Forest Service Manual
National Headquarters – Washington Office
Washington, DC

Forest Service Manual 6500 – Finance and Accounting
Chapter 6550 – Accounting

Amendment: 6500-2005-1

Effective date: May 31, 2005

Duration: This amendment is effective until superseded or removed.

Approved by: Jesse L. King, Associate Deputy Chief/CFO

Date approved: May 24, 2005

Last Change: 6500-2004-7 to FSM 6500_zero_code.

Superseded Document(s): 6550 Contents, Amendment 6500-95-3, September 12, 1995; 6550, Amendment 6500-95-4, September 12, 1995

Digest: Following is an explanation of the changes throughout the directive by section.

6550.11: Defines the Chief Financial Officers Act of 1990, and Government Performance and Results Act of 1993.

6550.12: Provides guidance, per OMB Circular No. A-123, to Federal managers on improving the accountability and effectiveness of Federal programs and operations, and per OMB Bulletin 01-09, “Form and Content of Agency Financial Statements,” for preparing agency financial statements.

Presents standards to account for inflows of resources from revenue and other financing sources, per Statement of Federal Financial Accounting Standards (SFFAS) #7.

Defines the policy requirements of the Financial Managers Integrity Act of 1982.

6550.13: Per OMB Circular A-109, establishes policies, to be followed by executive branch agencies in the acquisition of major systems.

6551.5: Introduces Department of Treasury publication "Managing Federal Receivables," providing Federal agencies with a general overview of standards, guidelines, and procedures for the successful management of Federal activities.

6558: Defines the Foundation Financial Information System.

Table of Contents

This chapter covers general Forest Service accounting policies. Accounting policy pertaining to Working Capital Fund is located in FSM 6580 and FSH 6509.11f. Additional detailed policy and procedures pertaining to the Forest Service accounting are found in the 6500 series of the Forest Service Directive systems and the Foundation Financial Information System on-line procedures.

6550.1 – Authority

Authorities for accounting are found in FSM 6500, Zero Code. Additional requirements are prescribed in the following legislation for internal control and accounting standards.

6550.11 – Budget Control

1. The Anti-Deficiency Act Title 31, United States Code, section 1341, 1342, 1349-1351 (31 U.S.C. 1341, 1342, 1349-1351, 1511 et seq.) is the portion of the Budget and Accounting Procedures Act of 1950, as amended by the Balanced Budget and Emergency Deficit Control Act of 1985, which prohibits obligating or expending more than authorized ceilings, including funds to be sequestered.

2. The Supplemental Appropriations Act of 1955 (31 United States Code 1108, 1501-1502) provides that an obligation is only enforceable when it is in writing; that the purpose is to avoid inappropriate spending based on oral obligations; and, that the balance of an appropriation limited to a definite period is available only for payment of expenses incurred during that period.

3. Closing Accounts (31 United States Code, sec. 1551-1557) defines procedures to be followed in closing appropriation accounts available for definite periods of time. It establishes the availability of appropriation accounts to pay obligations. The law addresses audit, control, and reporting requirements that remain applicable to that account after the end of the period of availability for obligation.

4. The Chief Financial Officers (CFO) Act, enacted by Congress in November 1990 to improve financial management in the Federal Government. It requires 23 federal agencies, including DOD, to submit annual financial statements to the Office of Management and Budget.

5. The Government Performance and Results Act. Enacted in 1993 to improve the public's confidence in the capability of the Federal Government, by systematically holding Federal agencies accountable for achieving program results.

6550.12 – Accounting Standards

1. Accounting Standardization Act of 1995. Provides for the establishment of a uniform accounting system, standards, and reporting system in the Federal government so that the performance, productivity and efficiency of Federal financial management will improve. The Act requires the full disclosure of Federal financial data, including the cost of government programs and activities to the citizens, the Congress, the President, and agency managers.

2. Accounting Standards Established. The Federal Accounting Standards Advisory Board (FASAB) (see FSM 6508.16) was established in 1990 to recommend accounting concepts and standards that result in understandable, relevant, and reliable information about the financial position, activities, and results of operations of the United States government. The FASAB's accounting standards and concepts improve accounting systems and internal controls, and they provide assurance to users that government activities have been conducted economically, efficiently, and effectively and in compliance with applicable laws and regulations. Federal financial accounting concepts and standards establish systems, maintain day-to-day financial records, and provide general purpose financial reports of U.S. Government reporting entities. The FASAB standards are consistent with the requirements of the Federal Financial Management Improvement Act of 1996, which states that:

> **… each agency must implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.**

On October 19, 1999, the American Institute of Certified Public Accountants (AICPA) Council designated the Federal Accounting Standards Advisory Board (FASAB) as the accounting standards-setting body for Federal government entities under Rule 203 of the AICPA Code of Professional Conduct. Rule 203 provides, in part, that:

> **… an AICPA member must not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles (GAAP) or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with GAAP, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles, that has a material effect on the statements or data taken as a whole.**

This recognition enables independent certified public accountants to render opinions (where appropriate) that government financial statements are in accordance with GAAP.

3. OMB Bulletin 01-09, "Form and Content of Agency Financial Statements," provides guidance for preparing agency financial statements. The Bulletin contains financial reporting requirements that advance Federal agencies toward more timely, useful, and reliable financial information to support agency management.

4. OMB Circular No. A-123, Management Accountability and Control. This Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls.

5. Statement of Federal Financial Accounting Standards (SFFAS) #7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." This statement presents standards to account for inflows of resources from revenue and other financing sources. It provides standards for classifying, recognizing, and measuring resource inflows.

6. Treasury Financial Manual (TFM). This manual is the Department of Treasury's principal directives manual for financial accounting and reporting of all receipts and disbursements of the Federal government.

7. The Financial Managers Financial Integrity Act of 1982. Requires ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes.

6550.13 – Financial Management Systems

OMB Circular A-109 establishes policies, to be followed by executive branch agencies in the acquisition of major systems. This Circular covers and applies to management of the acquisition of major systems, and all programs for the acquisition of major systems.

The Joint Financial Management Improvement Program (JFMIP) was established in 1948 and was given statutory authorization in the Budget and Accounting Procedures Act of 1950. Consisting of the U.S. Department of the Treasury, the Government Accountability Office (GAO), the Office of Management and Budget (OMB), and the Office of Personnel Management, the JFMIP was created to improve the financial management practices across government.

The Budget and Accounting Procedures Act of 1950, as amended, places the responsibility for establishing and maintaining adequate systems of accounting and internal control upon the head of each executive agency. These systems must conform to the accounting principles, standards, and related requirements prescribed by the Comptroller General of the United States. The Comptroller General's letter, "Modification of Government Accountability Office Procedures with Respect to Approval of Executive Agency Accounting Systems," dated April 18, 1983, sets forth their review process. The JFMIP has worked on interagency projects that developed a financial systems framework and financial systems requirement. In the future, JFMIP plans to assist Federal agencies in improving their financial systems through its Program Management Office. The Office will work on revising the Federal government's requirements definition, testing, and acquisition processes; the first target of opportunity is core financial systems. The objectives of the Office are to develop systems requirements, communicate and explain Federal and agency needs, provide agencies and vendors information to improve financial systems, ensure that products meet relevant system requirements, and simplify the procurement process.

6550.2 – Objectives

The Forest Service objectives are to establish and maintain an accounting system that provides:

1. Full disclosure of financial results,

2. A tool to assess management performance and stewardship,

3. A system for internal control and accountability of funds, property, and other assets from acquisition to disposition,

4. Administrative controls of obligations and expenditures, and

5. Reliable accounting information for budget preparation, execution, and reporting that meets Federal accounting standards.

