

**Forest Service Handbook
National Headquarters - Washington Office
Washington, DC**

**Forest Service Handbook 6509.18 – Financial Analysis Handbook
Chapter 30 - Special Uses**

Amendment: 6509.18-2004-1

Effective date: June 04, 2004

Duration: This amendment is effective until superseded or removed.

Approved by: Irving W. Thomas, Associate Deputy Chief for Business Operations

Date approved: May 21, 2004

Responsible Staff:

Last Change: 6509.18-1993-4 to 6509.18,10

Superseded Document(s):

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

30: Incorporates direction previously issued in Interim Directive 6509.18-91-1, which has expired. This chapter provides direction on financial analysis techniques involving prospective and existing recreation special use permittees.

Table of Contents

30 - Special Use Financial Analysis	3
30.1 - Authority	3
30.4 - Responsibility.....	3
30.41 - Authorized Officer	3
30.5 - Definitions	3
30.6 - Profitability	4
31 - Criteria for Completing a Financial Ability Analysis	4
32 - Information Requirements.....	4
32.1 - Financial Statements	5
32.11 - Scope and Level of Detail	5
32.12 - Qualifications of Preparer	9
32.2 - Financial Forecasts and Projections	9
32.21 - Scope and Level of Detail	9
32.3 - Statement of Work Experience	9
32.4 - Business Plan	10
32.5 - Credit Report	10
32.6 - Integrity and Business Ethics	10
33 - Analysis Process.....	10
33.1 - Considerations in All Analyses for Concessionaires	10
33.2 - Considerations for Applicants with Construction Permit	13
33.3 - Considerations for New Applicants on an Existing Concession.....	13
33.4 - Considerations for Expansion of Facilities on Existing Concession.....	13
34 - Report	13

30 - Special Use Financial Analysis

This Handbook deals specifically with actions to be taken when a financial analysis is necessary for a special use permit.

30.1 - Authority

- a. Determining the financial ability of an applicant prior to the issuance of a special use authorization is accomplished under the authority of Title 36, Code of Federal Regulations, Part 251.54(d)3, (36 CFR part 251.54(d)3) which gives the authorized officer the authority to request a financial analysis.
- b. FSH 2709.11, 12.32b and FSM 2712.1 provide for verification of financial capability of applicants.
- c. Additional authorities are listed in FSH 6509.18 - Zero Code.

30.4 - Responsibility

30.41 - Authorized Officer

Authorized Officers are responsible for:

1. Ensuring the financial ability of all special use applicants or holders prior to the issuance of a special use authorization or an amendment for expansion, in accordance with 36 CFR 251(d)3.
2. Ensuring the staff work is completed by a qualified accountant.
3. Communicating with the holder so that it is known when a sale of assets is planned, in order to screen prospective holders financially prior to the sale of a resort or other asset.

30.5 - Definitions

The following terms are additional to those under the Zero Code of this handbook, and relate specifically to financial ability reviews of special use permittees:

Applicant. Any individual, partnership, corporation, association, or other business entity, and any Federal, State or governmental entity or agency which applies for a special use authorization.

Concessioner. An individual, organization, company, corporation, or cooperating State or local agency holding a valid special use permit authorizing the provision of commercial recreational services, facilities, or activities on National Forest System lands.

Holder. Any applicant that receives a special use authorization.

Proponent. The person or entity that submits a proposal to use or occupy NFS lands. A proposal can be written or verbal.

30.6 - Profitability

1. Profitability on some concessions may be limited due to short operating seasons, small size, and high expenses of operations in remote sites. As expected with limited profits, the net worth of many concessioners is minimal. Therefore, it is important that, when such concessions change hands, all the operating costs of the concession are captured and accurate income projections are prepared.

2. Several factors affect the bottom line profitability of concession operations.

a. Some resort owners use the resort as their primary residence, reflecting the majority of their living expenses as the expenses of the resort operation.

b. Many concession owners pay themselves little or no salary. However, if a normal salary for managing the operations was booked in the accounting records, the actual profitability would be less.

c. Most concessioners have substantial depreciation deductions, which affect the apparent profitability on the financial statements, but do not affect cash flow.

31 - Criteria for Completing a Financial Ability Analysis

In accordance with 36 CFR 251.54 and FSH 2709.11 section 12.32b, applicants for a special use authorization must provide sufficient evidence to satisfy the authorized officer of their technical and financial capabilities. If the authorized officer is unable to make such a determination with information available, then the applicants must be provided the opportunity to provide additional information as outlined in section 32.

