nor does the BLM have funding or staffing to evaluate this massive amount of data if it were collected. Mineral materials that are sold now would technically be considered undiscovered recoverable or non-recoverable resources. Sales are made on the speculative presumption that the materials applied for (specific commodities) exist at the sale site in the quantity requested. Applicants are required to pay for the amounts authorized by contract unless they can show that the specified quantity of mineral material is not available within the authorized contract area. Unlike leases, contracts for mineral materials are issued for specific commodities, for a fixed quantity, under fixed contract terms (durations). There are no “royalties”. Materials*

FP – Edward King, U.S. Department of the Interior (#7) contd.

*are sold at in-place fair market value price. Most contracts are short-term, ranging from days to a maximum of ten years. The Bulletin would require collection or estimation of theoretical “reserve” information that would be difficult to obtain, as it is specific to sale sites that are typically small that have locations that cannot be reliably predicted, and could involve almost any Federal land. For example, in FY2010, the vast majority of contracts (2,446) had a duration of 90 days or less; a smaller number (351) were intermediate terms (1 day to five years), and a much smaller number (13) had longer terms (up to 10 years). There were 185 free use permits to government agencies and non-profit organizations. Further analysis will be required.*

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.

- 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-term agreement?

*Based upon a preliminary analysis, coal is the predominate natural mineral resource other than oil and gas that would be expected to result in annual receipts that would be material to the Department of Interior over the life of the related leases. Estimates of the undiscounted value of other minerals generating receipts through the Office of Natural Resources Revenue (ONRR) indicate they may be immaterial in aggregate to the Department. However, further and more detailed analysis will be required. Also, it is likely that a similar type of analysis would be required for CFO auditors, to demonstrate that they are, indeed, immaterial. This will of course, be an additional significant effort, and could become an annual requirement.*

*BLM has identified the 3 categories below, some of which will also require a detailed analysis to determine their potential materiality to the Department.*

- *Leasable Minerals (royalty and rental)*
- *Locatable Minerals (holding fees on public lands and royalty and rental on acquired lands)*
- *Mineral Materials (royalty and rental)*

*BLM experts further identified potential royalties, rentals, and bonus bids derived from the leasing of non-coal solid minerals such as potassium, sodium, phosphate, and hardrock minerals on acquired lands (under Section 402 of Reorganization Plan No. 3 of 1946). Mineral materials, under the Materials Act of 1947 as amended, are essentially all common variety earth materials unless they are specifically identified as either leasable minerals or locatable minerals (which can include uncommon varieties of mineral materials). Mineral materials revenues include an in-place price and land rental for surface uses. The contracted materials price is adjusted or reappraised at least once every two years. Mineral*

FP – Edward King, U.S. Department of the Interior (#7) contd.

*material commodity categories include sand, gravel, stone, pumice, cinders, clay, calcium, caliche, soil, abrasives, and nonprecious gemstones. As stated above, further analysis will be required.*

- 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.

*Appendix B appears to be a fairly comprehensive list.*

*BLM experts, however, also indicate that the category of “Leasable Minerals (Solid)” should also include, “hardrock minerals on acquired land”. Minerals such as copper, lead, zinc, gold, etc., which are locatable when found on public domain lands, are leasable when found on acquired federal land. For example, the lead/zinc mines in the Mark Twain National Forest, Missouri, mine from Federal solid mineral leases issued by the BLM, and pay very substantial royalties.*

- 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.

*None are presently recognized by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) or the Office of Natural Resources Revenue (ONRR), nor did BLM identify any.*

- 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. Do you agree or disagree that the valuation guidance is sufficient? Please explain the reasons for your position in as much detail as possible.

*DOI agrees that the valuation guidance is reasonably sufficient, and provides adequate latitude in developing and selecting the most appropriate method to estimate the value of specific types of natural resources.*

*However, developing an effective valuation methodology will involve much work and collaboration. ONRR solid mineral experts indicate that, for example, coal proven reserves reported by EIA are reported at too high of a level and do not provide a difference between coal reserves leased by BLM and those not leased. The EIA proven reserves incorporate Federal, State and Fee or private reserves into their estimated numbers. A new process could potentially be developed that would establish a recoverable reserve baseline at the federal lease level from data currently available. Once this is established, depletion of these recoverable reserves could potentially be monitored, and the adjusted values computed. However, this will at least initially be a significant effort requiring a great deal of collaboration, and will require resources and staff to maintain annually.*

FP – Edward King, U.S. Department of the Interior (#7) contd.

*BLM also notes that basing an estimated value on remaining proven reserves is acceptable. However, the question posed above asserts that this guidance is provided in paragraphs 23 through 27. BLM respondents strongly suggest that a reference to using proven reserves (recoverable reserves for coal) be provided someplace in the document. Additionally, developing the data for the analysis is currently beyond the capability of the BLM. There is no reference to proved reserves. Production varies with the economy and is not readily predictable. New operation/sale locations are common. Most operations are small and extremely short term. The valuation guidance for oil & gas is not applicable or readily translatable to other mineral materials. The nature of the resource and the demand is different. Ultimately, developing a valuation methodology will be a significant undertaking.*

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.

*Significant audit costs could be incurred by providing information to the auditor that confirms “immateriality” and “completeness” especially if information is not centrally available.*

*ONRR solid minerals experts have indicated that an efficient and reasonably accurate model could be developed, and once developed, could be repeatedly applied to estimating quantity and value specifically for coal. Thus the cost for this aspect of the requirements would not be expected to be prohibitive, however additional resources and system modification would be required to develop, populate and maintain the required tracking and reporting system. For the final RSI disclosures, a process can likewise be developed to allocate revenue and accruals to complete the required schedules. While not simplistic or easy, this could be done and once developed, is expected to also be repeatable and reasonably efficient, such that an overly significant cost would not be anticipated. BLM however, does anticipate significant additional cost. This will require a formal data request from field offices to report the pertinent data on a per lease or contract basis. This data will then need to be compiled in the Washington Office so that proprietary data is not released. In some cases significant research may be required to discover all applicable records that are needed to reply, and it would take substantial staff time to develop the data needed for such analysis. The geologic data necessary for these requirements does not exist, and would have to be generated, followed by development of hypothetical mining and reclamation plans for all possible commodities and sites on Federal lands. The BLM cannot predict where actual demand would occur, nor the actual prices for materials. Even if investigations were limited to existing disposal sites, the workload for identifying “reserves” would be enormous. Current revenues are based on actual appraised prices. The Bulletin requires speculative projections of the present*

FP – Edward King, U.S. Department of the Interior (#7) contd.

*value of unknown, unpredictable revenue streams of substantially variable durations for a multitude of commodities. However, materiality will require further analysis.*

- 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.

*No, we do not believe that a fiscal year 2012 implementation date is reasonable, primarily due to the 1-year delayed implementation date of SFFAS 38. Based upon this, and the complexities involved in developing an appropriate valuation method that all subject matter experts can agree upon, a later implementation date would better provide adequate time to accomplish these important efforts. Manual systems and processes will need to be developed, and staff resources dedicated to this work.*

*BLM indicates that the initial reporting in the first year will be difficult and time consuming to establish records and reporting procedures. A year advance notice would be helpful to establish reporting procedures and to complete any necessary data gathering in advance. In any case, they anticipate difficulty in the first year. Gathering mineral materials deposit data would vastly exceed program funding and staff capabilities. BLM does not have the necessary equipment to generate geologic data, nor could it develop mining plans for every possible location, and it cannot predict the location of future public demand to identify economically minable commodity sites. An efficient methodology will need to be carefully developed, and will require additional time to do so.*

- 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.

*Yes, DOI generally does believe that the benefits of clarifying guidance, ensuring consistency and complete reporting and accounting, and helping to enhance the users' understanding of this new requirement applicable to other natural resources, outweigh the costs of implementation. This will become especially important if a decision is made to capitalize oil, gas and other natural resources such as coal in the future, since other Standards such as SFFAS 7 would also be revised. This guidance helps ensure that users have the information they need to appropriately account for or disclose these other natural resources where applicable. It also provides a very helpful listing of those for which the requirements would not apply.*

*However some BLM respondents expressed their belief that the costs and workload would exceed benefit to the BLM, the purchasers or permittees, or other external parties, and that this Bulletin would impose these costs and workload to result in hypothetical estimates.*

FP – Edward King, U.S. Department of the Interior (#7) contd.