6550.3 – Policy

1. The general accounting policies of the U.S. Forest Service are to:

a. Maintain accounting system that complies with the U.S. Standard General Ledger (SGL). The chart of accounts used by the Forest Service will contain both Proprietary Accounts and Budgetary accounts. Accounts are grouped by the general titles of Assets, Liabilities, Revenue, Costs and Equity Accounts. In all transactions, the sum of the debits must equal the sum of the credits within the proprietary accounts and within the budgetary accounts.

b. Make periodic reconciliation of all accounts to ensure full, accurate, and timely recording and reporting of Forest Service accounting operations.

c. Provide updated detailed direction on specific issues found in other parts of Forest Service Manual 6500, the associated handbooks, and the Foundation Financial Information System on-line procedures.

d. Maintain sufficient supporting documentation to justify transactions recorded in the financial management system. Note that all transactions are subject to internal and external review.

2. The Forest Service must use the policies for Accounting Standards Interpretations required in the Office of Management and Budget (OMB) Circular A-134, that describes the policies for seeking and providing interpretations and other advice related to the accounting standards promulgated by the FASAB. Requests for interpretations should be directed through the Forest Service Chief Financial Officer, who forwards it to the OMB's Office of Federal Financial Management, or to the Executive Director, FASAB.

3. The following relates to the required use of the United States Standard General Ledger (SGL):

The SGL provides a uniform Chart of Accounts and technical guidance to be used in standardizing Federal agency accounting, which supports the preparation of standard external financial reports required by the central agencies (Office of Management and Budget, Treasury, and Government Accountability Office). The SGL is maintained by the Department of Treasury Financial Management Service, and accessed at http://www.fms.treas.gov/ussgl/index.html. The SGL must be applied at the Transaction Level. Financial events must be recorded by agencies throughout the financial management system, applying the requirements of the SGL at the transaction level. Application of the SGL at the transaction level means that financial management systems process transactions following the definitions and defined uses of the general ledger accounts. Compliance with this standard requires:

a. Data in Financial Reports Consistent with the SGL. Forest Service reports produced by systems that provide financial information, whether used internally or externally, must provide financial data that can be traced directly to the SGL accounts.

b. Transactions Recorded Consistent with SGL Rules. The criteria (for example, timing, processing rules/conditions) for recording financial events in all financial management systems must be consistent with accounting transaction definitions and processing rules defined in the SGL.

c. Supporting Transaction Detail for SGL Accounts Readily Available. Transaction detail supporting SGL accounts must be available in the financial management systems and directly traceable to specific SGL account codes.

Forest Service personnel may supplement the SGL to meet specific information requirements of the Forest Service. Those supplements allow for aggregation at the Treasury defined SGL account codes.

6550.4 – Responsibility

6550.41 – Chief Financial Officer

It is the responsibility of the Forest Service Chief Financial Officer to prescribe the accounting policy for the Forest Service. (See FSM 6500, section 6504 and the service-wide Appropriation Use Handbook, FSH 6509.11g, section 50.4, for a description of general responsibilities.) The accounting responsibilities of the Chief Financial Officer are to:

1. Ensure documented internal control system for all accounting transactions.

2. Ensure that the chart of accounts for the Standard General Ledger is used by the Forest Service core financial system, including sub-accounts specific to the Department and the Agency.

3. Maintain a process for reconciliation between the interface systems and the core financial system.

4. Provide a yearly guidance memorandum for use by fiscal and management personnel in the preparation of the annual financial statements(s) required for year-end submission. The principal statements must include:

a. Balance Sheet

b. Statement of Net Cost

c. Statement of Changes in Net Position

d. Statement of Budgetary Resources

e. Statement of Financing

f. Statement of Custodial Activity, if applicable

6550.5 – Definitions

Accountant. Anyone possessing the qualifications to be classified in the GS-510/511 accountant/auditor series. It is not necessary that the individual be currently working in those series.

Accounting Information System. A subsystem of a management information system that prepares financial information and collects and processes transaction data.

Affiliation. Legal concerns about associates if, directly or indirectly: (1) either one controls one or has the potential power to control the other, or (2) one or more third parties control or have the power to control others.

Accrual Basis. Method of accounting that recognizes revenue when earned, rather than collected. Expenses are recognized when incurred, rather than when paid.

Cash Equivalents. Generally, those investments which are short term, highly liquid, readily convertible to cash, and with original maturities of less than three months. Throughout this handbook the term “cash” includes "cash equivalents" as described in Generally Accepted Accounting Principles (Financial Accounting Standards Board 95), Statement of Cash Flows (sec. 07).

Certified Public Accountant (CPA). An individual, professional corporation, or partnership of individuals certified under State law to render an opinion as to whether financial statements have been presented fairly in conformity with generally accepted accounting principles. An independent CPA must not be an employee or an affiliate of the applicant.

Compilations. Presentations of information representing management (owners). The auditor preparing the compilations does not express any assurance on the statements. The accountant on a compilation engagement shows professional care, but is not required to be independent; is not required to make inquiries; and does not have to perform other procedures to verify, corroborate, or review information supplied by management.

Current Assets. Cash and those items which, in the normal course of business operations, are readily convertible to cash.

Current Liabilities. Debts or portions of debts falling due within 12 months from the date of the balance sheet.

Financial Forecasts. Prospective financial statements that represent the responsible party's beliefs about the entity's expected financial condition, and the course of action they expect the entity to take.

Foundation Financial Information System (FFIS). The Forest Service's official accounting system. FFIS is administered by the National Finance Center (NFC) and is the central financial and management reporting system for the Department of Agriculture. See section 6558 of this chapter for more details.

Generally Accepted Accounting Principles (GAAP, sec. 07). The rules and practices that represent accepted accounting principles and practices. Accounting principles encompass unwritten rules and written rules commonly referred to as promulgated GAAP.

Generally Accepted Auditing Standards (GAAS, sec. 07). Auditing standards deal with the quality of the audit performed by the independent auditor. GAAS are approved and adopted by the members of the American Institute of Certified Public Accountants, and are divided into three groups: (1) general standards, (2) standards of fieldwork, and (3) standards of reporting.

Government Accounting Standards Board (GASB). Body authorized to promulgate standards of financial accounting and reporting for governmental units; created by the Financial Accounting Foundation (FAF) in 1984 as successor to NCGA; recognized by the Federal Code of Professional Conduct as an authorized body whose pronouncements must be followed in order to conform to Rules 202 and 203.

Government Auditing Standards (GAS). An abbreviation for Generally Accepted Government Auditing Standards, GAGAS. Audit standards are for governmental organizations, programs, activities, and functions issued by the Comptroller General of the United States through the Government Accountability Office (GAO).

Government Auditing Standards (the GAO "Yellow Book"). Contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other non-government organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

Management Information System. A system that provides managers with the information they need for planning, organizing, and decision making. The system may include the formal financial accounting records and can include many other information items needed by management.

Pro Forma Financial Statements. Statements showing what the significant effects on historical financial information might have been had a consummated or proposed transaction or event occurred at an earlier date; adjustments are based on management assumptions and show all significant effects directly attributable to the transaction or event.

Prospective Financial Statements. Either financial forecasts or financial projections including the summaries of significant assumptions and accounting policies. It may cover a period that has partially expired. However, it cannot cover periods completely expired. Pro Forma Statements or Partial Presentations are not considered prospective financial statements

Responsible Party. Person or persons responsible for assumptions, usually management.

Review. An engagement undertaken to achieve, through the performance of inquiry and analytical procedures, limited assurance that there are no material modifications that should be made to the statements in order for them to conform with GAAP or with another comprehensive basis of accounting. The accountant on a review engagement must show due professional care and must be independent.

Tangible Asset. Assets having a physical existence, such as cash, land, buildings, machinery, claims on property, investments or goods in process.

Working Capital. Refers to a type of fund.

6551 – Assets

6551.1 – General Assets

An asset is an economic resource available to the Forest Service and has three essential characteristics:

1. It has a capacity to contribute to the accomplishment of a Forest Service mission. This capacity is often called "service potential."