1. The financial ability analysis is conducted for:

a. Special use applicants.

b. Existing holders that are proposing an expansion of facilities.

c. Holders in financial difficulty.

d. Solicited applicants, for example, an applicant responding to a prospectus for a concession campground.

32 - Information Requirements

All applicants must submit certain types of information to establish financial ability.

1. The degree of Certified Public Accountant (CPA) involvement in the preparation of the financial statements, described in section 32.1, is dependent on the size of the operation and expected risk.
2. The CPA may cooperate with the applicant to develop, in addition to normal operating costs:
 - a. A clear understanding of the maintenance and developmental work.
 - b. Time schedules that are to be completed by the holder.
3. The financial burdens that come with concession maintenance and improvements are brought to the attention of the applicant prior to the issuance of an authorization.
4. The applicant must provide a projected cash flow analysis which includes recognition of these maintenance and improvement projects. The critical elements of this analysis are described in section 32.1.

32.1 - Financial Statements

32.11 - Scope and Level of Detail

1. A Balance Sheet, Income Statement (if applicable), and Statement of Cash Flows must be prepared in accordance with generally accepted accounting principles or other comprehensive bases of accounting.
2. The authorized officer should accept only those bases which recognize capitalized assets and require depreciation records such as those that use modified cash and tax basis accounting.
3. For additional information on this subject, refer to the Statement on Auditing Standards No. 62, which reads as follows:

Amendment prevents the general distribution of audited financial statements that were prepared in accordance with financial reporting provisions of a government regulatory agency pursuant to SAS No. 62. This amendment is effective for audits of financial statements for periods ending on or after December 31, 1996.

4. See exhibit 01 for information requirements for various levels and types of authorization activity.
5. Information requirements are not the same for concessions as for timber sales, since permit activity and receipts to the Government by concessioners are expected to continue over a span of years, usually five or more. For instance, ski areas can now receive permits for up to 40 years. Ski area permits require different information because dollar volume could be

significantly greater over time. Report any non-financial aspects that come to light during the analysis of the prospective permittee(s).

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32.11 - Exhibit 01

MINIMUM INFORMATION REQUIREMENTS – CONCESSION OPERATIONS								
		<u>Historical</u> <u>Financial Statements</u> <u>1/</u>			<u>Prospective Financial</u> <u>Statements</u>			
		<u>Applicant Prepared</u>		<u>CPA Prepared</u>		<u>CPA</u> <u>2/</u>		
	Credit Report	Form FS-6500- 24	Compiled	Reviewed or Audited	Applicant Prepared	Compiled	Examined	
		All Parts	Part D Only					
EXISTING CONCESSION								
a. New Permittee (Annual Fee Amount) <u>3/</u>								
≥ \$100,000	√ <u>4/</u>		√		√			√
≥\$20,000 - \$100,000	√		√	√ <u>5/</u>			√	
>\$3,500 - \$20,000	√	√ or	(√ and √) <u>5/</u>		√ <u>6/</u>			
≤ \$3,500	√	√			√ <u>6/</u>			
b. Expansion								
Any Amount	√	<u>7/</u>	<u>7/</u>			<u>7/</u>		
NEW CONCESSION								
a. Annual Fee Amount <u>3/</u>								
≥ \$100,000	√ <u>6/</u>		√		√			√
≥\$20,000 - \$100,000	√		√	√ <u>5/</u>			√	
>\$3,500 - \$20,000	√		√	√ <u>5/</u>		√		
≤ \$3.500	√	√				√		
b. Construction Involved								
≥ \$1,000.000	√				√			√
< \$1,000,000	√			√			√	

32.11 - Exhibit 01--Continued

Minimum Information Requirements - Concession Operations

1/ Includes Balance Sheet, Income Statement, Statement of Cash Flows, and all accompanying footnotes for the three most recent fiscal years for the permittee and all affiliates prepared in accordance with Generally Accepted Accounting Principles (GAAP). There is no required Certified Public Accountant (CPA) involvement except in the most recent fiscal year.

2/ Includes either a Compiled or Examined Financial Forecast prepared in accordance with American Institute of Certified Public Accountants (AICPA) standards and guidelines. Specific assumptions and nature of Certified Public Accountant engagement is tailored to fit situation and agreed to by the three parties.

