

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

**Forest Service Handbook 6509.18 – Financial Analysis Handbook  
Chapter 20 - Timber Sales**

**Amendment:** 6509.18-2004-3

**Effective date:** September 14, 2004

**Duration:** This amendment is effective until superseded or removed.

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

**Date approved:** July 30, 2004

**Responsible Staff:**

**Last Change:** 6509.18-2004-2 to 6509.18\_contents.

**Superseded Document(s):**

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

**20:** Provides new direction and responsibility to timber sale Contracting Officers and financial analysts and should be used in conjunction with other directions provided in FSH 6509.18 Financial Analysis Handbook, Timber Sales; FSM 2450, Timber Sale Contract Administration; FSH 2409.15, Timber Sale Administration Handbook; and FSH 6509.11k, chapter 70, Finance Accounting Handbook.

**20.2:** Adds two new objectives:

1. To facilitate timely and responsible harvest of National Forest System timber and
2. To award National Forest System timber sales to responsible bidders who have the ability to operate the sale.

**20.3:** Adds new policy for:

1. The evaluation of first time high bidders; bidders who have filed for, or are in the process of filing for bankruptcy; or bidders in unresolved defaults;
2. Places time limits for financial analysis and extensions;
3. Places a time limit on subjecting a bidder to a financial ability analysis each year; and

4. Places a time limit on time allowed for a financial review by an analyst.

**20.4a:** Adds new responsibility to the Contracting officer when awarding a contract, settling a default claim, and requesting periodic progress reports from analysts.

**20.4b:** Adds new responsibility to an accountant or financial analyst to:

1. Complete financial ability analysis in 30 days;
2. Keep the Contracting Officer informed;
3. Inform bidders about time and levels of detail needed for projected cash flow analysis; and
4. Establish contracts with local Small Business Administration Offices.

**20.5:** Adds new definitions for Accountants, Contracting Officer, Defaulted Contract, Deferred Payments, Generally Accepted Accounting Principles, Portfolio of Sales, Pro Forma, Statement of Cash Flows/Cash Equivalents, and Settlement Offer.

**21:** Adds additional direction for a Contracting Officer, who is unable to make an affirmative determination of the financial ability of potential bidders during the award of timber sales.

**21.1:** Adds direction on what to do when a financial ability analysis is required; provides a time passage of 12 months if subsequent analysis is required; provides direction when financial ability analysis is required, as a minimum, in certain situations such as for: unresolved defaults, bankruptcy under Chapter 11 and Chapter 7, first time high bidders, or nine other risk-factors.

**21.2:** Adds direction on the determination of financial responsibility and gives bidders 30 days if additional information is requested.

**21.21:** Adds direction on what additional information the Contracting officer should request for total bids of \$300,000 or more; total bids between \$100,000 and \$299,000; total bids between \$10,000 to \$99,000; and total bids below \$10,000.

**21.22:** Adds direction on what additional information the Contracting officer should request when initiating an analysis for a bidder with an existing portfolio value of \$300,000 or more; \$100,000 to \$299,999; \$10,000 to \$99,999; and below \$10,000.

**21.23:** Adds a prescribed standard for a pro forma letter to high bidders and adds an exhibit 01 with a sample letter.

**21.3:** Adds direction on where to find financial information from sources other than the bidders.

**21.31:** Adds direction to request a credit card report for corporations, partners, officers or other individuals associated with the bidder.

**21.32:** Adds the requirement to use Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products, when analyzing a specific sale.

**21.33:** Adds direction that requires a copy of timber sale contracts to determine working capital needs of a first time purchaser.

**21.34:** Adds direction that requires consideration of Certified Public Accountant (CPA) involvement in statements provided by the bidder and specifies what to look for in the bidder's statements.

**21.35:** Adds an exhibit with a list of minimum information requirements for historical and prospective financial analysis in timber sales at different monetary values.

**21.4:** Adds new direction on performing different levels of analysis based on the bidder's status.

**21.41:** Adds new direction when analyzing a first time bidder by requiring examination of cash flow, net worth, sale profitability, credit report and working capital.