2. The Forest Service can use the asset or control access of others to the asset.

3. The transaction or event that gave rise to the right to, or financial control over, the asset has already occurred.

In general, assets are recorded at the time of the acquisition at cost. Because one of the objectives of accounting is to establish accounting control over all assets, assets must be under continuous accounting control, from acquisition to disposition. Control of the asset(s) ensures proper and authorized use and adequate care and preservation, since no asset can be acquired, put into use, transferred, written down, written off, or disposed of, without the proper authorization necessary

to document and record the transaction. All tangible assets are accounted for, including assets in transit and assets in the hands of contractors, private parties, and other government agencies.

6551.2 – Entity and Nonentity Assets

1. Entity Assets. The Forest Service must report assets on financial statements as either entity or nonentity assets. Entity assets are assets, including real property, which the Forest Service has authority to use in its operations. The authority to use them means that the Forest Service can decide how the asset is used to meet statutory obligations.

2. Nonentity Assets. Nonentity assets are assets that are held by the Forest Service but are not available for use in its operations. In some circumstances, the Forest Service may maintain cash or other nonentity assets in a fiduciary capacity for the U.S. Treasury, other Federal agencies, and non-Federal entities. Record nonentity assets by individual depositor or owner in separate accounts from entity assets.

6551.3 – Intra-governmental and Public Assets

1. Intra-governmental Assets. Intra-governmental assets are Forest Service claims of the Forest Service against other USDA agencies or Federal agencies, or claims of other Federal agencies against the Forest Service.

2. Public Assets. Public assets arise from transactions between the Forest Service and non-Federal entities. The term “non-Federal entities” encompasses domestic and foreign persons and organizations outside the United States Government.

6551.4 – Fund Balance with Treasury and Cash

1. Fund Balance with Treasury. The Forest Service’s principal cash account is with the United States Department of the Treasury (Treasury) and is known as the Fund Balance with the Treasury. The Reports and Reconciliations Staff of the Washington Office shall reconcile the Fund Balance with the Treasury general ledger account with Treasury’s records to periodically record and ensure that this account properly reflects the Forest Service’s cash position.

2. Funds Held Outside of Treasury. In addition to the Fund Balance with Treasury, the Forest Service may hold cash outside the Treasury upon approval by the Chief Financial Officer. Funds held outside of the Treasury include all monetary resources on hand, including coins, currency, and readily negotiable instruments, such as checks and money orders, with banks and other financial institutions. Cash must be recognized as an entity or nonentity asset and consists of the following:

a. Undeposited Collections. Coins, paper currency, and readily negotiable instruments, such as money orders, checks, and bank drafts on hand or in transit for deposit.

b. Imprest Funds. The authorized amount of cash held by cashiers at personal risk.

c. Other Cash and Other Monetary Assets. Cash holdings other than undeposited collections and imprest funds where the Forest Service has a custodial role.

3. Restricted Cash. Nonentity cash is always restricted cash. Entity cash may be restricted for specific purposes by law, regulation, or agreement, and may be in an escrow or other special account. If cash restrictions exist, the Forest Service must disclose the reasons and nature of restrictions in the Forest Service financial statement.

Additional procedures and standards for cash can be found in FSH 6509.11k (chapter 50, section 55).

6551.5 – Accounting Procedures for Receivables

1. Recordation. Amounts due the Forest Service are recorded accurately in the receivable account in the accounting period when the transaction or event occurs. Receivables arise from claims for cash or other assets and include, for example, accounts receivable, loans receivable and interest receivable.

2. Receivables Recognition. A receivable should be recognized when the Forest Service establishes a claim for cash or other assets against other entities, based on legal provisions, such as a payment due date, receipt of goods, or services provided. If the exact amount is unknown, a reasonable estimate should be made.

The Department of Treasury's guidance on receivables is found in their manual entitled "Managing Federal Receivables." This manual provides Federal agencies with a general overview of standards, guidelines, and procedures for the successful management of Federal activities, ranging from the creation of receivables (including the extension of credit, to the write-off/close-out of uncollectible debts.

6551.6 – Accounting Procedures for Inventory and Operating Materials and Supplies

1. Inventory. Inventory is tangible personal property that is:

a. Held for sale, or

b. In the process of production for sale.

Inventory must be recognized as an asset when title passes or when the goods are delivered to the Forest Service. Delivery or constructive delivery is based on the terms of the contract regarding shipping and/or delivery.

Inventory must be valued at historical cost, or latest acquisition cost, whichever is lower. This is often referred to as the "lower of cost or market."

2. Operating Materials and Supplies. Operating materials and supplies consist of tangible personal property to be consumed in normal operations, and excludes:

a. Goods acquired for use in constructing real property, or in assembling equipment to be used by the entity;

b. Stockpiled materials;

c. Goods held under price stabilization programs;

d. Foreclosed property;

e. Seized and forfeited property, and

f. Inventory.

The consumption method of accounting for the recognition of expenses is applied for operating materials and supplies. The consumption accounts for goods, such as materials and supplies, where the goods are recognized as assets upon acquisition and are expensed as they are consumed.

Operating materials and supplies are recognized and reported as assets when produced or purchased. "Purchased" means that title passes to the purchasing entity. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery is based on the terms of the contract regarding shipping and/or delivery. Operating materials and supplies are valued on the basis of historical cost.

6551.7 – Accounting Procedures for Advances and Prepayments

Advances and prepayments paid by the Forest Service are assets of the Forest Service. Advances and prepayments made by the Forest Service to another Federal entity are intra-governmental transactions and should be accounted for and reported separately from those made to non-Federal entities.

1. Advances. Advances are cash outlays made by the Forest Service to its employees, contractors, grantees, other governmental agencies, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the Forest Service acquires. Common examples are travel advances for future travel expenses for individuals not in possession of a government travel card, advances to grantees for 30 days, operating expenses, or advances to contractors expecting future receipt of inventory or fixed assets. Advances are reduced when related goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire.

2. Prepayments. Prepayments cover periodic expenses before those expenses are incurred. The distinction between advances and prepayments is that advances are not automatically recurring; whereas prepayments are recurring expenses. An example of prepaid expenses is rent when paid to a lessor at the beginning of a rental period and subscriptions to newspapers, magazines and trade journals. Prepayments are reduced when goods or services are

received, contract terms are met, or progress is made under a contract. Prepayments that are not material in amount may be recorded as an expense when paid.

6551.8 – Accounting Procedures for Property, Plant and Equipment

Refer to FSM 6590 regarding Property, Plant and Equipment (PP&E).

6552 – Liabilities

A liability is an amount owed to a Federal or non-Federal entity for items or services received and expenses incurred (including personnel related costs). Liabilities also result from assets where title has been acquired (whether delivered or in-transit), ongoing percentage-of-completion-based construction, and cash received but as yet unearned. Included are amounts owed under grants, pensions and certain post-retirement benefits, awards, and other indebtedness. In addition to liabilities arising from exchange (reciprocal) transactions, there are liability recognition points for non-exchange transaction and government-related and government-acknowledged events. Liabilities are approached in three different ways:

1. A current liability is one that will be paid within the next fiscal year and should be classified as a current liability on the balance sheet.

2. A non-current liability is one that will not be paid within the next fiscal year.

3. A contingency is a condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. The uncertainty is resolved when one or more events occur or fail to occur. Whether a contingency should be recorded and reported as a liability or disclosed as a contingency in a footnote to the financial statements depends on the probability of occurrence and the ability to estimate the expected outflow of resources. However, there is an exception to the contingent liability recognition standards for recognizing losses on matters of pending litigation and unasserted claims. For such a contingency, a liability should be recognized when a future outflow of resources is "likely" to occur (as contrasted with "more likely than not"), a past event or exchange transaction has occurred, and the future outflow of resources is measurable. Financial statement footnote disclosure is required when it is at least reasonably possible that a loss or additional loss may have been incurred.

6552.1 – General Principles for Liabilities

1. Liabilities must be recorded at amounts that reasonably represent the cost of the economic benefit to be used in settlement.

2. Liabilities must be recorded regardless of the availability of funds to be used in their liquidation.

3. When liabilities are incurred as work is performed, rather than when deliverables are made, appropriate accruals must be made from performance reports for the affected accounting periods.