Appendix A, Figure 1

*BLM experts suggest that it does not add value to provide resource information for lands that have been withdrawn from leasing. If the lands are withdrawn, there most like has been no exploration and any subsurface mineral estimation would necessarily be excessively speculative. Further, if the lands are already withdrawn from leasing, then there is no way to know how much mineral might be there because it can never be leased or placed under contract. If the mineral cannot be placed under contract, its economic value is effectively zero. Additionally, BLM again questions the terminology “under contract but not conveyed”. The contract is the instrument of conveyance. This appears contradictory and perhaps clarification would be beneficial.*

Appendix D, Undiscovered Resources

*The BLM does not assess undiscovered resources for coal.*

Appendix D, Discovered Resources

*Some of the BLM respondents expressed that generally, there will be no information for any withdrawn area because if the area is withdrawn, no leasing action can occur. And there is additional confusion regarding the definition for “under contract but not conveyed”. BLM respondents indicate this would evidently only include the narrow time frame between acceptance of an offer for a lease and the actual issuance of the lease, a time period of about three months. Because the lease is the conveyance, all leases already issued would seem to be excluded. As well, all pending lease applications are assumed to fall included under the “Planned to be offered” category. Only the resource amount would be reported, which should be readily available. However, under the “Other” category in Figure 1 and as defined in Appendix D, BLM is unsure if they would be required to report all Federal coal reserves that are: 1) not withdrawn; 2) not under contract; and 3) not planned to be offered. This is a global reserve estimate. The BLM does not have this value and it would be excessively expensive to achieve a reliably reportable value. Any methodology would need to be carefully determined and agreed upon by subject matter experts.*

Appendix D, Proved Reserves

*BLM respondents indicate that specifically for minerals other than oil and gas, the common usage is “proven reserves.” They also suggest the following alliteration:*

*For minerals other than oil and gas, the proven reserve proprietary information; The proven reserve is the estimated quantity that geological data and engineering analysis indicate with reasonable certainty to be potentially recoverable in future years from known deposits under specified economic and operating conditions and that are under contract for development at the time of the analysis. The reportable quantity proven reserves is calculated by adding the reserves under lease at the end of the prior reporting year to reported reserves revisions, adjustments, modifications, or new leasing completed during the reporting year, and subtracting estimated production during the reporting year.*

FP – Edward King, U.S. Department of the Interior (#7) contd.

Additional Comments:

*The comment period is too short and should be extended to allow Agencies a more complete review. Furthermore, SFFAS No. 29, Footnote 17 states, “The Board presently has an active project to address standards for natural resources, for which the Board is considering developing individual standards for each type of natural resource separately. To begin the project, the Board will be addressing oil and gas resources. The framework for the oil and gas resource phase of the project will be used as a model when addressing the other types or logical sets of natural resources (e.g., timber, grazing land, solid leasable minerals) in subsequent phases of the project.” It is unclear how and which Agencies were involved in the subsequent phase of the project to allow sufficient input into the draft of Technical Bulletin 2011-1.*

*Recommend that the Table in Appendix B: Federal Natural Resources include whether the resources are considered “renewable” or non-renewable” or a statement that the determination of status is up to the preparer.*

*The term “federal natural resources” used throughout this document is confusing especially if the reader misses the exclusion of renewable natural resources and electromagnetic spectrum as stated in Paragraph 14.*

*Recommend that information required in Paragraph 29.f. remain as RSI. Recommend that the Board consult with Agencies before determining whether the information will transition to basic information as financial statement recognition or note disclosure.*

*The auditing of the information Agencies would present to satisfy the reporting requirements of Paragraph 29.f. is concerning. The information is likely subjective and might cause conflict between the preparer and the auditor. The Agency might have to prove that “materiality” and “completeness” tests were performed; especially if the Board transitions the information from RSI to basic. For example, the table in Appendix B lists “Mineral Materials” as “sand, gravel, and stones.” Great Sand Dunes National Park and Preserve contains “sand.” It is unclear how reporting the existence of sand in this national park or others would be considered important to the financial statement reader. The reader would be better served by going to the National Park website to learn more vs. depending on narrative information presented in an Agency Financial Report.*

Conclusion

*In closing, we would again like to thank the FASAB for offering us the opportunity to provide comments to this important Technical Bulletin. It is clear that many significant issues remain to be resolved. We plan that with the additional time allotted through a delayed implementation to coincide with the SFFAS 38 implementation, this significant challenge can be met.*

**NFO – Eric Berman, Association of Government Accountants, FMSB (#1)**

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.

*We agree that applying SFFAS 38 to all federal natural resources will result in more complete, consistent and useful reporting of federal natural resources.*

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 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?

*Timber, oil and gas.*

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?

*Not that we are aware of.*

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

*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.

*We agree.*

NFO – Eric Berman, Association of Government Accountants, FMSB (#1) contd.

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 auditor 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.

*We do not know.*

- 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.

*Yes, as most of the information should currently be tracked, we believe that a fiscal year 2012 date for implementation is reasonable.*

- 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.

*We believe that the benefits will outweigh the costs.*

**NFO – Andrew Lewis, Greater Washington Society of CPAs, FISC (#4)**

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.

- A1. *The FISC generally agrees with the Board's decision that being explicit will result in the more complete, consistent, and useful reporting of natural resources. However, although the list provided in Appendix B of the ED is robust, additional natural resources may be identified for which agencies may need to follow the hierarchy of generally accepted accounting principles (GAAP).*

NFO – Andrew Lewis, Greater Washington Society of CPAs, FISC (#4) contd.

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

*A2. The FISC is not aware of any additional categories or types of federal natural resources that have been omitted from Appendix B.*

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.

*A3. The FISC agrees with the guidance provided in the ED.*

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 auditor 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.
- 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.
- 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.

NFO – Andrew Lewis, Greater Washington Society of CPAs, FISC (#4) contd.

A4. *The FISC agrees with the reasonableness of the proposed technical bulletin in terms of the ED's cost, timing, and benefits.*

**Other Comments**

*We recommend that the references in paragraph 29(c), 29(d), and 29(f) to the federal government be replaced with reference to the reporting entity. For example, in paragraph 29(c), the current reference requires the component entity to disclose narrative “describing the estimation methodology used to calculate the value of the federal government’s natural resources under lease, contract, or other long-term agreement” (emphasis added). This requirement may be considered overly broad by the individual reporting entity to address government-wide reporting matters. Rather, requiring the component entity to describe its individual estimation methodology, and that the component entity’s approach is consistent with generally accepted accounting standards, would be more meaningful to a reader of the individual component’s financial report.*

**--- END OF COMMENT LETTERS ---**

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## **ATTACHMENT 3 – STAFF ANALYSIS AND RECOMMENDATIONS**

Staff has summarized and analyzed the responses to the eight questions for respondents as well as other comments received. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. When feasible, staff provides a recommendation in response to issues identified.

One respondent (2 - Bureau of Land Management) did not address any of the questions specifically, but rather provided general comments regarding their uncertainty about how the technical bulletin might affect them, citing potential ramifications such as “the inability to meet accelerated financial reporting due dates, higher labor costs, inability to provide the level of accurate detailed information required, and potential audit findings.” Staff has noted the respondent's general concerns but will not include them in the analysis of questions below as they did not answer each question individually. Furthermore, their concerns primarily relate to cost/benefit issues which must be looked at from both the preparer and user perspectives.

### **Question 1 – Explicit Guidance on Other Natural Resources**

Respondents' views were mixed on this issue with 3 respondents agreeing with the proposal (1, 4, and 5), one disagreeing (3), and two respondents not fully agreeing or disagreeing (6 and 7). Two of the respondents that agreed are non-federal professional associations (1- AGA FMSB and 4 - GWSCPA FISC) that noted that applying SFFAS 38 to all federal natural resources would result in more complete, consistent, and useful reporting of federal natural resources. The third respondent that agreed with the proposal (5 - HUD) is a federal preparer from an organization that would most likely not be directly affected by the proposal.

The respondent that disagreed with the proposal (3 - Forest Service) is a federal preparer that stated they did not have the authority or the technical staff to determine the proved mineral reserves or the revenues derived from its use. It is unclear whether the Forest Service has or could potentially have material non-renewable resources under long-term lease, contract, or other agreement.

One respondent (6 - DoD) stated that they will remain neutral on the proposal until further research has been done to evaluate the materiality of federal natural resources other than oil and gas natural resources. DoD did respond to question 2a and on the field test questionnaire that it does not have any material natural resources that would need to be reported under the proposal (see full comment letter #6 at Attachment 4).

The Department of the Interior (DOI) Office of Financial Management response (7 – DOI) included a mixed response with part of the agency fully agreeing with the proposal and part of the agency agreeing with reservations. DOI first states in its response that it agrees with the proposal and thinks that clarifying the accounting treatment for other types of natural resources will be beneficial. It also states that solid minerals experts from DOI's Office of Natural Resources Revenue believe that of the non oil and gas natural resources, only coal

reserves and revenues are material enough to be subject to the proposed reporting requirements at this time.

The DOI response then goes on to communicate views from the Bureau of Land Management (BLM) which also provided a separate comment letter (2 – BLM). Some BLM respondents agreed with the proposal but do not like the reference to generic “resource” values as it carries an implicit meaning for solid minerals. Other BLM respondents expressed concerns about the proposal because they do not think that non-coal solid mineral reserves can be reasonably estimated. They cited a large number of contracts but, based on the information provided for fiscal year 2010, only 13 would meet the criteria for a long-term contract (greater than five years). These respondents concluded that further analysis will be required.