**21.42:** Adds new direction when analyzing bidders with an existing portfolio by requiring examination of net worth, net worth versus sale profitability and defaults, defaults, ratio analysis, working capital, cash flow forecast, bankruptcy, credit report and optional forms of assurance.

**22:** Adds new section and caption about settlement offers.

**22.1:** Adds new direction about when a financial ability analysis is required.

**22.2:** Adds new direction about deciding the detail and degree of documentation required in cases.

**22.21:** Adds new direction about the required information and analysis necessary for contract holders not endangered by bankruptcy but who claim they can not continue without debt compromise or deferral of debt payment.

**22.22:** Adds new direction about the required information about process required for contract holders at or near bankruptcy.

**22.3:** Provides new code and section for analysis and conclusions.

**22.31:** Provides new direction for considerations during the application of the general rule, exhibit 01.

**22.32:** Provides a new section and code on forecasts and projections; provides a list of items to look for in a Certified Public Accountant's standard report of a financial forecast; and provides direction to financial analysts using independent and CPA projections.

**22.33:** Adds new direction to financial analysts to consider additional possibilities, such as concealed liabilities or improper transfer of income.

**23:** Adds new code and caption about deferred payment extension.

**23.1:** Adds new direction for requiring forecasted financial statements in addition to the financial data listed in section 12 of this handbook.

**23.2:** Adds new direction for the criteria of extending a note for an aggregate deferral of \$500,000 or more or for a deferral of less than \$500,000.

**23.3:** Adds five new criteria that must be considered before a financial analyst may recommend whether or not to grant or deny an extension.

**24:** Adds new code and caption requiring that a report after an analysis must be given to the Contracting Officer; includes new samples of the report in exhibits 01, 02 and 03.



## **20.2 - Objectives**

1. Facilitate the timely and responsible harvest of National Forest System timber.
2. Award National Forest System timber sales to responsible bidders who have the ability to operate the sale.

## **20.3 - Policy**

1. Evaluate financial ability for first time high bidders, bidders who have filed for, or are in the process of filing for bankruptcy under Chapter 11 or Chapter 7 of U.S. Bankruptcy Code, or bidders involved in unresolved defaults.
2. Allow the bidder 30 days in which to submit financial information for a financial ability analysis. Extend the period to 60 days should purchaser request an extension.
3. Do not subject a bidder to a financial ability analysis more than once in a 12-month period, unless a substantial change occurred in the bidder's financial position, bidding patterns changed, or previous submitted information was erroneous.
4. Ensure that a financial analyst completes the financial review within 30 days after receipt of requested information.

## **20.4 - Responsibility**

### **20.4a - Contracting Officer**

In addition to the responsibilities for timber sale administration in FSH 2409.15, section 04.1, it is the responsibility of the Contracting Officer to:

1. Award a timber sale contract only after making an affirmative determination that a purchaser has adequate financial resources to perform the contract or the ability to obtain them. Other aspects of purchaser responsibility must also be established.
2. Settle a default claim with a contract holder only on the basis of:
  - a. Inability to pay, or
  - b. A request is received for installment payments of debt after a financial analysis of the contract holder was performed.
3. Request an optional periodic progress report from analysts during the 30-day timeframe for the financial review.

### **21.4b - Financial Analyst**

It is the responsibility of an accountant or qualified financial analyst to:

1. Complete the financial ability analysis within 30 days of receipt of information from bidder and issue a report to the Contracting Officer.
2. Keep the Contracting Officer informed through progress reports.
3. Inform the bidder on time period and level of detail needed for projected cash flow analysis.
4. Establish contacts with local Small Business Administration offices for firms qualifying as a small business.

## 20.5 - Definitions

The following terms are additional to those in chapter zero code, section 05 of this handbook, and relate specifically to financial ability reviews of timber sale bidders and operators:

Accountant. Anyone possessing the qualifications to be classified in the Federal GS-510/511 accountant/auditor series. This includes accountants from other non-Federal agencies or those procured through contract. It is not necessary that the individual be currently working in those series. A Forest Service accountant must complete the annual training requirements identified in FSH 6509.18, zero code, section 06, to remain qualified. Non-Forest Service accountants should possess equivalent training and qualifications in financial analysis activities.