4. When property is acquired under a lease-purchase agreement, the liability must be recorded when the property is accepted.

5. Amounts received from other accounting entities as unearned revenue must be recorded as liabilities until performance occurs.

6. Goods and services purchased under long-term contracts must be recorded as liabilities in the period in which the goods or services are received and accepted by the agency. The related asset or expense must be recorded at the same time as the liability. When goods and services are to be received over a period of time covering two or more accounting periods, and payment is to be made upon completion of delivery, the liability is recorded as a non-current liability until completion of delivery. A non-current liability is one that will not be paid within one year of its incurrence.

7. Amounts recognized should be supported by sufficient documentation that establishes the basis for the claim against the Forest Service. Documentation includes receiving reports, court decisions, and estimates of accrued liabilities for personnel services provided, but for which payment is not made, until the next scheduled payday.

6552.2 – Liability Recognition

For Federal financial reporting, recognizing liabilities is dependent upon the type of transaction or event that gave rise to the debt. The liability includes amounts due from the Forest Service for benefits, goods or services provided under terms of the program, Forest Service's reporting date, and whether or not amounts were reported to the Forest Service.

6552.21 – Exchange (Reciprocal) Transactions

An exchange transaction is when each party to the transaction sacrifices value and receives value in return. A liability is recognized (recorded and reported) when the Forest Service receives goods or services in exchange for a promise to provide money or other resources in the future, normally within the fiscal year. Contracts for goods and services that have not been received are not generally recognized as liabilities in financial accounting although they are generally recognized as obligations in governmental budgetary accounting.

Probable (that is, "more likely than not") and measurable amounts that remain unpaid on the financial report date should be recognized as liabilities.

6552.22 – Non-exchange Transactions

A non-exchange transaction is when the Forest Service promises to pay in the future, without a promise of receiving direct value in return. Unpaid amounts due on the financial statement report date, whether or not reported to the Forest Service, must be recognized as liabilities. Unreported amounts must be estimated. Many grant and certain entitlement programs are non-exchange transactions. When the Federal government creates an entitlement program or gives a grant to state or local governments, the provision of the payments is determined by Federal law rather than through an exchange transaction.

6552.23 – Government-Related Events

A Government-related event is a non-transaction-based event recognized at the time of occurrence, if the expected resource outflow is probable and measurable. The event may be outside the control of the Federal entity. In general, a liability is recognized in connection with government-related events on the same basis as those that arise in exchange transactions. Government-related events include:

1. Cleanup from Federal operations resulting in hazardous waste that the Federal government is required to remove, contain, or dispose of, by statutes and/or regulations in effect on the Balance Sheet date;

2. Accidental damage to non-Federal property caused by Federal operations; and

3. Other damage to Federal property due to (other) factors, such as Federal operations or natural forces.

6552.24 – Government-Acknowledged Events

A government-acknowledged event is when the Forest Service formally accepts associated financial responsibility; it is not transaction based. Such events are recognized only when--and to the extent that -- the resulting exchange or non-exchange transaction already has occurred; when the Congress has appropriated or authorized the event; and when unpaid amounts are due (but not necessarily overdue) on the financial statement report date. Examples include:

1. The assumption of responsibility for damage caused by a natural disaster, such as a tornado, and Congress appropriates funds in response to the disaster; and

2. Environmental restoration activities.

6552.3 – Reporting Liabilities

For financial statement purposes, liabilities are reported either as intra-governmental (FSM 6552.31) or governmental (FSM 6552.32). Amounts owed for goods or services received from Federal entities represent intra-governmental transactions and should be reported separately from amounts owed to the public.

The amount of liabilities not covered by budgetary resources are disclosed, and other current liabilities may be accounted for in financial reports as “Other Current Liabilities” or in one or more separate categories, depending on the amounts.

6552.31 – Intra-governmental Liabilities

Intra-governmental liabilities are claims against the Forest Service by other Federal entities. Intra-governmental liabilities include accounts payable and interest payable to Federal entities and other current liabilities due to Federal entities, such as receipt of Federal advances and

prepayments. Financial statements prepared by the Forest Service; intra-governmental liabilities are reported separately from governmental liabilities.

6552.32 – Governmental Liabilities

Governmental liabilities are amounts that the Forest Service, or an entity within the Forest Service, owes to non-Federal entities. Governmental liabilities include accounts payable and interest payable to non-Federal entities, other liabilities due to non-Federal entities, and advances and prepayments received from non-Federal entities. The term "non-Federal entities" encompasses domestic and foreign persons and organizations outside the U.S. Government. The term "public" is also used to represent non-Federal entities. On financial statements prepared by the Forest Service, governmental liabilities must be reported separately from intra-governmental liabilities.

6552.4 – Categories of Liabilities

The liabilities discussed in this section deal with all liabilities except those due Federal employees for personal services.

6552.41 – Accounts Payable

Accounts payable are amounts owed by the Forest Service for goods and services received, and must be recorded and documented as follows:

1. The basis for recording the accounts payable is a receiving report that clearly shows the quantities received and accepted or services performed and accepted by the Forest Service, and based on actual counts of the items delivered by the vendor. The accompanying inspection reports for the goods or services are attached to the receiving report. In such instances, the inspection and receiving reports serve as the basis for recording the liability.

2. The balances in the accounts payable account are reconciled to the supporting documentation at least once a year. Differences are researched and adjustments fully documented.

3. Amounts recorded as payables must be a net amount of all discounts offered by vendors that are economically justified.

4. Accounts payable for goods and services is recorded when supported by receiving and inspection reports, or when other evidence of performance is received. Follow the direction in paragraph 6 below, regarding an obligation that has not been recorded in the accounting system prior to receipt of the goods and services.

5. For items manufactured to Forest Service specification, the Forest Service component must record the appropriate payable category, including contract retentions, based on requests for progress payments. These amounts are supported by contract administrator certifications required by the Federal Acquisition Regulation. The offsetting entries for such payables are made to the appropriate prepayment accounts or construction-in-progress accounts.

6. The inability to match a performance report or invoice to the undelivered order may indicate a breakdown of fund control processes and a material weakness in internal controls. When the process of posting a transaction to accounts payable does not disclose a matching transaction in the undelivered order account, it is probable that a contract either has not been awarded or a posting error has occurred. In this situation, the accounting office must request the necessary documentation to support the transaction and notify financial managers that performance reports or invoices are being received without a corresponding undelivered order.

7. Transactions representing the value of goods and services accepted by the Forest Service under fast-pay procedures require special attention. These payments create an abnormal balance in the budgetary Accrued Expenditure-Unpaid and the proprietary Accounts Payable accounts because the transaction is recorded as a debit entry in both accounts, without a matching, previously recorded, credit entry.

Under fast-pay procedures, the contractor certifies that delivery has been made at the time the invoice is presented for payment and this certification is considered a sufficient basis for disbursement. Since payment is based on the contractor's certification, accounting stations must establish sufficient controls to assure that receiving reports necessary to support the necessary credit entries are received within a reasonable period of time (less than 30 days). Under no circumstances must a journal voucher be processed to correct the abnormal balance in accrued expenditures-unpaid or accounts payable. When the required receiving report, showing actual receipt of the items, is not received within a reasonable period of time, accounting stations must take action to determine whether the goods and services have been received. For those cases in which the items have been received, the accounts are brought back in balance by the following entry:

DR Accounts Receivable (Government or Public) – Current
CR Accounts Payable (Government or Public) – Current

Offsets against current payments are supported by documentation signed by the appropriate official so that a clear audit trail is maintained until the transaction is completed.

6552.41a – Recognition of Accounts Payable

1. Acceptance of Title Prior to Delivery. When the Forest Service accepts title to goods, delivered or in transit, the Forest Service must recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated and accrued.

2. Acceptance of Title for Delivered Goods. When a contractor provides the Forest Service with goods that are also suitable for sale to others, the liability usually arises when the contractor physically delivers the goods and the Forest Service receives them and takes formal title.