Staff recommendation: Based on the responses received, it appears that respondents believe the proposal is generally a good idea but the ones that expressed the most reservations about the proposal are the ones that would need to determine whether they have material natural resources that are under long-term lease, contract, or other agreement and reasonably estimable as of the reporting date. Staff does not believe that an agency’s current inability to determine whether something is material or not should be a barrier to approving 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 non-renewable 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, the taxpayers are not able to determine whether the federal government is being a good steward of the federal government’s resources. As several respondents’ stated, it should not be a problem to provide this data if it is already being tracked. If it is not being tracked – at least as a part of a larger category of receipts – the potential for poor stewardship may exist.

Furthermore, one of the agencies 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 long-term lease, contract, or other agreement **and** reasonably estimable) and would only need to be included in the narrative discussion proposed in par. 29f.

Staff believes that the arguments against adopting the proposal are not sufficient to suggest that the technical bulletin should not be issued. Staff proposes to add a clarification to the technical bulletin that the term “resource” is used generically for accounting purposes and does not denote a particular value for estimation purposes, similar to how the use of the term “hazardous waste” was explained in par. 20 of Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*.<sup>2</sup>

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<sup>2</sup> Technical Bulletin 2006-1, par. 20: While the term “hazardous waste” used in SFFAS 6, Chapter 4, par. 86 was informed by consulting environmental laws such as the Resource Conservation Recovery Act (RCRA), the general use of the term in federal accounting standards should not be construed as limiting the application of the standards solely to those materials meeting the definition of “hazardous waste” under

**Question 2a – Material Natural Resources**

In response to the question about which federal natural resources are material, respondents stated timber, oil, and gas (1 – AGA FMSB) and coal (7 – DOI). The Forest Service (3 – USDA/FS) stated that they have annual receipts and/or collections from leasable minerals (both solid and fluid, including renewable geothermal energy) and mineral material and timber sales, but they did not provide an indication of whether the amounts would be material to their reporting agency or not. DOI (7 – DOI) said BLM also identified three categories of natural resources (leasable minerals, locatable minerals, and mineral materials) but they would have to do a detailed analysis to determine their potential materiality to the Department.

**Staff recommendation:** Based on staff research and the responses received, staff believes it has considered all of the potentially material natural resource collections while it was developing the proposal. Timber would not be required to be estimated under the proposal because it is considered to be a renewable resource. Staff does not believe any changes need to be made to the technical bulletin as a result of the responses to question 2a.

**Question 2b – Resources Omitted from Listing**

In response to the question about whether Appendix B included all potentially material federal natural resources, four respondents (1, 3, 4, and 6) stated that they are not aware of any additional resources that should be included. One respondent (7 – DOI) stated that the category of “Leasable Minerals (Solid)” should also include “hardrock minerals on acquired land.”

**Staff recommendation:** The listing in Appendix B appears to be complete based on the responses received. If staff decides to retain the listing in Appendix B in the final document, it will make the suggested addition to the “Leasable Minerals (Solid)” category.

**Question 2c – Currently Reported as Assets**

None of the respondents were aware of any categories / types of federal resources that federal agencies currently recognize as an asset on the face of the balance sheet / statement of financial position.

**Staff recommendation:** In an earlier draft of the exposure draft, staff had included the following paragraph “This guidance also does not apply to federal natural resources (e.g., timber) that are already being recognized as an asset in some agency financial statements. Agencies are to continue reporting such resources as assets unless the Board

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RCRA. While asbestos is not explicitly listed as “hazardous waste” under RCRA, asbestos is listed as a hazardous air pollutant under the CAA and as a hazardous substance under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). Therefore, the term “hazardous waste” as defined in SFFAS 6 and referenced in paragraph 16 of this technical bulletin includes asbestos for purposes of proper accounting treatment.

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specifies otherwise.” This paragraph was added because at the time the Natural Resources Task Force prepared their Discussion Paper,<sup>3</sup> timber was being recognized as an asset by BLM, DOD, and the Department of Energy. Staff felt that the board would not want agencies to de-recognize assets in order to comply with the requirements of the technical bulletin. Although staff was reasonably confident that none of the agencies were still recognizing timber as an asset, staff had been unable to verify if that were in fact the case. At the suggestion of several members, staff removed the paragraph and instead asked a question about whether anyone was recognizing natural resources as assets. Since none of the respondents are aware of any, staff does not believe any changes need to be made to the technical bulletin as a result of the responses to question 2c.

### **Question 3 – Valuation Guidance Sufficient**

Four of the respondents (1, 4, 5, and 7) agreed that the valuation guidance in the technical bulletin is sufficient. One respondent (3 – USDA/FS) stated that they are dependent upon other federal agencies within DOI (USGS and ONRR) and would have to defer to them on the adequacy of the proposed valuation guidance.

One respondent (6 - DoD) stated that they will remain neutral on the proposal until further research has been done to evaluate the materiality of federal natural resources other than oil and gas natural resources. DoD did respond to question 2a and on the field test questionnaire that it does not have any material natural resources that would need to be reported under the proposal (see full comment letter #6 at Attachment 4).

While DOI agreed that the valuation guidance is reasonably sufficient and provides adequate latitude in developing and selecting the most appropriate method to estimate the value of specific types of natural resources, it noted that developing an effective valuation methodology will involve much work and collaboration (7 – DOI). BLM stated that developing a valuation methodology will be a significant undertaking.

**Staff recommendation:** Based on the responses received, it appears that respondents believe the valuation guidance is generally sufficient; the one respondent that expressed the most reservations about the proposal (7 – DOI) is the one that would most likely need to develop a valuation methodology to estimate the federal government’s natural resources that are under long-term lease, contract, or other agreement and reasonably estimable as of the reporting date. Staff does not believe that an agency’s current inability to determine the value of these material assets should be a barrier to approving the proposal because, as noted in staff’s recommendation for question 1, 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 non-renewable 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, the taxpayers are not able to determine

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<sup>3</sup> Discussion Paper, Accounting For The Natural Resources of the Federal Government Prepared by the FASAB Natural Resources Task Force; June 2000; available online at <http://www.fasab.gov/pdf/files/natresrpt.pdf>; last accessed February 10, 2011

whether the federal government is being a good steward of the federal government's resources. As several respondents' stated, it should not be a problem to provide this data if it is already being tracked. If it is not being tracked – at least as a part of a larger category of receipts – the potential for poor stewardship may exist.

**Question 4a – Cost**

The majority of respondents (1, 3, 5, and 6) responded that they did not know if any federal agency would incur significant costs to implement the requirements of the proposed technical bulletin. One respondent (4 – GWSCPA FISC) stated that they agree with the proposed technical bulletin in terms of the ED's cost, timing, and benefits. One respondent (7 – DOI) 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. In addition DOI stated that BLM anticipates significant additional cost because they do not currently have the information that is being requested; in addition, a determination of materiality will require further analysis.

**Staff recommendation:** Based on the responses received, it appears that respondents do not have any idea what the additional costs would be to implement the requirements of the proposed technical bulletin because they do not have the information at hand and they do not know what will have to be done to obtain the information to enable them to prepare an estimate or even gauge materiality. As staff stated in its recommendation to question 1 and question 3, staff does not believe that an agency's current inability to determine the value of these material assets should be a barrier to approving 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 non-renewable 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, the taxpayers are not able to determine whether the federal government is being a good steward of the federal government's resources. As several respondents' stated, it should not be a problem to provide this data if it is already being tracked. If it is not being tracked – at least as a part of a larger category of receipts – the potential for poor stewardship may exist.

To address DOI's concerns about confirming immateriality and completeness to its auditor, staff recommends adding a sentence in the technical bulletin that once agencies have determined which categories of natural resources are immaterial to its agency, it can reassess the materiality of all categories on a periodic basis, at least once every five years, to eliminate any implicit requirement to provide such information annually.

**Question 4b – Timing**

Three of the respondents (1, 4, and 6) stated that a fiscal year 2012 date for implementation is reasonable because most of the information should already be tracked. One respondent (3 – USDA/FS) stated that they are dependent upon other federal agencies within DOI (USGS and ONRR) and would have to defer to them

on the adequacy of the proposed implementation date. DOI responded that it does not believe a fiscal year 2012 implementation date is reasonable primarily due to the 1-year delayed implementation date of SFFAS 38.

Staff recommendation: Since the majority of respondents to the ED on the deferral of SFFAS 38 are in favor of a one-year deferral to the effective date of SFFAS 38, staff recommends that the technical bulletin effective date similarly be extended to fiscal year 2013.

#### **Question 4c – Benefits**

Three of the respondents (1, 3, and 6) stated that they generally agree that the benefits of the proposal will outweigh the costs to implement it. One respondent (3 – USDA/FS) stated that they are dependent upon other federal agencies within DOI (USGS and ONRR) and would have to defer to them on whether the benefits outweigh the costs.