Contracting Officer. The designated Forest Service officer with authority to award, administer, and make determinations with respect to a particular timber sale contract (FSH 2409.15, Timber Sale Administration Handbook, section 04.1).

Defaulted Contract. An uncompleted Forest Service timber sale contract that has expired, been abandoned or renounced by the purchaser, or has been cancelled by the Forest Service pursuant to a breach of contract by the purchaser. The date of default in these circumstances is the date of expiration, abandonment, repudiation, or cancellation, as applicable.

Deferred Payments. Payments obligated under a fully secured promissory note with a 5-year amortization. Application for a deferment (Promissory Note) in excess of 5 years (from 6- to 10-year amortization) requires a showing of compelling financial need and approval by the Chief of the Forest Service. See Timber Sale Administration Handbook, FSH 2409.15, chapter 30 for authority on promissory notes and deferment in excess of 5 years.

Generally Accepted Accounting Principles. (GAAP). The rules and practices that represent accepted accounting principles and practices. Accounting principles encompass unwritten rules and written rules.

Portfolio of Sales. All sales that a purchaser has under contract. If the purchaser is expected to make a net profit on the removal of all timber on all sales, it is referred to as positive; otherwise it is negative.

Pro Forma. Presentation of financial information set up in advance as to an assumed event (such as a merger).

Statement of Cash Flows/Cash Equivalents. A statement reporting how cash and "cash equivalents" were provided and used over a period of time. This statement is required by Financial Accounting Standards Board (FASB) number 95, Statement of Cash Flows, as part of all financial statements prepared in conformity with Generally Accepted Accounting Principles.

Settlement Offer. A request by timber sale contract holders or their surety for the Government to accept less than the full amount owed in full satisfaction of a default claim (FSM 6572.11c).

## **21 - Award of Timber Sales**

If the Contracting Officer is unable to make an affirmative determination of the financial ability of potential bidders from current information available on the Forest, adjacent Forests, Regional Office Bureau of Indian Affairs, or the Bureau of Land Management, the Contracting Officer shall:

1. Request assistance from a qualified accountant to complete a financial ability analysis.
2. Provide the bidder an opportunity to submit additional information that is no more than 18 months old in order to determine that bidder's ability to perform the contract.

### **21.1 - When Financial Ability Analysis is Required**

1. Base the priority and frequency of financial ability determinations on the magnitude of perceived financial risks to the Forest Service. Once a financial ability analysis is completed, do not subject the bidder to another analysis for a period of 12 months unless the Contracting Officer or the bidder believes that there has been a significant change in the bidder's financial position since the last review, bidding patterns have changed, or the data on which the previous determination was made is found to be erroneous.

2. Complete subsequent analysis after 12 months have passed if the Contracting Officer believes that the financial position of the purchaser has deteriorated, or that the purchaser's financial solvency is in doubt. As a minimum, the Contracting Officer shall monitor the portfolio of purchasers who, based on prior financial analysis, are in a marginal financial position.

3. As a minimum, a financial ability analysis shall be completed for bidders or contract holders under the following circumstances:

- a. Unresolved Defaults. An unresolved default is a timber sale past its expiration date where contractual requirements remain uncompleted and there is either a billing outstanding or a billing to be issued. The Contracting Officer has the discretion to waive a financial ability analysis when a purchaser has unresolved defaults in



immaterial amounts, compared to known net worth, working capital, or a positive portfolio of sales.

b. Bankruptcy.

(1) Chapter 11. Chapter 11 (11 U.S.C. 1100) of the United States Bankruptcy Code allows entities to file for bankruptcy while continuing business operations. Under Chapter 11, an entity can file a reorganization plan which, if accepted by the Bankruptcy court, allows them to continue business operations while being protected from prior creditors.