3. Constructive or De Facto Receipt. When a contractor builds or manufactures facilities or equipment to Forest Service specifications, formal acceptance of the products by the Forest Service is not the determining factor for accounting recognition. For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract

specifications, amounts recorded as payable should be based on an estimate of work completed under the contract or the agreement. Estimate of such amounts should be based primarily on engineering and management evaluations by the Forest Service. These evaluations are based on actual performance progress and incurred costs.

6552.42 – Interest Payable

Interest payable must be recorded for the amount of interest expense incurred and unpaid. Within the Forest Service, interest payable results primarily from late payment of bills by the Forest Service (see provisions in 31 U.S.C. 3901 through 3907, Prompt Payment) and on refunds (see provisions in 26 U.S.C. 6611). Note that Forest Service policy is to pay its liabilities when they become due.

6552.42a – Interest Payable Recognition

1. Interest payable of the Forest Service is recognized at the end of each period.

2. Interest expense is considered a current period operating expense.

6552.42b – Financial Statement Reporting of Interest Payable

Interest payable to Federal entities is an intra-governmental liability and should be accounted for separately from interest payable to the public.

6552.43 – Unearned Revenue (Advances, Deferred Credits and Deposits)

1. Advances received are transfers of assets from the public and other Federal entities to cover future expenses or the acquisition of other assets. All advances, including those under any long-term contract in excess of revenue earned, must be recorded as unearned revenue.

2. The Forest Service unit receiving an advance (unearned revenue) or prepayment (deferred credit) must record the amount received as a liability until payment is earned (goods or services have been delivered or contract terms met). After the payment is earned (performance has occurred), the Forest Service unit must record the appropriate amount as revenue and reduce the liability accordingly. Some Forest Service bills are advance bills. But the receipts from these bills are not recorded as liabilities if they are paid before the term of the permit etc., commences. Examples are annual special use permits and grazing permits. Annual special use permits are billed around 11/15 for a term that commences 1/1 the following year. Most of these bills are paid prior to 1/1, which means they are advance receipts.

6552.44 – Other Current Liabilities

6552.44a – General

1. The term "other current liabilities" is used to report current liabilities that are not recognized in specific categories such as accounts payable; interest payable; debt owed to the public, Treasury, or other entities; and liabilities for loan guarantee losses. Other current liabilities may include unpaid expenses that are accrued for the fiscal year for which the financial statements are prepared and are expected to be paid within the fiscal year following the reporting date.

2. Typical examples of other current liabilities are:

   a. Accrued cost for services procured through, for example, grants, contracts, agreements or purchase orders. The accrual is for services rendered through the reporting period where the Forest Service has yet to make payments.

   b. Accrued employees' wages, bonuses, and salaries for services rendered in the current fiscal year for which paychecks will be issued in the following year.

   c. Accrued entitlement benefits payable, such as Old Age Survivors Insurance (OASI) and Veterans Compensation and Pension benefits applicable to the current period but not yet paid.

   d. Annuities for the current fiscal year administered by trust, pension, or insurance programs for which payment would be made in the following fiscal year.

   e. Contingencies existing conditions, situations, or circumstances involving uncertainty as to possible gain or loss to the Forest Service. Contingencies are discussed in more detail in section 6552.48 of this chapter.

   f. Capital lease liabilities (discussed in more detail in section 6552.45 of this chapter.)

3. A liability must be recorded for amounts withheld from grantees or contractors pending completion of contracts, audits, or other assurances of proper performance.

4. The value of acquired collateral must be offset by a liability for any prior liens or just claims against the collateral.

6552.44b – Financial Statement Reporting Other Current Liabilities

Other current liabilities may be presented on the face of the financial reports as Other Current Liabilities or as one or more separate categories depending on the materiality of the amounts. Other current liabilities due to Federal entities are intra-governmental liabilities that should be reported separately from those due to employees and the public, and the amount of other current liabilities, not covered by budgetary resources must be disclosed.

6552.45 – Capital Lease Liabilities

6552.45a – General

All federal agencies must justify that capital assets are preferable to direct government purchases and ownership in accordance with the policies contained in OMB Circular A-94.

Capital leases liabilities are minimum payment obligations related to capital leases. The Forest Service unit authorized to enter into capital lease agreements must treat the transaction as the acquisition of an asset and the incurrence of a liability.

6552.45b – Measurement and Recognition of Capital Lease Liabilities

1. The amount to be recorded by the Forest Service as a liability under a capital lease is the present value of the rental and other minimum lease payments during the lease term, excluding that portion of the payments representing executory cost to be paid by the lessor. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the liability must be the fair value. If the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount must be estimated.

2. The discount rate to be used in determining the present value of the minimum lease payments ordinarily is that for securities of similar maturity to the term of the lease unless:

    a. It is practicable for the lessee to learn the implicit rate computed by the lessor and

    b. The implicit rate computed by the lessor is less than the Treasury borrowing rate.

    c. If both these conditions are met, the lessee must use the implicit rate.

3. During the lease term, each minimum lease payment must be allocated between a reduction of the obligation and interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability.

6552.46 – Accruals for Personnel and Related Liabilities

Accruals for personnel and related liabilities includes the total funded but unpaid personnel compensation and benefits that have been earned by employees as of the close of the period. Personnel compensation includes accrued employees' wages, bonuses, and salaries for services rendered in the current fiscal year, for which payment will be issued in the following fiscal year. Employee benefits include pensions and post-employment and retirement benefits other than pensions. The cost of payroll and benefits must be distributed to organizational cost centers, programs, activities, functions, and projects in the period they are incurred.

6552.46a – Accruals for Personnel Related Liabilities

In addition to the accounting principles and policies in section 6550.12 of this chapter, the following additional standards must be recognized.

1. The accounts must be updated, based on appropriate source documents, and reflect the latest pay adjustments, leave balances, levels of benefits and changes in benefit rules. The amounts reflected in the general ledger accounts must not be limited to the amounts actually funded. To the extent such liabilities are unfunded, Forest Service must maintain appropriate supporting records of the unfunded portions to provide appropriate footnote disclosure in the financial statements, when necessary.

2. Reasonable estimates (accruals) of the costs of services performed by employees must be made when a pay period does not coincide with the end of an accounting period. Such accruals must be recorded in the applicable accounting period based on standard vouchers with supporting documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount of the liability. The standard vouchers must be signed by the appropriate authorized accounting official. These accruals must be removed from the accounts only when the related pay is disbursed.

3. Amounts due for annuities, adjudicated claims, and benefit payments as of the end of the period must be recorded in the applicable accounting period, based on available information, provided that the payment is probable and the amount estimable. Such amounts must be recorded, based on standard vouchers and supporting documentation clearly showing the basis for the amounts recorded. The standard vouchers must be signed by the appropriate authorized accounting official. Except for the Forest Service's share of fringe benefits computed as a part of the pay computation process, applicable accruals must be reversed at the start of the next accounting period and actual costs accumulated.

4. Compensated absence is employee absence (ordinarily for vacation or illness) for which the employee will be paid. When Forest Service employees accrue rights to take leave with pay, the Forest Service incurs an expense and liability measured by the salary cost of the time that may be taken.

a. Annual Leave. Annual leave is an expense that accrues as employees earn it and must be recognized annually in Forest Service accounting records and financial statements. Unfunded annual leave accrued to employees is the amount of annual leave earned but not used at the end of the fiscal year and that is expected to be paid from future years' appropriations. The expense for unfunded annual leave must be recorded as an unfunded liability, and serves to bridge obligations to the total cost of personnel compensation. The expense and related liability for annual leave must be recorded at the wage rates at which the leave is earned. Use of fringe benefit rate is also acceptable for calculating accrued annual leave. The liabilities for annual leave must be adjusted to reflect all pay increases and unused leave balances at least annually for financial statement purposes.

b. Sick Leave. Sick leave need not be accrued unless there is need to recover full operating costs or a management requirement.

5. Forest Service units responsible for accounting for programs that provide annuity benefits must recognize a liability for the actuarial present value of accumulated benefits. These are benefits earned or accrued as of the benefit information date (the date as of which benefit information is presented) but will not be paid until a later date.