One respondent (6 - DoD) stated that it is unknown to them whether the benefits of the technical bulletin would outweigh the costs of implementation but DoD reports no material “Federal Natural Resources Other Than Oil and Gas” so they would not be incurring costs to implement it.

While DOI generally believes that the benefits would exceed the costs, it stated that BLM respondents expressed their belief that the costs and workload would exceed benefit to BLM, the purchasers or permittees, other external parties, and this technical bulletin would impose these costs and workload to result in hypothetical estimates.

Staff recommendation: Staff believes that the arguments against adopting the proposal are not sufficient enough to suggest that the technical bulletin should not be issued. In addition, staff believes the arguments suggesting that the costs of implementing the proposal would exceed the benefits are not substantive enough to warrant any changes to the proposed guidance. Furthermore, cost/benefit must be looked at from both the preparer and user perspectives; the only respondent that expressed any concern about costs exceeding benefits is a federal preparer that does not have the information needed to determine the materiality of the federal natural resources that it is selling and report publicly on its stewardship of those resources. Staff does not believe any changes need to be made to the technical bulletin as a result of the responses to question 4c.

**Additional Comments**

One respondent (4 – GWSCPA FISC) recommended that the broad references in paragraph 29(c), 29(d), and 29(f) to the federal government be replaced with a more specific reference to the reporting entity.

Staff recommendation: Staff recommends that these edits be made.

One respondent (7 – DOI) made the following additional comments:

- Regarding Appendix A, Figure 1, BLM stated that it does not add value to provide resource information for lands that have been withdrawn from leasing, objecting that there is no way to know how much mineral might be there. Staff notes that this is a requirement for narrative discussion only that was specifically requested by the GAO board member during the deliberation on oil and gas to address ANWR and other large areas of resources that are under the federal government’s management but would not be reported on to financial statement readers because they cannot be leased.
- Regarding Appendix A, Figure 1, BLM questions the terminology “under contract but not conveyed.” They noted that the contract is the instrument of conveyance which appears contradictory and should be clarified. Staff believes that resources that are under contract but not yet extracted can not by definition be conveyed; it is the right to extract resources that is conveyed through the contract, not the actual resources themselves.
- Regarding Appendix D, Undiscovered Resources, BLM noted that they do not assess undiscovered resources for coal. As indicated by Figure 1 and noted elsewhere in the basis for conclusions, nothing is proposed to be reported for undiscovered resources.
- Regarding Appendix D, Discovered Resources, BLM stated that they can not provide amounts for areas withdrawn from leasing and it would be excessively expensive to provide a value for coal reserves that are not under contract and not planned to be offered. As indicated by Figure 1 and noted elsewhere in the basis for conclusions, information on these types of natural resources is in the form of a narrative discussion only; no quantitative estimates are required.
- Regarding Appendix D, Proved Reserves, BLM indicated that the common usage is “proven reserves” and provided a definition very similar to the general definition that staff developed for “proved reserves.” Staff does not believe that BLM’s definition for “proven” reserves is sufficiently different from the technical bulletin’s definition of “proved” reserves. Furthermore, the introduction of a second definition for “proven” reserves would be extremely confusing.

- In Additional Comments, DOI stated that the “comment period is too short and should be extended to allow Agencies a more complete review.” Since DOI was determined to be the agency most likely to be affected by the proposed technical bulletin, DOI was provided 30 days to review the draft exposure draft and provide comments before it was even released for general exposure. DOI did provide comments on the draft which were incorporated by staff as deemed appropriate into the exposure draft.
- In Additional Comments, DOI also stated that the table in Appendix B should include whether the resources are considered “renewable” or “non-renewable” or a statement that determination of status is up to the preparer. If staff retains Appendix B in the final document, staff does not believe it would be appropriate to make such a statement or determination.
- In Additional Comments, DOI recommended that the information required in par. 29.f. remain as RSI and that the board consult with agencies before determining whether the information will transition to basic information as financial statement recognition or note disclosure. On the first point, staff notes that the paragraph in SFFAS 38 that is similar to par. 29.f. was originally noted to remain as RSI in the revised exposure draft that called for transition to recognition in the financial statements.<sup>4</sup> If and when the requirements transition to basic information, the board will clearly communicate which requirements would remain as RSI. Furthermore, the board does not plan to make the determination of whether to transition to basic information without consulting the affected agencies and offering them and other stakeholders ample opportunity to provide input.

**Staff Recommendation:** Staff plans to make the following two changes based on the above comments from DOI: (1) clarify the meaning of “under contract but not conveyed”; and, (2) explicitly state in the basis for conclusions that a narrative discussion does not require quantitative amounts.

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<sup>4</sup> Accounting for Federal Oil and Gas Resources, Revised Exposure Draft, July 2009, pg. 19, par. 51.c.; available online at [http://www.fasab.gov/pdffiles/tabd\\_natrec.pdf](http://www.fasab.gov/pdffiles/tabd_natrec.pdf); last accessed February 10, 2011.

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**ATTACHMENT 4 –Exposure Draft,  
Technical Bulletin 2011-1, Accounting for Federal Natural Resources  
Other Than Oil and Gas  
Comment Letters**

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<b>#</b>	<b>Respondent</b>	<b>Affiliation</b>	<b>Page</b>
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January 31, 2011

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

Advancing  
Government  
Accountability

2208 Mount Vernon Ave  
Alexandria, VA 22301

(703) 684-6931  
(703) 548-9367 (fax)

Dear Ms. Payne:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Federal Accounting Standards Advisory Board (FASAB or the board) on its proposed technical bulletin entitled, *Accounting for Federal Natural Resources Other than Oil and Gas*. The FMSB, comprising 24 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

*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.*

We agree that applying SFFAS 38 to all federal natural resources will result in more complete, consistent and useful reporting of federal natural resources.

*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 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?*

Timber, oil and gas.

*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?*

Not that we are aware of.



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

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.*

We agree.

*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 auditor 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.*

We do not know.

- 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.*

Yes, as most of the information should currently be tracked, we believe that a fiscal year 2012 date for implementation is reasonable.

- 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.*

We believe that the benefits will outweigh the costs.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of members approved the issuance of this letter. If you have questions concerning the comments in this letter, please contact Anna D. Gowans Miller, CPA, AGA's director of research and staff liaison for the FMSB, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or at 703.684.6931 ext. 313.

Sincerely,



Eric S. Berman, CPA, Chair  
AGA Financial Management Standards Board

cc: Lisa Casias, CPA  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2010 – June 2011**

Eric S. Berman, Chair  
Katherine J. Anderson  
Frank D. Banda  
Robert L. Childree  
Irwin T. David  
Jeanne B. Erwin  
Jeffrey W. Green  
J. Dwight Hadley  
David R. Hancox  
Ruthe Holden  
Rashad A. Holloway  
David C. Horn  
Albert A. Hrabak  
Drummond Kahn  
Simcha Kuritzky  
Valerie A. Lindsey  
Edward J. Mazur  
Craig M. Murray  
Suesan R. Patton  
Clarence L. Taylor, Jr.  
Roger Von Elm  
Donna J. Walker  
Stephen B. Watson  
Sheila Weinberg

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)  
Anna D. Gowans Miller, Technical Manager, AGA, Staff Liaison

-----Original Message-----

From: [jvelasco@blm.gov](mailto:jvelasco@blm.gov) [mailto:[jvelasco@blm.gov](mailto:jvelasco@blm.gov)]

Sent: Monday, January 31, 2011 2:25 PM

To: Ranagan, Julia E

Cc: [Don\\_Geiger@ios.doi.gov](mailto:Don_Geiger@ios.doi.gov); [b1buxton@blm.gov](mailto:b1buxton@blm.gov)

Subject: Re: Invitation to Field Test Proposed Technical Bulletin

Please find the feedback below.

(See attached file: Technical Bulletin 2011-1 response.docx)

Janine Velasco

Assistant Director, Business & Fiscal Res.

**Bureau of Land Management**  
**Response to Federal Accounting Standards Advisory Board**  
**Technical Bulletin 2011-1 Exposure Draft**  
**Accounting for Federal Natural Resources Other Than Oil and Gas**

The Bureau of Land Management (BLM) is grateful for the opportunity to provide comments regarding Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*. As an entity that is the steward for public lands and numerous natural resources we appreciate the opportunity to provide feedback on the valuation of federal natural resources and the effects of the proposed policy.

While we understand the need to document an understanding of the Federal government's role in managing natural resources and to provide transparency in their use, the BLM still feels obligated to offer the following observations.

The principle purpose of the Technical Bulletin in question is to provide the value of all federal natural resources under long-term lease, contract or other agreement (other than oil and gas). Currently BLM obtains historical receipt/collections information for categories centrally via the Financial Business Management System (FBMS). No calculations are presently made to obtain the present value (PV) of future receipts under lease or other long-term agreements.