3/ Dollar levels are derived on the basis of receiving a "normal" Graduated Rate Fee System (GRFS) fee rate on total sales of 1.5-2.5 percent. If dealing with non-GRFS permits, such as with concession campground permits which have higher fee rates, the dollar volumes may be scaled back on a pro rata basis.

4/ The credit report will determine if more information is needed. Consider the credit report as important to identify additional risk.

5/ Applicant prepared statements may be accepted in lieu of CPA compiled statements if the analyst can be reasonably assured that the financial statements are prepared in accordance with GAAP after Forest Service review of format and other documentation, or after the review of work papers made available to the analyst. The determination of CPA involvement in this case is at the discretion of the authorized officer.

6/ Authorized Officer and Accountant/Analyst may wish to require Certified, Compiled, Forecasted Financial Statements rather than use applicant prepared cash flow analyses, depending upon the situation and availability of staffing.

7/ Authorized Officer should require a certain level of financial analyses. The level of review should depend on the cost of the proposed expansion in relation to the overall financial health of the holder. For instance, a one million dollar expansion project by a holder with a net worth of 20 million dollars, and available working capital of 8 million dollars, would not require the same level of review as a holder with a similar size expansion, but with meager net worth and uncertain future cash flow projections.

32.12 - Qualifications of Preparer

1. Applicant or holder-prepared statements may be accepted in lieu of Certified Public Accountant (CPA)-compiled statements. The acceptance is decided after a Forest Service analyst's review of format, other documentation, or review of work papers.

2. Based on reasonable assurance, the analysts determine whether the financial statements are free of material misstatements, and whether the audit provides a reasonable basis for the auditor's opinion.

3. The requirement for CPA involvement, in this case, is at the discretion of the authorized officer.

32.2 - Financial Forecasts and Projections

32.21 - Scope and Level of Detail

1. Applicants must submit financial forecasts projecting expected activity on the permitted area for 3 to 5 years. The length of the forecast is dependent on any construction required before operation. The forecast must include expected annual gross revenue, using the Graduated Rate Fee System (GRFS) class of business, and a forecast of any debt and equity financing.

2. The reasonableness of projected gross receipts must be tested against results achieved by the previous holder if the permit is changing hands. The applicant must supply the rationale for projected levels of sales for new developments, expanded operations, or changed operations.

3. Projected debt financing must specify lenders. Projected equity financing must identify the type of equity, such as stock, partnership shares, or personal investments by the sole owner and similar information.

4. The forecast of expenditures must be based on the previous holder's expenses and adjusted for those items that will change; or the applicant must provide rationale for any differences. Changes include different levels of operation, such as length of operating season, development schedules, maintenance schedules, or higher interest and payments.

5. The assumptions listed in the above paragraphs must be included in all forecasts, including those prepared by a Certified Public Accountant (CPA).

32.3 - Statement of Work Experience

A statement of work experience is necessary to determine what the applicant's abilities are related to the type of permit. The analyst obtains input from program staff personnel to determine these abilities.

32.4 - Business Plan

1. A business plan must be received from each applicant as a means of assuring the applicant considered the full scope of the business venture and is prepared to commence operation of the permit, should the applicant be accepted as a holder. The business plan should include the following elements, as applicable:

a. A description of the public services to be provided, the scope and duration of operations, and the anticipated opening date.

b. A description of the construction and renovation projects, an estimation of the costs, and identification of the sources of capital planned by the applicant.

c. A description of the applicant's plans for securing water, providing sanitation facilities and services, developing sources of electric power, and securing an adequate complement of equipment and supplies.

d. A description of the applicant's plans for securing ownership of existing on-site facilities.

e. A plan disclosing the anticipated business organization, including officers and other key positions of management responsibility and authority.

2. The Small Business Development Center (SBDC) is a readily available source for assisting applicants with developing or flushing out their business plans. Applicants should be referred to nearest SBDC.

32.5 - Credit Report

Obtain a credit report on the prospective holder and examine it for credit worthiness, prior bankruptcies, liens, late payments, and similar negative information. Recognize that a credit report may not show a complete picture of an applicant's credit history. Companies that subscribe to one specific credit report agency will have data that only shows that credit agency's information and no other.