Accumulated benefits for annuity programs must be comprised of benefits expected to be paid to the following:

a. Persons who have not met the program's condition and who will receive benefits in the future.

b. Persons who have met enough of the program's conditions to be considered probable recipients of future benefits.

c. The survivors of both groups, as applicable.

6552.46b – Federal Employees Compensation Act Liabilities

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to Federal civilian employees and their beneficiaries for injuries on the job, and work-related occupational disease. FECA liabilities consist of:

1. A FECA Actuarial Liability, including liability for death, disability, medical and other approved costs.

2. An Accrued Unfunded FECA Liability which is the difference between the FECA benefits paid by the FECA Special Benefits Fund and the Forest Service's actual cash payment to the Fund.

6552.47 – Pensions, Other Retirement Benefits, and other Post- Employment Benefits

6552.47a – Pension Benefits General

Employee benefits of Federal civilian personnel include pensions, post-employment benefits, and retirement benefits other than pensions.

Pension plans provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. The actuarially determined liability and expense of the plan, including all its provisions, is part of the pension plan's liability and expense estimate. Federal civilian employees are covered primarily under two defined benefit retirement plans: Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). The Forest Service payments to social insurance plans (such as Social Security) are operating costs. Where Federal employees

are covered by defined contribution plans (for example, the Thrift Savings Plan, which is similar to a 401(k) plan), Forest Service payments to the plan are operating expenses.

1. Accounting for Pension Benefits. The Forest Service must recognize a pension expense in financial statement that equals the "service cost" for its employees for the accounting period, less the amount contributed by the employees, if any. Service cost is defined as the actuarial present value of benefits attributed by the pension plan's benefit formula to services rendered by employees during an accounting period.

a. The measurement of the service cost requires the use of the plan's actuarial cost method and assumptions.

b. The factor applied by the Forest Service must be provided by the plan and/or the administrative entity (for example, the Office of Personnel Management (OPM)).

c. The actuarially determined liability and expense of the plan, including all its provisions, is part of the pension plan's liability and expense estimate.

d. The pension expense of the Forest Service must be balanced by: (1) A decrease to its "Fund Balance with Treasury" for the amount of its contribution to the pension plan, if any; if this does not equal the full expense, then by (2) an increase to an account representing an intra-governmental imputed financing source entitled 5780, "Imputed Financing Sources."

The latter represents the amount financed directly through OPM, the pension plan's administrative entity, and must be included when determining results of operations on the Statement of Changes in Net Position. Any FERS-related payment that exceeds the FERS-related pension expense must be offset against any imputed financing resulting from a CSRS-related payment when it is less than the CSRS-related pension expense in calculating the amount of the transfer out. Only when the total pension payment exceeds total pension expense is a transfer-out recognized. Examples of accounting for pensions are illustrated at paragraph 77 of Statements of Federal Financial Accounting Standards No. 5 "Accounting for Liabilities of the Federal Government" and Federal Accounting Standards Advisory Board's Interpretation of Federal Financial Accounting Standards Interpretation No. 4 "Accounting for Pension Payments in Excess of Pension Expense".

6552.47b – Measurement and Recognition of Pension Benefits

Pension and retirement health care liabilities in general purpose Federal financial reports must be measured at the end of the fiscal year (or other reporting period if applicable). This measurement must be performed following the end of the reporting period, but does not have to be based on a full actuarial valuation at the end of the reporting period. The measurement, however, reflect the best available estimates of the major factors that would be reflected in a full actuarial valuation, such as the actual pay raise, the actual cost of living adjustment, and the materially known changes in the number of employees covered (enrolled), that change the liability. The measurement may be based on an actuarial valuation performed as of an earlier date during the fiscal year, including a beginning-of-year actuarial valuation, with adjustments for changes

during the year of major factors, such as the pay raise, or the cost of living. This is sometimes referred to as a measurement based on a "projection" or "roll-forward" of the most recent available actuarial valuation. In evaluating the effect on the liability caused by changes in enrollment for plans that cover employees of more than one reporting entity (for example CSRS and FERS) materiality must be assessed at the plan level.

6552.47c – Other Retirement Benefits (ORB) General

Other Retirement Benefit (ORB) includes all retirement benefits other than pension plan benefits. An employer provides ORB outside the pension plan to a former employee or the employee's beneficiary upon retirement. The predominant ORB in the Federal government is retirement health care benefits. To the extent that life insurance premiums, paid by covered individuals and the Forest Service, do not fully cover the retirement life insurance cost of Forest Service employees, the Forest Service accounts for the additional cost.

6552.47d – Health Care Benefits

Future health care benefits are more uncertain than pensions, since they depend on the changing patterns of health care delivery and utilization, on the price trends for medical care, and on the benefits provided by social insurance programs such as Medicare (part A). Medical plans do not vest like pensions which, after a fixed number of years of service, provide an employee the right to receive payment. To receive Other Retirement Benefits (ORB), the employee must retire with health care benefits provided by the organization.

6552.47e – Accounting for Other Retirement Benefits (ORB)

The Forest Service must account for and report the Other Retirement Benefits (ORB) expense in its financial report in a manner similar to that used for pensions. The ORB expense must be recognized in an amount equal to the total service cost for its employees for the accounting period, less the amount contributed by its employees, if any. The measurement of the service cost requires use of the plan's actuarial cost method and assumptions. The cost factor should be provided to the agencies on a per employee basis by OPM, the administrative entity, and/or the plan. For example, if the plan-supplied factor were $100 per employee (or full-time equivalent) and the employer has 100 employees, the expense would be $10,000. Unlike Federal pensions, retiree health care benefits do not depend on future salary levels of individual employees, rather they are allocable to each employee on a per person basis. The ORB expense of the Forest Service should be balanced by: (1) A decrease to "Fund Balance with Treasury" for the amount of its contributions to the ORB plan, if any; or (2) if this does not equal the full expense by an increase to an account representing an intra-governmental financing source entitled "Imputed Financing Sources." The latter represents the amount being financed directly through the ORB plan.

6552.47f – Other Post- Employment Benefits (OPEB)

6552.47g – Other Post- Employment Benefits (OPEB) – General

Post employment benefits, other than pensions (OPEB), are provided to former or inactive employees, their beneficiaries, and covered dependents outside pension or ORB plans. Special termination benefits, such as separation incentive programs, are considered as other post-employment benefits and should be recognized as such. Inactive employees are those who are not currently rendering services to the employer but who have not been terminated, including those temporarily laid off or disabled. Post employment benefits can include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment workers' compensation benefits paid by the employer.

6552.47h – Accounting for OPEB Benefits

1. The Forest Service must recognize an expense and a liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. For example, a reduction-in-force may require the Forest Service to make severance payments, unemployment reimbursements, or other payments in future periods. Similarly, an injury on the job may require the Forest Service to make short- or long-term reimbursements to the Federal workers' compensation program. A long-term OPEB liability must be measured at the present value of future payments. This will require the Forest Service to estimate the amount and timing of future payments, and to discount the future outflow, using the Treasury borrowing rate for securities of similar maturity to the period over which the payments are to be made. Most OPEB liabilities must be short-term because the benefits will be paid in the near future. Some OPEB, however, could be longer term. For example, a liability for workers' compensation might be long-term for some injuries since the Forest Service might be required to reimburse the program for many years.

2. An accrual must be established for Unemployment Compensation and Workers' Compensation in the event that actual bills have not been received in time for financial statement preparation. Actual costs for Unemployment Compensation are received from the Department of Labor on a quarterly basis. The Forest Service must ensure that four quarterly bills are received or that an accrual is established and recorded in the accounting system prior to completion of the financial statements. Quarterly bills must be paid in full to the Department of Labor and any disputed charges forwarded to the Washington Office, Director for Financial and Accounting Operations for submission to the Department of Labor or to the states for credit.