This change in policy will create a new business process where forecasting would have to be based on prior year historical data (in arrears) with estimated discounted rates per Technical Guidance provided. Furthermore, new data collection requirements may require wide-ranging and costly changes to existing BLM procedures, business processes and system requirements. These may include, but are not limited to, methods of collecting data and consolidating data, additional programming in FBMS, while at the same time conforming to Departmental standards and policies.

In terms of current categories- several of BLM's receipts (regardless of materiality) include the following: Grazing, Timber, Helium, and more. BLM also maintains a helium stockpile inventory on its Balance Sheet, which is stored in a partially depleted natural gas reservoir. The inventory is at cost and the volume of helium is accounted for on a perpetual basis and annually verified by collecting data and using generally accepted petroleum engineering principles to calculate volume (Agency Financial Report, 2010).

During this time the BLM is still examining whether the value of federal natural resources are material. Nevertheless, if values are significant, with information from a variety of categories arriving from different areas, could lead to potential ramifications including the inability to meet accelerated financial reporting due dates, higher labor costs, inability to provide the level of accurate detailed information required, and potential audit findings.

**From:** CONNIE CONSTANCE [<mailto:CONNIE.CONSTANCE@nfc.usda.gov>]  
**Sent:** Monday, January 31, 2011 3:30 PM  
**To:** FASAB  
**Cc:** MELANIE CENCI; Close, Kevin; CONNIE CONSTANCE (NFC)  
**Subject:** ED Comments - Accounting for Federal Natural Resources Other than Oil and Gas

Attached are US Forest Service comments on exposure draft, "Accounting for Federal Natural Resources Other than Oil and Gas."

Connie Constance

USDA/OCFO-FO/CRD

### Forest Service Comments

Response to Questions: Exposure Draft, Technical bulletin 2011-1, Accounting for Federal Natural Resources Other Than Oil and Gas

Q1. Do you agree or disagree with the Board's decision to 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 reasonable estimable as of the reporting date? The Board believes that being explicit will result in more complete, consistent, and useful reporting of federal natural resources. Explain the reason for your position in as much detail as possible.

**Response:** *While the Forest Service agrees it is always better to be explicit in what requirements apply to an agency, we disagree with the Board's decision to apply the subject requirements to the Forest Service for the reporting of mineral resources. The Forest Service's charge is to manage the surface effects of mineral development rather than the mineral resource itself. As such, the agency has neither the authority nor the technical staff to independently determine the proved mineral reserves or the revenues derived from its use.*

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.

- 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-term agreement?

**Response:** *Leasable minerals (both solid and fluid, including renewable geothermal energy) result in annual receipts and/or collections from the National Forests; however the Department of Interior's Office of Natural Resources Revenue (ONRR) is responsible for collecting and disbursing those funds, not the Forest Service.*

*Locatable minerals do not result in annual receipts and/or collections to a federal entity as there are no provisions in law for the federal government to receive revenue from producers of locatable minerals.*

*Mineral material and timber sales from the National Forests result in annual collections by the Forest Service.*

- 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.

**Response:** *Mineral resources are adequately addressed by the categories/types listed in Appendix B.*

- 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.

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. Do you agree or disagree that the valuation guidance is sufficient? Please explain the reasons for your position in as much detail as possible.

**Response:** *As stated earlier, the Forest Service manages surface effects of mineral development and not the mineral resources themselves. In order to comply with the subject guidance, the Forest Service would be dependent upon other federal agencies within the Department of the Interior (U.S. Geological Survey and Office of Natural Resources Revenue) to provide information on the amount and value of mineral resources on the National Forests. Accordingly, we defer to those agencies on the adequacy of the proposed valuation guidance.*

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.
- 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.
- 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.

**Response:** *Similar to our response for Question 3, since the Forest Service would be dependent on information provided by agencies within the Department of the Interior to respond to the mineral information requested by the proposed technical bulletin, we defer to their response on the reasonableness of the subject document from a cost, timing, and benefits perspective.*



## Greater Washington Society of CPAs and GWSCPA Educational Foundation

---

1111 19<sup>th</sup> Street, NW, Suite 1200, Washington, DC 20036  
202-464-6001 (v) 202-238-9604 (f) [www.gwscpa.org](http://www.gwscpa.org) [info@gwscpa.org](mailto:info@gwscpa.org)

January 31, 2011

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

Dear Ms. Payne:

The Greater Washington Society of Certified Public Accountants (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB or the Board) Exposure Draft (ED) on the proposed Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*.

The GWSCPA consists of approximately 2,000 members, and the FISC includes 26 GWSCPA members who are active in accounting and auditing in the Federal sector. This comment letter represents the consensus comments of our members. Our responses to the ED questions follow.

- 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.
- A1. The FISC generally agrees with the Board's decision that being explicit will result in the more complete, consistent, and useful reporting of natural resources. However, although the list provided in Appendix B of the ED is robust, additional natural resources may be identified for which agencies may need to follow the hierarchy of generally accepted accounting principles (GAAP).

- 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?
  - 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.
  - 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.
- A2. The FISC is not aware of any additional categories or types of federal natural resources that have been omitted from Appendix B.
- 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.
- A3. The FISC agrees with the guidance provided in the ED.
- 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.
  - 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.
  - 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.
- A4. The FISC agrees with the reasonableness of the proposed technical bulletin in terms of the ED's cost, timing, and benefits.

#### **Other Comments**

We recommend that the references in paragraph 29(c), 29(d), and 29(f) to the federal government be replaced with reference to the reporting entity. For example, in paragraph 29(c), the current

reference requires the component entity to disclose narrative “describing the estimation methodology used to calculate the value of the federal government’s natural resources under lease, contract, or other long-term agreement” (emphasis added). This requirement may be considered overly broad by the individual reporting entity to address government-wide reporting matters. Rather, requiring the component entity to describe its individual estimation methodology, and that the component entity’s approach is consistent with generally accepted accounting standards, would be more meaningful to a reader of the individual component’s financial report.

\*\*\*\*\*

This comment letter was reviewed by the members of FISC, and represents the consensus views of our members.

Very truly yours,

A handwritten signature in black ink that reads "Andrew Lewis". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Andrew C. Lewis  
FISC Chair

**From:** Smutny, Tammy L [<mailto:Tammy.L.Smutny@hud.gov>]  
**Sent:** Tuesday, February 01, 2011 7:24 AM  
**To:** FASAB  
**Subject:** Resending: Accounting for Federal Oil and Gas Resources/Federal Natural Resources Exposure Drafts (Deferral of the Effective Date of SFFAS38 and Technical Bulletin 2011-1)

I am resending the email submission below because Microsoft Exchange sent a "delivery delayed" message at 6:30pm yesterday. I am sorry for the delayed submission of our comments.

Tammy L. Smutny  
Financial Policies & Procedures Division  
Office of the Chief Financial Officer

---

**From:** Smutny, Tammy L  
**Sent:** Monday, January 31, 2011 2:09 PM  
**To:** 'fasab@fasab.gov'  
**Cc:** SIDARI, David P; Vaiana, Jerome A; Tucker, Gerald A  
**Subject:** Accounting for Federal Oil and Gas Resources/Federal Natural Resources Exposure Drafts (Deferral of the Effective Date of SFFAS 38 and Technical Bulletin 2011-1)

Thank you for the opportunity to provide comments on the above exposure drafts. Attached are the Department of Housing and Urban Development's comments for these exposure drafts. Please direct any questions concerning our response to me at the number listed below.

Tammy L. Smutny  
Financial Policies & Procedures Division  
Office of the Chief Financial Officer

## Accounting for Federal Natural Resources Other than Oil and Gas - Technical Bulletin 2011-1: Exposure Draft

### Executive Summary

This technical bulletin is intended to clarify that federal entities should report the value of all federal natural resources under lease, contract or other long-term agreement 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*. Accounting for and reporting information about federal natural resources that represent federal assets would enhance accountability for and stewardship over assets of the federal government. Accounting for the federal government's natural resources as assets and reporting information on those assets as part of RSI 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.

### Questions for Respondents

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.

Response: We agree that federal entities should apply the general principles of SFFAS 38 beyond just oil and gas to only those federal natural resources *under lease, contract or other long-term agreement and reasonably estimable as of the reporting date*. This is consistent with SFFAS 38 requirements for reporting on federal oil and gas proved reserves.

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?

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.

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.

Response: We currently do not have enough experience in this area to comment.

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.

Response: We agree that the valuation guidance is sufficient, because it is based on the approximate **present value** of future receipts of federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date. The reporting entity is encouraged to use estimates that reflect its judgment about the outcome of events based on past experience and expectations about the future. The reporting entity is also encouraged to review assumptions about future cash flows used generally in the federal government as evidenced by sources independent of the reporting entity.

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.

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.

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.

Response: We currently do not have enough experience in this area to comment.



## 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](mailto:carol.campbell@osd.mil) or 703-601-0129.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Easton".