32.6 - Integrity and Business Ethics

Be alert for data that would be useful to the permit administrator because it provides indicators (positive or negative) of the applicant's integrity and business ethics.

33 - Analysis Process

33.1 - Considerations in All Analyses for Concessionaires

1. The analysis process involves taking the cash flow forecasts, statements of work experience, business plan, financial statements and credit report and melding them together to make a financial ability determination.

- a. The analysis may take on different characteristics, depending on whether the application is for a large ski area type permit or a small summer resort permit.
 - b. The analysis differs between proposals for new construction, expansion, or buy-out of an existing permit.
 - c. Some of those key differences are discussed below in sections 33.2, 33.3, and 33.4.
2. As a general rule, the holder needs to show either a profitable cash flow forecast or adequate financial resources to sustain negative cash flows.
- a. If outside financing is critical to the success of the operation, the applicant must provide evidence that projected sources of outside financing are available.
 - b. Reviewers of financial data must consider outside financing when its absence would result in a negative projected cash flow, or when the applicant's existing net worth is less than 50 percent of total projected assets.
 - c. The letter in 33.1 - Exhibit 01 is an example of the types of analyses needed to determine the financial ability of the concession holder.

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33.1 - Exhibit 01



**United States
Department of
Agriculture**

**Forest
Service**

Arroya National Forest

**0000 Desouza
Sometown, ST. 00001
802-000-0005**

File Code: **2700**
Route To:

Date: **January 19, 2003**

Subject: Financial Analysis
Friendly Valley Resort

To: **Forest Supervisor, Arroya N.F.**

FOR OFFICIAL USE ONLY

Holder has initiated Chapter 11 bankruptcy proceedings in an attempt to restructure outstanding liabilities. The bankruptcy court approved the resort's reorganization plan on January 10, 1990.

Attachment 5-A is a spreadsheet listing of the holder's proposed schedule of payments/expenses for FY 1990. Holder has indicated that they hope to return to a schedule of payments during FY 1991 in accordance with the original agreements negotiated with creditors (Attachment 3-A).

Schedules of Debt Service were prepared for 1990 and 1991 utilizing the holder's original payment schedule and are appended as Attachments 7 and 8.

A Cash Flow Forecast was then prepared for 1990 from the above schedules and the results graphed for display purposes (Attachments 6 and 6-A).

Revised Cost of Sales/Expenses and Debt Services for 1990 and 1991 were then prepared in accordance with the holder's proposed schedule of payments/expenses (Attachments 3, 3-A, 4, 5, and 5-A).

These revised figures were then incorporated within a Cash Flow Forecast for 1990 and 1991 (Attachment 2). The results of these forecasts were also graphed for display purposes and are appended as Attachments 2-A and 2-B.

Selected Balance Sheet and Income Statement Items were compiled and appended as Attachment 1.

Analysis of the revised Cash Flow Forecast indicates that the holder's proposed schedule of payments/expenses would permit the viable operation of the resort.

JOAN SMITH-FINEQUILL
Accountant

Enclosures

33.2 - Considerations for Applicants with Construction Permit

Section 251.54, Title 36 of the Code of Federal Regulations requires the responsible authorized officer to assure that, prior to commencement of construction, the applicant has the financial capability to construct, operate, maintain, and terminate the project. There is no standard formula for making this determination because each construction permit has its own set of unique criteria. At a minimum:

1. The applicant must be required to maintain a positive cash position on the financial forecast.
2. In order to establish that an applicant has a vested interest in a concession, the analyst should establish that the applicant has net worth equal to or greater than the initial start-up expenses, projected losses (if any) expected during the first 2 years of operation and a minimum of 35 percent of the purchase price, and any estimated first phase development schedule costs. If the applicant does not meet these minimum requirements, the government is at greater risk.

33.3 - Considerations for New Applicants on an Existing Concession

The requirements for determining the financial ability of an applicant in the case of an existing permit are different from the requirements for a construction permit only in that there are usually no material construction requirements. The same analysis techniques may be used as discussed in section 33 and 33.1.

33.4 - Considerations for Expansion of Facilities on Existing Concession

Generally, the accountant should ascertain that the permittee has sufficient working capital and net worth or a source of funds to finance the cost of the expansion.

34 - Report

When an analysis is completed, it must be supported by a report from the qualified accountant to the Authorizing Officer. See sections 24 and 33.1 for sample reports, and OMB Circular A-25, Number 0596-0082.