(2) Chapter 7. Chapter 7 (11 U.S.C. 700) bankruptcy involves dissolution of the firm and the selling of assets to satisfy creditors. No awards shall be made to firms who have filed Chapter 7 proceedings and, therefore, no financial analysis is necessary.

c. First Time High Bidder. This type of bidder has not previously been awarded Forest Service or Bureau of Land Management timber sales. However, Contracting Officers may choose to forgo any analysis when the bidder will be paying for the entire stumpage requirement up front (lump sum) and they determine there is limited risk.

d. Other Factors. Consider the following bidder characteristics when determining if a review is necessary:

(1) History of late timber sale contract payments.

(2) Impacts of an unsatisfactory portfolio. The bidder holds a portfolio of timber sales (including the sale presently under consideration for award) and

(a) bids so high as to indicate probable losses on harvest, or

(b) has a portfolio of timber sales with skewed bids.

(3) Difficulty obtaining bonding.

(4) Increase in total volume. This occurs when a bid would create a substantial increase in purchaser's total volume under contract, compared with their historical level.

(5) Reorganization or divestiture of assets. In the timber industry, it is a frequent practice to establish affiliate corporations under common control. While this is legitimate practice, it significantly increases the risk that bidding corporations will not retain sufficient resources to cover debts resulting from defaulted contracts. A situation of high priced portfolios, in combination with the known existence of separate, but affiliated corporations, should be viewed as extremely risky. This is especially true if the parent affiliate does not guarantee the operations of the subsidiary.

- (6) Problems paying employees or subcontractors.
- (7) Requests for collection assistance from other creditors.
- (8) Sudden change in historical purchase patterns. For example, the bidder makes a purchase of a large, complicated sale verses a simple sale.
- (9) Sudden rash of minor, near-frivolous Contract Disputes Act (CDA) claims.

## **21.2 - Bidder Furnished Information**

1. Information required from the bidder is dependent on the value of the bid. (See sec. 21.35, exhibit 01, for display of minimum information requirements.)
2. If the timber sale requires a 100 percent upfront payment for stumpage, or the bidder chooses to pay up front, the Contracting Officer may make an affirmative determination of financial responsibility and not request further information.
3. Give the bidder 30 days in which to submit the requested information; notify the bidder that, if the requested information is not submitted in full and in the format requested within the 30 day period, the contract will not be awarded. The Contracting Officer may extend the time period to 60 days when requested by the bidder to secure a Certified Public Accountant (CPA) and time for the CPA to prepare the required information.

### **21.21 - First Time High Bidder**

The Contracting Officer should request the following information when initiating an analysis for a first time high bidder:

1. Total Bid Value of \$300,000 or More.
  - a. Form FS-6500-24, Financial Statement. Use this form (except for parts A, B, and C) for the bidder and all affiliates. In parts A, B, and C, request the bidder to reference the financial statements specified in paragraph 1(b).
  - b. CPA-Prepared Financial Statements. A balance sheet, income statement, statement of cash flows and accompanying footnotes for the three most recent fiscal yearend(s) for the bidder and all affiliates are prepared using generally accepted accounting principles, and accompanied by a report of review or audit prepared by an independent Certified Public Accountant (CPA). If the bidder does not have reviewed or audited statements for the two years prior to the most recent fiscal yearend, statements certified by the company can be accepted. However, the most recent fiscal yearend statements must be reviewed or audited by an independent CPA.
  - c. Prospective Financial Information - Cash Flow Forecast. As a minimum, require the bidder to prepare a cash flow forecast which details the expected cash outlays and cash inflows.