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](mailto: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/pdf/technical\\_bulletin\\_2011\\_1.pdf](http://www.fasab.gov/pdf/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.



UNITED STATES  
DEPARTMENT OF THE INTERIOR  
Office of the Secretary

February 8, 2011

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

Dear Ms. Payne:

The Department of Interior (DOI) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft of Technical Bulletin 2011-1, *Accounting for Federal Natural Resources Other than Oil and Gas*.

The following responses to questions posed in the Exposure Draft were compiled from comments received from DOI's Bureau of Land Management (BLM) and Office of Natural Resources Revenue (ONRR) solid minerals experts and Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) financial reporting experts.

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...). 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.**

We agree that explicitly applying SFFAS 38 to all federal natural resources is preferable to remaining silent, and that this will result in more complete, consistent, and useful reporting of federal natural resources. The clarification of appropriate accounting treatment for natural resources other than oil and gas, such as coal, will be beneficial, and will also help to ensure consistent treatment in the future, should a determination be made to record an estimated asset value in the financial statements. Clarification of the treatment for renewable natural resources will likewise help resolve questions and will result in more complete and consistent reporting.

ONRR solid minerals experts believe that of the non oil and gas natural resources, only coal reserves and revenues are material enough to be subject to the reporting requirements at this time. Other non oil and gas resources could of course be added, if they become material.

Some BLM respondents also agreed that providing explicit directions for mineral resources other than oil and gas is a good idea. They indicated however, that the guidance document refers to generic “resource” values. The term “resource” carries an implicit meaning in solid minerals. Generally, a “resource” is equal to all the mineral in the authorization and does not account for mining efficiency or unavoidable losses. As such, if a resource value is used, it will always be greater than the amount mining. If at the end of the authorization it is desired to have the “resource” exactly balance the amount mined, the BLM needs to be using reserve values.

Other BLM experts expressed concern however, in regards to non-coal solid mineral leases. They did not think the determination of the remaining reserve value on potassium, sodium, etc. leases was “reasonably estimable,” since the definition of “reserve” at any particular time is dependent on wildly varying criteria, such as commodity price. Additionally, the BLM does not have or collect any “reserve” or “resource” information for mineral materials. BLM does not independently collect reserve data and applicants/purchasers are not required to collect or provide such data, nor does the BLM have funding or staffing to evaluate this massive amount of data if it were collected. Mineral materials that are sold now would technically be considered undiscovered recoverable or non-recoverable resources. Sales are made on the speculative presumption that the materials applied for (specific commodities) exist at the sale site in the quantity requested. Applicants are required to pay for the amounts authorized by contract unless they can show that the specified quantity of mineral material is not available within the authorized contract area. Unlike leases, contracts for mineral materials are issued for specific commodities, for a fixed quantity, under fixed contract terms (durations). There are no “royalties”. Materials are sold at in-place fair market value price. Most contracts are short-term, ranging from days to a maximum of ten years. The Bulletin would require collection or estimation of theoretical “reserve” information that would be difficult to obtain, as it is specific to sale sites that are typically small that have locations that cannot be reliably predicted, and could involve almost any Federal land. For example, in FY2010, the vast majority of contracts (2,446) had a duration of 90 days or less; a smaller number (351) were intermediate terms (1 day to five years), and a much smaller number (13) had longer terms (up to 10 years). There were 185 free use permits to government agencies and non-profit organizations. Further analysis will be required.

#### Q2a

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).

**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?**

Based upon a preliminary analysis, coal is the predominate natural mineral resource other than oil and gas that would be expected to result in annual receipts that would be material to the Department of Interior over the life of the related leases. Estimates of the undiscounted value of other minerals generating receipts through the Office of Natural Resources Revenue (ONRR) indicate they may be immaterial in aggregate to the Department. However, further and more detailed analysis will be required. Also, it is likely that a similar type of analysis would be required for CFO auditors, to demonstrate that they are, indeed, immaterial. This will of course, be an additional significant effort, and could become an annual requirement.

BLM has identified the 3 categories below, some of which will also require a detailed analysis to determine their potential materiality to the Department.

- Leasable Minerals (royalty and rental)
- Locatable Minerals (holding fees on public lands and royalty and rental on acquired lands)
- Mineral Materials (royalty and rental)

BLM experts further identified potential royalties, rentals, and bonus bids derived from the leasing of non-coal solid minerals such as potassium, sodium, phosphate, and hardrock minerals on acquired lands (under Section 402 of Reorganization Plan No. 3 of 1946). Mineral materials, under the Materials Act of 1947 as amended, are essentially all common variety earth materials unless they are specifically identified as either leasable minerals or locatable minerals (which can include uncommon varieties of mineral materials). Mineral materials revenues include an in-place price and land rental for surface uses. The contracted materials price is adjusted or reappraised at least once every two years. Mineral material commodity categories include sand, gravel, stone, pumice, cinders, clay, calcium, caliche, soil, abrasives, and nonprecious gemstones. As stated above, further analysis will be required.

Q2b

**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.**

Appendix B appears to be a fairly comprehensive list.

BLM experts, however, also indicate that the category of “Leasable Minerals (Solid)” should also include, “hardrock minerals on acquired land”. Minerals such as copper, lead, zinc, gold, etc., which are locatable when found on public domain lands, are leasable when found on acquired federal land. For example, the lead/zinc mines in the Mark Twain National Forest, Missouri, mine from Federal solid mineral leases issued by the BLM, and pay very substantial royalties.

Q2c

**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.**

None are presently recognized by the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) or the Office of Natural Resources Revenue (ONRR), nor did BLM identify any.

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.**

DOI agrees that the valuation guidance is reasonably sufficient, and provides adequate latitude in developing and selecting the most appropriate method to estimate the value of specific types of natural resources.

However, developing an effective valuation methodology will involve much work and collaboration. ONRR solid mineral experts indicate that, for example, coal proven reserves reported by EIA are reported at too high of a level and do not provide a difference between coal reserves leased by BLM and those not leased. The EIA proven reserves incorporate Federal, State and Fee or private reserves into their estimated numbers. A new process could potentially be developed that would establish a recoverable reserve baseline at the federal lease level from data currently available. Once this is established, depletion of these recoverable reserves could potentially be monitored, and the adjusted values computed. However, this will at least initially be a significant effort requiring a great deal of collaboration, and will require resources and staff to maintain annually.

BLM also notes that basing an estimated value on remaining proven reserves is acceptable. However, the question posed above asserts that this guidance is provided in paragraphs 23 through 27. BLM respondents strongly suggest that a reference to using proven reserves (recoverable reserves for coal) be provided someplace in the document. Additionally, developing the data for the analysis is currently beyond the capability of the BLM. There is no reference to proved reserves. Production varies with the economy and is not readily predictable. New operation/sale locations are common. Most operations are small and extremely short term. The valuation guidance for oil & gas is not applicable or readily translatable to other mineral materials. The nature of the resource and the demand is different. Ultimately, developing a valuation methodology will be a significant undertaking.

Q4a

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

**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.**

Significant audit costs could be incurred by providing information to the auditor that confirms “immateriality” and “completeness” especially if information is not centrally available.

ONRR solid minerals experts have indicated that an efficient and reasonably accurate model could be developed, and once developed, could be repeatedly applied to estimating quantity and value specifically for coal. Thus the cost for this aspect of the requirements would not be expected to be prohibitive, however additional resources and system modification would be required to develop, populate and maintain the required tracking and reporting system. For the final RSI disclosures, a process can likewise be developed to allocate revenue and accruals to complete the required schedules. While not simplistic or easy, this could be done and once developed, is expected to also be repeatable and reasonably efficient, such that an overly significant cost would not be anticipated. BLM however, does anticipate significant additional cost. This will require a formal data request from field offices to report the pertinent data on a per lease or contract basis. This data will then need to be compiled in the Washington Office so that proprietary data is not released. In some cases significant research may be required to discover all applicable records that are needed to reply, and it would take substantial staff time to develop the data needed for such analysis. The geologic data necessary for these requirements does not exist, and would have to be generated, followed by development of hypothetical mining and reclamation plans for all possible commodities and sites on Federal lands. The BLM cannot predict where actual demand would occur, nor the actual prices for materials. Even if investigations were limited to existing disposal sites, the workload for identifying “reserves” would be enormous. Current revenues are based on actual appraised prices. The Bulletin requires speculative projections of the present value of unknown, unpredictable revenue streams of substantially variable durations for a multitude of commodities. However, materiality will require further analysis.

Q4b

**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.**

No, we do not believe that a fiscal year 2012 implementation date is reasonable, primarily due to the 1-year delayed implementation date of SFFAS 38. Based upon this, and the complexities involved in developing an appropriate valuation method that all subject matter experts can agree upon, a later implementation date would better provide adequate time to accomplish these important efforts. Manual systems and processes will need to be developed, and staff resources dedicated to this work.