3. In the case of Workers' Compensation, the Department of Labor transmits an annual bill covering the period of July 1 – June 30. The Forest Service must ensure that this billing is received and recorded. The bill must be paid in full to the Department of Labor. Disputed charges must be forwarded to the Washington Office, Director for Financial and Accounting Operations for obtaining credit from the Department of Labor or from the states. Prior to completion of the financial statements, an accrual will need to be established and recorded in the accounting system for the final quarter of the fiscal year.

6552.48 – Contingent Liabilities

A contingent liability occurs when an existing condition, situation, or set of circumstances exist that may confirm the loss or impairment of an asset or the incurrence of a liability. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. When a contingent liability exists, the likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. The accrual and disclosure of contingencies vary, depending on their probability of occurrence.

6552.48a – Probable

Probable Contingent liabilities are when the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are also likely to occur. The probability of a future outflow or other sacrifice of resources is assessed on the basis of current facts and circumstances. Current facts and circumstances recognize the law that provides general authority for Federal entity operations and specific budget authority to fund programs. If budget authority has not been provided, a future outflow or other sacrifice of resources might still meet the probability test if it directly relates to ongoing entity operations and it is the type for which budget authority is routinely provided. Therefore, the definition applies, both to liabilities covered by budgetary resources and to liabilities not covered by budgetary resources.

6552.48b – Criteria for Recognizing a Contingent Liability

A contingent liability must be recognized, recorded in Forest Service's accounting system, and reported in the financial statements when all of the following conditions are met:

1. A past event or exchange transaction occurred (for example, a Federal entity breached a contract with a non-Federal entity).

2. A future outflow or other sacrifice of resources is probable (for example, the non-Federal entity filed a legal claim against a Federal entity for breach of contract, and the Federal entity's management believes the claim will likely be settled in favor of the claimant).

3. The future outflow or sacrifice of resources is measurable (for example, the Federal entity's management determines an estimated settlement amount). Liabilities reported in the financial report are measured by different attributes specified by various accounting standards (for example, fair market value, current cost, present value, expected value, settlement value, and historical cost).

6552.48c – Determination of Contingent Liability Amount

The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized, and the range and description of the nature of the contingency should be disclosed.

6552.48d – Reasonably Possible Contingencies

A contingent liability should be disclosed if any of the conditions for liability recognition are not met, and there is a reasonable possibility that a loss or an additional loss may be incurred. Disclosure in this context refers to reporting information in notes regarded as an integral part of the basic financial statements. Disclosure should include the nature of the contingency, an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that an estimate cannot be made.

6552.48e – Remote Contingencies

In some cases, contingencies may be identified, but the degree of uncertainty is so great, that no reporting (recognition or disclosure) is necessary in the general-purpose Federal financial reports. Contingencies classified as remote do not need to be reported in general purpose Federal financial reports, although the law may require disclosures in special purpose reports. If information about remote contingencies or related to remote contingencies is included in general purpose Federal financial reports (for example, the total face amount of insurance and guarantees in-force), it should be labeled in such a way to avoid the misleading inference that there is more than a remote chance of a loss of that amount.

6552.49 – Cleanup Cost Liability

6552.49a – Cleanup Cost Liability General

Cleanup cost liability applies to cleanup costs from Forest Service operations resulting from the removal, containment, or disposal of hazardous waste. Cleanup costs, such as those resulting from accidents, or where cleanup is an ongoing part of Forest Service, are accounted for as they occur, in accordance with general liability standards. Other types of cleanup efforts, however, are deferred until operation of associated Plant, Property and Equipment (PP&E) ceases either permanently or temporarily. Due to the nature of the liability and the timing associated with cleanup costs, additional guidance is provided in this chapter on estimation methods for cleanup costs over the life of the related PP&E.

6552.49b – Estimation Methods For Cleanup Costs

1. Cleanup costs from Forest Service operations that result in hazardous waste and that are required by Federal, state and/or local statutes and/or regulations for cleanup must be estimated when the associated PP&E is placed in service. The estimate must be referred to as the “estimated total cleanup cost.”

2. The estimate must contemplate:

   a. Level of restoration to be performed;

   b. Current legal or regulatory requirements;

   c. Current technology; and

d. Current cost, which is the amount that would be paid, if all equipment, facilities, and services included in the estimate were acquired during the current period.

6552.49c – Revision of Estimates

Estimates must be revised periodically to account for material changes due to inflation or deflation and changes in regulations, plans, and/or technology. New cost estimates should be provided if there is evidence that material changes have occurred; otherwise, estimates may be revised through indexing.

6552.49d – Value and Timing of General PP&E Cleanup Costs

1. A portion of estimated total cleanup costs must be recognized as an expense during each period that general PP&E is in operation. This must be accomplished in a systematic and rational manner, based on use of the physical capacity of the associated PP&E (for example, expected usable landfill area). If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of the expense and accumulation of the liability.

2. Recognition of the expense and accumulation of the liability begins on the date that the PP&E is placed into service, continues throughout each period of the operation, and is completed when the PP&E ceases operation.

6552.49e – Re-estimates of Cleanup Cost Liability

As repeated estimates are made, the cumulative effect of changes in total estimated cleanup costs related to current and past operations must be recognized as expense and the liability adjusted in the period of the change in estimate. The liability is adjusted when the estimated total cleanup costs are re-estimated. Adjustments to the liability are recognized in expense as “changes in estimated cleanup costs from prior periods.”

6552.49f – Cleanup Cost Payments

As cleanup costs are paid, payments must be recognized as a reduction in the liability for cleanup costs. These include the cost of PP&E or other assets acquired for use in cleanup activities.

6552.49g – Recognition of Stewardship PP&E Cleanup Costs

Consistent with the treatment of the acquisition cost of stewardship PP&E (expensing in the period placed in service), the total estimated cleanup cost must be recognized as an expense in the period that the stewardship asset is placed in service and a liability established.

6553 – Equity Accounts

Equity accounts represent the net investment of the U.S. Government in the Forest Service. As such, they include all Forest Service operations, including appropriated activities, working capital funds, and permanent and trust funds. The balances in the equity accounts represent the difference between assets and liabilities.

6553.1 – Elements of Equity

1. Unexpended Appropriations. Unexpended appropriations include the portion of Forest Service appropriations represented by undelivered orders and unobligated balances. Decreases in Unexpended Appropriations occur as expenditure accruals, using appropriated funds, are recognized and recorded, and when unobligated amounts are withdrawn, rescinded, or canceled. Increases occur when appropriations are received or Unexpended Appropriation amounts are transferred. Activities financed by appropriations must show the results of their operations (1) as reductions to the Unexpended Appropriations account on a transaction basis and (2) as changes in the Cumulative Results of Operations account with respect to the equity effect of transactions. The Unexpended Appropriations account is increased for the receipt of appropriations or other appropriations-like resources; and it is reduced for amounts expended, for assets or operating expenses, and for any appropriation withdrawals.

2. Cumulative Results of Operations. Cumulative Results of Operations represent the net results of operations since inception. There are no longer direct postings to equity for transactions, such as donations, and transfers in and out of assets, without reimbursement. Such transactions are recorded in the revenue accounts, and closed to the cumulative results of operations accounts at year-end. In addition, there no longer is a segregation of cumulative amounts for future funding requirements (such transactions now are recorded as an expense and closed to the cumulative results of operations accounts at year-end). Activities whose operations are financed by revenue sources, and which are generally defined as exchange revenue, reflect their results of operations as increases or decreases to the Cumulative Results of Operations account that will include transfers in of assets that are recognized as financing sources. The Cumulative Results of Operations account is increased by revenues and the value of assets transferred in; and it is reduced by expenses and the value of assets transferred out. Appropriations received for a specific funding purpose must be accounted for in the Unexpended Appropriations account until used as a financing source.

6554 – Budgetary Resources

Budgetary resources represent the funds available for expenditure at various organization levels in the Forest Service. For additional information, refer to FSM 6520.