- (1) A financial analyst may decide to conduct a cash flow forecast that extends for the full life of the sale, is specific to this sale, or is comprehensive enough to cover the bidder's entire activities, taking into consideration the relative size of the sale to the bidder's normal or expected activity and other commitments the bidder may face in the future. In general, a 12-month projection of cash outlays and inflows is sufficient.
  - (2) For a bidder new to the business of purchasing, harvesting, and processing timber, a cash flow statement oriented to the specifics of the sale at issue is more meaningful.
    - (a) This covers the complete operating cycle and contract period of the sale.
    - (b) Require the bidder to provide details on assumptions behind the projections, such as harvest operating plans, operating costs (generally presented on a per thousand board foot basis), and realization values of end products.
  - (3) In some cases, depending on the size and complexity of the timber sale and other risk factors, a financial analyst, with approval of the Contracting Officer, may request a financial forecast on a compiled or examined basis by an independent CPA in compliance with the terms described in section 22.32 of this handbook.
    - d. Portfolio profitability. If the bidder has a portfolio of Bureau of Indian Affairs, Bureau of Land Management, State, private, or fee timber, the profitability of those contracts should be determined in a manner similar to those described in section 22.32.
    - e. Timber volume. Record volumes harvested by year to coincide with financial statement data.
    - f. Release. Require the bidder to verify amounts asserted by submitting a release form (Form FS-6500-25, Request for Verification) for all financial institutions where bidder may have material assets deposited, such as cash and securities. The financial institution independently verifies the asserted amounts and furnishes information directly to the financial analyst.
2. Total Bid Value Between \$100,000 and \$299,000.
- a. The provisions in paragraph 1 of the Financial Statement Form apply to timber sales with a total bid value between \$100,000 and \$299,000.
  - b. However, a bidder may provide a report of compilation prepared by an independent Certified Public Accountant (CPA) in lieu of the report of review or audit required under financial statements in paragraph 1(b).
    - (1) If the Contracting Officer can determine through the analyst that the bidders' financial statements were prepared in accordance with generally accepted accounting principles, their statements may be accepted in lieu of independently prepared CPA compiled statements.

(2) This determination shall be at the discretion of the Contracting Officer.

3. Total Bid Value Between \$10,000 and \$99,000.

- a. Require the bidder to submit Form FS-6500-24, Financial Statement, (all parts) for the bidder and all affiliates.
- b. If the Contracting Officer is unable to make an affirmative determination based on the information provided, the financial analyst may request data required for timber sales with a total bid value between \$100,000 and \$299,000 (para. 2).

4. Total Bid Value Below \$10,000.

- a. Due to the limited risk of small value sales, any request for financial information is at the discretion of the Contracting Officer.
- b. Financial determinations are based solely on the judgment of the Contracting Officer.
- c. However, Contracting Officers must make an affirmative determination of responsibility including financial ability to perform the sale.

**21.22 - Bidders with Existing Portfolio**

The Contracting Officer should request the following information when initiating an analysis for a bidder with an existing portfolio:

1. Total Portfolio Value of \$300,000 or More.

- a. Form FS-6500-24, Financial Statement. Use this form for the bidder and all affiliates, except for parts A, B, and C.
- b. CPA Prepared Financial Statements. A balance sheet; income statement; statement of cash flows; and accompanying footnotes for the three most recent fiscal yearend(s) for the bidder and all affiliates are prepared using generally accepted accounting principles, and are accompanied by a report of review, compilation, or audit prepared by an independent Certified Public Accountant (CPA).
  - (1) If the bidder does not have reviewed or audited statements for the 2 years prior to the most recent fiscal yearend, statements certified by the company can be accepted.
  - (2) However, the most recent fiscal yearend must be reviewed or audited by an independent CPA.
- c. Defaulted Sales. List all Federal (such as the Bureau of Land Management, the Bureau of Indian Affairs, or the Forest Service) and State timber sale contracts defaulted by the bidder and affiliates within three years of the bid date of the sale at issue.

(1) Include all sales over three years old with unresolved damage amounts.

(2) Along with the sale identification, include the amount of any unresolved default damages.

d. **Portfolio Gain/Loss Projection.** List all timber sale contracts held by the bidder and all affiliates, including contract numbers and anticipated gains and losses by sale.

(1) The bidder may document the fiscal years in which the gains and/or losses are expected to occur. If this information is not supplied, all gains and/or losses are viewed as if they will occur in the next 12 months. Include gains or losses on fee timber (timber owned by the bidder) projected to be cut in the next 12 months.

(2) Use anticipated gains and losses on current timber sale contracts to assess the bidder's ability over time to meet existing commitments

(3) Use anticipated gains and losses that are based on the expected selling value of a log, less the cost of transporting that log to its place of sale, less the stumpage expense. Log selling values are based on mill purchase agreements or current market selling values. Log selling values, for lumber mills or veneer plants are based on lumber or veneer selling values, less manufacturing costs. Logging costs are based on the actual stump-to-mill logging cost plus applicable overhead.

