



September 4, 2009

Ms. Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
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Washington, DC 20548

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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 revised exposure draft on the proposed statement of federal financial accounting standards, *Accounting for Federal Oil and Gas Resources*. The FMSB, comprising 21 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. Our responses to the questions listed in the exposure draft follow

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

Response: The FMSB agrees as those federal entities who have been conducting asset valuation are in the best position to know what works for them and it would be too easy to omit a sound methodology. Trying to incorporate every valuation estimation methodology in use would make the document unwieldy.

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

Response: The FMSB agrees as it is a reasonable basis, generally understood and already in widespread use throughout the federal government. Also, we found sample entries 6 through 11 in Appendix B to be very helpful with excellent explanations.



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

Response: The FMSB disagrees. We reviewed SFAS 157 and find that it is primarily designed for marketable securities. Oil and gas reserves would be a Level 1 asset, with an observable price. But we could not find any information on how to deal with volatile markets. Oil prices have varied between \$31 and \$126 in the past year alone, which is a 4:1 ratio. We did not see any guidance in SFAS 157 that helped determine what market price to use when the market is so volatile. It appears that the market price is arbitrarily set at the closing price on the last day of the fiscal year, which could be meaningless a month later.

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

Response: The FMSB agrees. A change in accounting estimate that is effected by a change in accounting principle should be made only if the new accounting principle is justifiable on the basis that it is preferable from the viewpoint that the new accounting principle better captures the economic reality of the situation under consideration. That is, if an entity concludes that the pattern of consumption of the expected benefits of an asset has changed, and determines that a new depreciation method better reflects that pattern, it may be justified in making a change in accounting estimate effected by a change in accounting principle.

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

Response: The FMSB agrees. This will help government entities to provide better transparency, improve understandability of the reports by the interested stakeholders and provide guidance during times of high volatility. SFFAS 33 requires that gains and losses from changes in long-term assumptions used to estimate certain liabilities be displayed on the statement of net cost separately from other costs. The FMSB agrees that it would be appropriate to apply similar guidance similar to long-term assumptions about oil and gas in order to increase the usefulness of reported operating results when the volatility of projections might otherwise result in large variations in the valuation of oil and gas royalty revenues, oil and gas resource valuation and resulting gains and losses from year to year. Specific guidance and examples will provide continuity of guidance and procedures.

Q6. SFFAS 31, *Accounting for Fiduciary Activities*, requires that agencies report on assets held in a fiduciary capacity. The Department of Interior (DOI) manages oil and gas resources on behalf of individual Indians and Indian tribes. This proposed standard – because it classifies oil and gas resources as assets – would result in additional information being disclosed for oil and gas assets managed in a fiduciary capacity. Note, however, that fiduciary reporting does not extend to inclusion of the additional disclosures or RSI that are proposed in this document for federal oil and gas resources. Thus, with respect to fiduciary activities, only disclosure of the assets, liabilities, and related inflows and outflows would result from this proposal.

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

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

Response: The FMSB agrees from the viewpoint of maintaining consistency with SFFAS 31 and existing systems should make the cost benefit a moot point. However, we believe only those within DOI can provide the in-depth information or justification as to why the cost/benefit analysis would override providing the transparency to the individual Indians and Indian tribes who most benefit from disclosure of the information.

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

Response: The FMSB agrees as it allows sufficient time for any implementation questions to be addressed by the Board, accommodates DOI's request and seems a reasonable phase-in period.

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

Response: The FMSB does agree with the inclusion of paragraph 10 as the proposed standard needs to be specific in addressing the high-priority issues concerning accounting for federal oil and gas resources. We believe the issue of accounting for other types of natural resources, where material to the reporting entities, should be addressed as soon as practicable in the future, given the level of their significance. We have evidence that one agency had not updated some natural resource lease valuations in over twenty years - which raises questions about its stewardship and the accuracy of its financial statements. It is likely that there are a number of smaller agencies with similar issues. Even a brief standard should address regular review and update of costing and valuation of all federal natural resources to ensure that the government is receiving fair remuneration.

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

Response: The Introduction to the Exposure Draft states "Extensive federal oil and gas resources exist on public lands throughout the country and on the Outer Continental Shelf (OCS). Currently, federal financial reporting does not provide information about the quantity or value of these assets. In addition, royalty revenues are recognized but expenses are not recognized for the asset exchanged to produce those revenues. [interpretive note: largely depletion]"

We accept that the quantity and value of those assets and the royalty revenues, and [depletion] expenses that will be recognized for the asset exchanged to produce those revenues, would be material to the Financial Statements of the entities reporting those items (the omission or misstatement of that 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.)

On that basis we disagree with the alternative view and agree with the ED proposal that the federal government's royalty share of federal oil and gas resources under lease be recognized as an asset on the balance sheet (after the 3 year transition period). However, to address the legitimate issues that Mr. Dacey has raised, we think that a discussion of all of the government's natural resources, including oil and gas resources that are not currently under lease as well as values and information concerning all other significant natural resources, such as coal, timber, and grazing rights should be provided in the Notes to the Financial Statements. We support the FASAB addressing issues of accounting for natural resources *additional to* those addressed by the current Exposure Draft as soon as practicable in the future, given the level of their significance. We are concerned that treating those additional natural resources only by note disclosure gives them the character of "contingent assets", while we do not believe they meet the criteria of being contingent, and that reliable estimates of their value can and should be made, with appropriate disclosure as to the methodology used.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. No member objected to its issuance. If you have questions concerning the 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 703.684.6931 ext. 313.

Sincerely,

A handwritten signature in cursive script that reads "Robert L. Childree".

Robert L. Childree, Chair,  
AGA Financial Management Standards Board

cc: William A. Morehead, Ph.D., CPA, CGFM  
AGA National President

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