BLM indicates that the initial reporting in the first year will be difficult and time consuming to establish records and reporting procedures. A year advance notice would be helpful to establish reporting procedures and to complete any necessary data gathering in advance. In any case, they anticipate difficulty in the first year. Gathering mineral materials deposit data would vastly exceed program funding and staff capabilities. BLM does not have the necessary equipment to generate geologic data, nor could it develop mining plans for every possible location, and it cannot predict the location of future

public demand to identify economically minable commodity sites. An efficient methodology will need to be carefully developed, and will require additional time to do so.

Q4c

**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.**

Yes, DOI generally does believe that the benefits of clarifying guidance, ensuring consistency and complete reporting and accounting, and helping to enhance the users' understanding of this new requirement applicable to other natural resources, outweigh the costs of implementation. This will become especially important if a decision is made to capitalize oil, gas and other natural resources such as coal in the future, since other Standards such as SFFAS 7 would also be revised. This guidance helps ensure that users have the information they need to appropriately account for or disclose these other natural resources where applicable. It also provides a very helpful listing of those for which the requirements would not apply.

However some BLM respondents expressed their belief that the costs and workload would exceed benefit to the BLM, the purchasers or permittees, or other external parties, and that this Bulletin would impose these costs and workload to result in hypothetical estimates.

Appendix A, Figure 1

BLM experts suggest that it does not add value to provide resource information for lands that have been withdrawn from leasing. If the lands are withdrawn, there most likely has been no exploration and any subsurface mineral estimation would necessarily be excessively speculative. Further, if the lands are already withdrawn from leasing, then there is no way to know how much mineral might be there because it can never be leased or placed under contract. If the mineral cannot be placed under contract, its economic value is effectively zero. Additionally, BLM again questions the terminology "under contract but not conveyed". The contract is the instrument of conveyance. This appears contradictory and perhaps clarification would be beneficial.

Appendix D, *Undiscovered Resources*

The BLM does not assess undiscovered resources for coal.

Appendix D, *Discovered Resources*

Some of the BLM respondents expressed that generally, there will be no information for any withdrawn area because if the area is withdrawn, no leasing action can occur. And there is additional confusion regarding the definition for "under contract but not conveyed". BLM respondents indicate this would evidently only include the narrow time frame between acceptance of an offer for a lease and the actual issuance of the lease, a time period of about three months. Because the lease is the conveyance, all leases already issued would seem to be excluded. As well, all pending lease applications are assumed to fall included under the "Planned to be offered" category. Only the resource amount would be reported, which should be readily available. However, under the "Other" category in Figure 1 and as defined in Appendix D, BLM is unsure if they would be required to report all Federal coal reserves that are: 1) not withdrawn;

2) not under contract; and 3) not planned to be offered. This is a global reserve estimate. The BLM does not have this value and it would be excessively expensive to achieve a reliably reportable value. Any methodology would need to be carefully determined and agreed upon by subject matter experts.

Appendix D, **Proved Reserves**

BLM respondents indicate that specifically for minerals other than oil and gas, the common usage is “proven reserves.” They also suggest the following alliteration:

*For minerals other than oil and gas, the proven reserve proprietary information; The proven reserve is the estimated quantity that geological data and engineering analysis indicate with reasonable certainty to be potentially recoverable in future years from known deposits under specified economic and operating conditions and that are under contract for development at the time of the analysis. The reportable quantity proven reserves is calculated by adding the reserves under lease at the end of the prior reporting year to reported reserves revisions, adjustments, modifications, or new leasing completed during the reporting year, and subtracting estimated production during the reporting year.*

**Additional Comments:**

The comment period is too short and should be extended to allow Agencies a more complete review. Furthermore, SFFAS No. 29, Footnote 17 states, “The Board presently has an active project to address standards for natural resources, for which the Board is considering developing individual standards for each type of natural resource separately. To begin the project, the Board will be addressing oil and gas resources. The framework for the oil and gas resource phase of the project will be used as a model when addressing the other types or logical sets of natural resources (e.g., timber, grazing land, solid leasable minerals) in subsequent phases of the project.” It is unclear how and which Agencies were involved in the subsequent phase of the project to allow sufficient input into the draft of Technical Bulletin 2011-1.

Recommend that the Table in Appendix B: Federal Natural Resources include whether the resources are considered “renewable” or non-renewable” or a statement that the determination of status is up to the preparer.

The term “federal natural resources” used throughout this document is confusing especially if the reader misses the exclusion of renewable natural resources and electromagnetic spectrum as stated in Paragraph 14.

Recommend that information required in Paragraph 29.f. remain as RSI. Recommend that the Board consult with Agencies before determining whether the information will transition to basic information as financial statement recognition or note disclosure.

The auditing of the information Agencies would present to satisfy the reporting requirements of Paragraph 29.f. is concerning. The information is likely subjective and

might cause conflict between the preparer and the auditor. The Agency might have to prove that “materiality” and “completeness” tests were performed; especially if the Board transitions the information from RSI to basic. For example, the table in Appendix B lists “Mineral Materials” as “sand, gravel, and stones.” Great Sand Dunes National Park and Preserve contains “sand.” It is unclear how reporting the existence of sand in this national park or others would be considered important to the financial statement reader. The reader would be better served by going to the National Park website to learn more vs. depending on narrative information presented in an Agency Financial Report.

### **Conclusion**

In closing, we would again like to thank the FASAB for offering us the opportunity to provide comments to this important Technical Bulletin. It is clear that many significant issues remain to be resolved. We plan that with the additional time allotted through a delayed implementation to coincide with the SFFAS 38 implementation, this significant challenge can be met.

Sincerely,

/s/

Edward King  
Acting Deputy Director  
Office of Financial Management  
US Department of the Interior  
(202) 208-3425

# **Tab K – Appendix 1**

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

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Federal Accounting Standards Advisory Board

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

**Technical Bulletin 2011-1**

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April 12, 2011

**Deleted:** January 5

## 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](http://www.fasab.gov).

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## Appendix 1



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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 exposure draft of a proposed technical bulletin entitled, *Accounting for Federal Natural Resources Other than Oil and Gas*. Specific questions for your consideration begin on page 6 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. Responses are requested by January 31, 2011. ¶

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](mailto:fasab@fasab.gov). If you are unable to provide electronic delivery, we urge you to fax your 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. ¶

¶  
Wendy M. Payne¶  
Executive Director

Summary

Technical Bulletin 2011-1 clarifies that federal entities should report the value of all federal natural resources under lease, contract or other long-term agreement 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.

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Accounting for and reporting information about federal natural resources that represent federal assets would enhance accountability for and stewardship over assets of the federal government. Accounting for the federal government's natural resources as assets and reporting information on those assets as part of RSI 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.

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**Deleted: Questions for Respondents**

**Deleted:** FASAB staff encourages you to become familiar with all proposals in the technical bulletin before responding to the questions in this section. In addition to the questions below, staff would also welcome your comments on other aspects of the proposed technical bulletin. ¶

FASAB staff believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. Staff 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 technical bulletin 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](http://www.fasab.gov/exposure.html). Your responses should be sent by e-mail to [fasab@fasab.gov](mailto: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 **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.¶

<#>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 ... [1]

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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**<sup>1</sup> 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 all other **federal natural resources**<sup>2</sup> under long-term lease, long-term contract or other long-term agreement<sup>3</sup> 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 as RSI for periods beginning after September 30, 2012. 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 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.

**Comment:** Deleted text of footnote 3: An exposure draft proposing to defer the effective date of SFFAS 38 for one year has been released for comment concurrently with this draft technical bulletin. If the proposal is adopted, it is possible that the effective date of this technical bulletin may be changed to be consistent with the new effective date for SFFAS 38.

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<sup>1</sup> Terms defined in the Glossary are shown in **bold-faced type** the first time they appear.

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

<sup>3</sup> 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 generally defined as longer than five years.

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

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**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 all 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 occurring in nature (for example, oil, gas, coal, sand, gravel, and stones) 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.<sup>5</sup>
12. Natural resources included in the definition in paragraph 11 that are not contained on federal lands or the federal government does not substantially manage and/or control (e.g., royalties collected by the federal government from resources produced from non-federal lands on behalf of non-federal parties from leases that are negotiated and signed by such non-federal parties) are not federal natural resources.
13. **Are federal agencies required to apply the guidance in this technical bulletin to all types of federal natural resources other than oil and gas?**
14. No, agencies are not required to apply the guidance in this technical bulletin to **renewable natural resources**<sup>6</sup> or the **electromagnetic spectrum**.

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<sup>6</sup> Federal entities should follow the GAAP Hierarchy in SFFAS 34 to determine the appropriate accounting and reporting standards for revenue-producing renewable resources.