6555 – Revenues, Gains, and Other Financing Sources

Revenues are amounts earned as a result of normal operations, while gains generally relate to other transactions. Revenues normally result from the sale of, or reimbursement for, goods and services provided to other Forest Service activities, other United States Department of Agriculture (USDA) agencies, other Federal government agencies, and the public. The

distinction between revenues and gains is a matter of classification in the general ledger accounts and their presentation in the financial statements.

Revenues are recorded at gross amount while gains are shown net of related costs.

6555.1 – Revenue Sources

Revenue comes from two sources: exchange transactions and non-exchange transactions.

1. Exchange Revenue. Exchange revenues arise when the Forest Service provides goods and services to the public or to another government entity for a price. This includes reimbursable from other agencies, states, or private entities.

2. Non-exchange Revenue. Non-exchange revenues arise primarily from exercise of the government's power to demand payments from the public, such as duties, tariffs, fines, and penalties. Non-exchange revenue also includes donations. Examples of non-exchange revenues are gifts, bequests, and proceeds from bonds of contractors who have defaulted.

6555.2 – Other Financing Sources

The term "revenue" does not encompass all financing sources of government reporting entities, such as the appropriations they receive. Other financing sources provide resource inflows to government reporting entities and include appropriations used, transfers of assets from other government entities, and financing imputed with respect to any cost subsidies.

6555.3 – Basis for Recording Revenue

The basis for recording an amount as revenue must be the delivery of goods and services supported by documentation of performance, a billing to the ordering activity, or the establishment of an accrual proven by constructive delivery or percentage of completion. In certain situations, delivery to customers may be spread over several accounting periods, and a billing does not occur until final delivery is made. In such cases, revenue must be recognized each time a partial delivery is made with a corresponding debit entry to the appropriate non-current accounts receivable account.

6555.31 – Authority

Treasury Financial Manual (TFM). This manual is Treasury's principal directives manual for financial accounting and reporting of all receipts and disbursements of the Federal government. Office of Management and Budget (OMB) Circular No. A-123, "Management Accountability and Control." This Circular provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls.

Statement of Federal Financial Accounting Standards (SFFAS) #7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." This

statement presents standards to account for inflows of resources from revenue and other financing sources. It provides standards for classifying, recognizing, and measuring resource inflows.

6555.32 – Policy

1. Record accurately all billings and collections in the core financial system or related subsystem accounts within timeframes prescribed. SFFAS #7 provides standards to accounts for inflows of resources from revenue and other financing sources. It is to be followed as the standard for classifying, recognizing, and measuring resource inflows (revenue).

2. OMB Circular No. A-123 states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

3. Controls that accurately record revenue include the following:

a. Appropriately record prior year transaction or correction to them;

b. Recognize revenue in the correct month and/or year;

c. Sufficient documentation supporting amounts recorded;

d. Reduce unbilled receivables upon the issuance of actual billings; and

e. Record accurate receivable balances within system linking.

Use of improper controls to accurately record revenue will result in an over or understatement of revenue.

6555.4 – Collections From Sale of Assets

Collections resulting from the sale of assets, such as equipment, must not be treated as revenues. Such collections are a partial recovery of the asset and must be treated as such. Asset disposals, after considering any accumulated depreciation and cash collections, result in a gain or loss on disposal.

6555.5 – Refunds

1. Expenditure refunds are recoveries of overpayments, not revenue. Refunds result from errors in paying invoices or from returning items to a vendor.

2. Collection refunds are returns of previously collected money to customers. These refunds may result from the inability of customers to exercise the rights, privileges, or services they purchased from the Forest Service. An example of this is when a permitee paid for road use privileges, but is not able to exercise them, because the forest closed the road due to fire danger.

6556 – Expenses and Losses

6556.1 – Expenses

Expenses are the use of resources during an accounting period to carry out the mission of the Forest Service during normal operating activities. These can result from rendering goods and services or from carrying out other activities. Expenses are commonly reported at their gross amount at the time that the expense is incurred. Most expenses require cash outlays, with the exception of depreciation expenses and bad debt expenses.

6556.2 – Losses

Losses are associated with the transactions that are not incurred in the normal operation of the organization (such as the loss on the disposal of property). Losses are reported net of any received proceeds.

6557 – Memorandum Accounts

Memorandum accounts represent amounts that are notations on the financial statements. The most common memorandum transactions are advance billings and billings for potential claims.

6558 – The Foundation Financial Information System (FFIS)

The Foundation Financial Information System (FFIS) is the Forest Service's official accounting system. The FFIS is operated by the National Finance Center (NFC) and is the central financial and management reporting system for the Department of Agriculture (USDA). The FFIS is a fully integrated financial package meeting stringent budget and funds control needs, as well as complex multi-fund accounting and reporting needs. FFIS is compliant with the U.S. Single General Ledger (USSGL). Information is entered into FFIS through data entry screens called documents, or through automated or manual interfaces with other automated systems such as INFRA for real property and EMIS for personal property. The NFC maintains these feeder systems. For more details on feeder systems, refer to FSH 6509.11k.

6558.1 – FFIS Modules

The FFIS at the Forest Service consists of six modules:

1. General Ledger Module. The General Ledger module stores all FFIS budget and financial transactions and maintains an accounting audit trail. A common process automatically posts transactions to the General Ledger and journals. Reports produced through the General Ledger are in compliance with the U.S. Standard General Ledger (SGL). The general ledger subsystem is maintained on a double entry basis and is the fundamental accounting control record for the Forest Service.

2. Budget Module. The Budget module establishes unique budget structures for individual appropriations, automatically checks available funds to prohibit overspending, adjusts

budget ceilings throughout the year, and reviews the current status of funds. The budget module is used for the allotment, allocation, and sub-allocation of funds.

3. Accounts Receivable Module. The Accounts Receivable Module supports billing and collection needs. The Accounts Receivable module records and tracks the collection of funds; bills customers for goods and services; applies overdue charges to past due receivables; and

selects receivables for write-off or referral to U.S. Treasury. The FFIS Accounts Receivable module automatically generates hard copy bills through an offline process. The billing process selects billing documents for printing hard copy bills based on user-defined options.

4. Spending /Accounts Payable. The Spending/Accounts Payable module combines purchasing and accounts payable transactions to record, monitor, and control all activities for procuring and acquiring goods and/or services. In addition, this module processes, records, monitoring and controlling all activities associated with the disbursement of funds. These activities include generating General Ledger entries and Treasury disbursement documents.

5. Project Cost Accounting System (PCAS). The Project Cost Accounting System (PCAS) tracks project costs, identifies project cost with customer agreements, and distributes project costs to customers. A customer is any vendor, office within an agency, or an agency that provides funding for a project. A project is an entity that collects costs for items or services that the Forest Service provides.

6. Cost Allocation Module. The Cost Allocation module pools all indirect costs incurred by the Forest Service and allocates those costs to all programs based on direct labor hours.

6558.2 – FFIS Reports

Accounting reports are prepared from accounting data stored in FFIS. The Financial Data Warehouse (FDW) is maintained by the NFC and contains all FFIS processed summary accounting data. The FDW is updated daily. All information in FFIS and the FDW is available in reports. These reports are generated on demand, overnight, weekly, monthly, or annually.

1. External Reporting Requirements. The specific requirements of Forest Service external reporting are met by the FFIS through the FDW by generating two types of reports:

a. Reports applicable USDA-wide and standardized, such as budget execution reports to the Office of Management and Budget (OMB) and financial execution reports to the Department of the Treasury.

b. Reports specifically designed for use by the Forest Service, such as the Job Corps reports to the Department of Labor.

2. Internal Reporting Requirements. The specific requirements of internal Forest Service reporting requirements are also met by the FFIS. The system produces specific reports required by the Forest Service to develop, direct, and control financial data for all levels of its organization.

3. Online Data Inquiry. The results of all transactions entered into FFIS are available for online query as soon as they are accepted. Each transaction updates a set of online tables that show, for example, account balances, the status of a purchase order, or the status of a billing document. FFIS is a table-driven system. Although there are close to 500 tables and documents in FFIS, an average user only needs to know 10-30 tables and/or documents.