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**Required Supplementary Information (RSI)**

15. **Should federal entities apply the general principles of SFFAS 38 to all non-renewable federal natural resources under management by the entity?**
16. No. With the exception of the narrative discussion required in paragraph 29f., federal entities should apply the general principles of SFFAS 38 beyond just oil and gas to only those federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date. This is consistent with SFFAS 38 requirements for reporting on federal oil and gas proved reserves.<sup>7</sup>
17. The narrative discussion required in paragraph 29f. should include all significant natural resources under management by the federal entity that are not required to be reported in the schedule described in paragraph 19 (for example, they are not measurable<sup>8</sup> or not under lease, contract, or other long-term agreement).

## Component Entity RSI

18. **What should be reported in component entity RSI for federal natural resources other than oil and gas?**
19. The 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 should be reported in a schedule in RSI as part of a discussion of all significant federal natural resources under management by the entity (SFFAS 38, paragraph 15).
20. The estimated value of the reporting entity's federal natural resources under lease, contract, or 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).

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<sup>7</sup> 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).

<sup>8</sup> As used in Statement of Federal Financial Accounting Concepts (SFFAC) 5, paragraph 5, the term measurable means that a monetary amount can be determined with reasonable certainty or is reasonably estimable.

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21. 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 26).
  22. **How should the value of federal natural resources be determined?**
  23. The estimates that are developed should approximate the **present value** of future receipts of federal natural resources under lease, contract or other long-term agreement and 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).
  24. 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).
  25. 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).
  26. The preferred measurement method for valuing the reporting entity's federal natural resources is the present value of future receipts on federal natural resources under lease, contract or other long-term agreement and reasonably estimable as of the reporting date using a risk-free discount rate as described in paragraph 23; 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 23 through 25 (SFFAS 38, paragraph 22).<sup>9</sup>

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<sup>9</sup> 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

27. 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).

28. **What else should be reported?**

29. The reporting entity should provide the following as a narrative 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.

c. A narrative describing the estimation methodology used to calculate the value of the [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 27, the nature and reason for any changes, as well as the effect of the changes, should be explained.

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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.

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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 reporting entity](#) that are not required to be reported in the schedule described in paragraph 19 (for example, they are not measurable<sup>10</sup> or not under lease, contract, or other long-term agreement).

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statement date subsequent to the period of initial recognition, including replacement price, market price, and settlement price.

<sup>10</sup> See footnote 8.

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

- 30. **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?**
- 31. The governmentwide entity should provide the following information related to federal natural resources in RSI as part of a discussion of all 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 federal government’s estimated natural resources under lease, contract, or other long-term agreement as of the end of the reporting period (see paragraph 20).
  - c. A reference to specific agency reports for additional information about federal natural resources (SFFAS 38, paragraph 29).

**Effective Date**

- 32. This technical bulletin is effective for periods beginning after September 30, 2012. Earlier implementation is encouraged.
- 33. 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 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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**The provisions of this bulletin need not be applied to immaterial items.**

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**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 framework

for other categories of federal natural resources.<sup>11</sup> 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.<sup>12</sup>

- 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*, 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.”

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<sup>11</sup> SFFAS 34, Paragraph 7.

<sup>12</sup> SFFAS 38, Paragraph 9.

**Figure 1 – Components of Federal Natural Resources**

Accounting Standards	Components of Federal Natural Resources								
	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 <sup>14</sup>		
Current Accounting Standards									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 SOCPN <sup>15</sup>
Proposed Accounting Standards									<ul style="list-style-type: none"> <li>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</li> </ul>
							Not Reasonably Estimable	Reasonably Estimable <sup>16</sup>	
								<ul style="list-style-type: none"> <li>Asset value and revenue to be distributed to others reported</li> </ul>	

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<sup>14</sup> "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.](#)

<sup>15</sup> SNC = statement of net cost, CFR = consolidated financial report of the U.S. Government, SOCPN = Statement of Operations and Changes in Net Position

<sup>16</sup> Under contract and reasonably estimable is substantially equivalent to "proved reserves" under SFFAS 38.

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### 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 are not 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 would not benefit from the additional reporting requirements of SFFAS 38.

### Electromagnetic Spectrum

- A8. Staff believes that auctions of the electromagnetic spectrum are not 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 forever. 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.
- A9. The Board decided to add accounting for the electromagnetic spectrum to its list of potential projects for consideration at the next agenda-setting session. If the project is selected for the agenda, staff would determine if additional guidance is warranted at that time (see SFFAS 7 paragraphs 145, 278 and 279).

### Due Process

- [A10. 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.](#)

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A11. 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).

A12. 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, Center on Budget and Policy Priorities, Citizens Against Government Waste, The Concord Coalition, The Heritage Foundation, National Parks Conservation Association (NPCA), Natural Resources Defense Council (NRDC), OMB Watch, Resources for the Future (RFF), Sierra Club, The Urban Institute, and World Resources Institute (WRI);
- 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 (USGS); Department of Agriculture (USDA), Deputy CFO; and USDA Forest Service.

A13. To encourage responses, reminder notices were provided to the FASAB email listserv on January 28, 2011, and February 8, 2011.

Comment Letters

A14. Seven comment letters were received from the following sources:

	<u>FEDERAL (Internal)</u>	<u>NON-FEDERAL (External)</u>
<u>Users, academics, others</u>	<u>0</u>	<u>2</u>

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<a href="#">Auditors</a>	<a href="#">0</a>	<a href="#">0</a>
<a href="#">Preparers and financial managers</a>	<a href="#">5</a>	<a href="#">0</a>

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[A15. The Board considered responses to the exposure draft at its February 24, 2011, public meeting. 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. The respondents' comments are summarized below.](#)

[A16. \[Include par. on reassessing immateriality periodically but not less than once every five years\]](#)

[A17. \[Include par. on narrative discussion does not require quantitative amounts\]](#)

[\[To Be Updated After Board Meeting Discussion\]](#)

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**Deleted: Appendix B: Federal Natural Resources**

**Deleted:** Note: The following list may not include every category/type of natural resource. It is intended as a general guide to the universe of natural resources that were considered during development of this Technical Bulletin.

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Appendix **B**: Abbreviations

CFR	Code of Federal Regulations
FASAB	Federal Accounting Standards Advisory Board
RSI	Required Supplementary Information
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

**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.

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### 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.<sup>17</sup> This section of Appendix C defines the terms used in *Figure 1 – Components of Federal Natural Resources*.

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**Undiscovered Resources**

Resources surmised to exist on the basis of broad geologic knowledge and theory.<sup>18</sup>

- **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.<sup>19</sup>
  - **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.

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<sup>17</sup> Unless otherwise noted, definitions in this section were adapted from SFFAS 38, Appendix D: Technical Terms.

<sup>18</sup> Adapted from EIA Glossary, available at <http://www.eia.doe.gov/glossary/>; last accessed October 4, 2010.

<sup>19</sup> Ibid.

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### 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.”

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### 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.<sup>20</sup>

**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:** Resources occurring in nature (for example, oil, gas, coal, sand, gravel, stones, timber, and the electromagnetic spectrum) 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.<sup>21</sup>

**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.

**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.<sup>22</sup>

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<sup>20</sup> Federal Communications Commission, available online at <http://reboot.fcc.gov/reform/systems/spectrum-dashboard/about>; last accessed September 22, 2010.

<sup>21</sup> Adapted from SFFAS 38, available at <http://www.fasab.gov/codifica.html>; last accessed September 14, 2010.

<sup>22</sup> Adapted from definition of royalty relief from 43 U.S.C. § 1337(a).

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**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.<sup>23</sup> 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 MMS 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.<sup>24</sup>

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<sup>23</sup> Adapted from EIA Glossary, available at <http://www.eia.doe.gov/glossary/>; last accessed March 22, 2010.

<sup>24</sup> 43 U.S.C. § 1337(a).

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

FASAB staff believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. Staff 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 technical bulletin 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](http://www.fasab.gov/exposure.html). Your responses should be sent by e-mail to [fasab@fasab.gov](mailto: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  
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All 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.

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.

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).

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?

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.

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.

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.

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

**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.

**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.

**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.

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Category/Type of Natural Resource	Examples	
Timber	Timber, Woody Biomass (Biofuel)	
Leasable Minerals (Solid)	Coal, Oil Shale, Asphalt, Sulfur, Phosphate, Potassium, Sodium, Gilsonite	
Leasable Minerals (Fluid)	Oil, Gas	
Locatable Minerals	Precious Metals, Ferrous Metals, Light Metals, Base Metals, Precious and Semi-Precious Stones	
Mineral Materials	Sand, Gravel, Stones	
Grazing Uses	Grazing	
Electromagnetic Spectrum	Electromagnetic Spectrum	
Non-Timber Vegetative Products	Christmas Trees, Christmas Wreath Materials, Mushrooms, Wild Berries, Medicinal Herbs, Cactus, Pine Nuts	
Other Renewable Energy Sources	Geothermal Energy, Solar, Hydropower, Wind and Waves	
Other miscellaneous	Land, Fish, Wildlife, Biota, Air, Water, Ground Water, Drinking Water Supplies	