(4) In lieu of requiring the purchaser to calculate portfolio gains and losses, the Forest Service may calculate the gain or loss using something similar to the Federal Timber Contract Payment Modification Act (section 01).

(a) This method calculates the gain or loss using current stumpage rates and logging costs, and selling values and manufacturing costs in the original appraisal.

(b) These are updated to the current time, using the index sale values at the time the sale was appraised, and the current index sale values. This method is available in Regions 1, 5, and 6.

(5) Bidders who are operating in multiple Regions; on BIA, BLM or State administered lands; or on private land may need to calculate portfolio gains and losses on some sales while the Forest Service calculates the gains or losses on others.

(a) In all cases, the bidders have the option of submitting portfolio gains or losses to the Forest Service if the bidders believe they have more accurate projections.

(b) Bidder projections are subject to verification by the Forest Service and are critically reviewed by an analyst.

e. **Cash Flow Forecast.** Require a cash flow forecast from bidders with existing portfolios only if the aggregate amount of the portfolio losses plus default values exceeds either working capital or net worth.

(1) To speed up the decision making process, advise bidders that a cash flow statement may be required, depending upon their net worth and working capital situation.

(2) For bidders with existing portfolios, cash flow is affected by the entire portfolio rather than by the one sale under question.

f. Timber Volumes. Volumes harvested by year should coincide with financial statement data.

g. Release. Require the bidder to verify asserted amounts by submitting a release form (Form FS-6500-25, Request for Verification) for all financial institutions where they may have deposited material assets, such as cash and securities. The financial institution independently verifies the asserted amounts and furnishes information directly to the financial analyst on form FS-6500-25.

2. Total Portfolio Value Between \$100,000 and \$299,999.

a. The same information is required for total portfolios valued between \$100,000 and \$299,999, as required for portfolios described in paragraph 1, except that the bidder may supply Certified Public Accountant (CPA) compiled financial statements in lieu of reviewed or audited statements.

b. If the Contracting Officer can determine through the analyst that the bidder's financial statements were prepared in accordance with Generally Accepted Accounting Principles, such statements may be accepted in lieu of independently prepared CPA compiled statements. This determination shall be at the discretion of the Contracting Officer.

3. Total Portfolio Value Between \$10,000 and \$99,999.

Require the bidder to submit Form FS-6500-24, Financial Statement (all parts), for the bidder and all affiliates. If the Contracting Officer is unable to make an affirmative determination based on the information provided, the analyst may request further data as required in section 21.3.

4. Total Portfolio Value Below \$10,000.

Due to the limited risk of small value sales, the Contracting Officer has the discretion to determine the amount and kind of financial information to require from the bidder and to determine the financial viability of the bidder. Contracting Officers still have the responsibility, for making an affirmative determination of responsibility, including financial ability to perform the sale.

### **21.23 - Pro Forma Letter to High Bidders**

The following Exhibit 01 prescribes a standard format for requesting financial information from high bidders of timber sales. While it contains the key items usually required, it must be reviewed by the Contracting Officer to assure that it is properly modified to fit each case.

**Forest Service Handbook 6509.18 – Financial Analysis Handbook**

**Chapter 20 - Timber Sales**

**Amendment:** 6509.18-2004-3

**Effective date:** September 14, 2004

**21.23 - Exhibit 01**



**United States  
Department of  
Agriculture**

**Forest  
Service**

**Arroya  
National Forest**

**1111 Gilmour  
Sometown, ST. 00001  
802-000-0005**

**File Code:** 2450

**Date:**

Ms. Joan President  
A Timber Operator, Inc  
P.O. Box 131  
Timbersale, ST 01001

RE: Timber Sale

Dear Ms. President:

I have determined that a review of your financial ability is needed prior to award of further timber sale contracts. In general, this process will require that you provide, within 30 days, information showing that you have, or have access to, sufficient cash, working capital, and net worth for meeting expected financial obligations. Please provide the following information as applicable to your company.

1. Has a financial review been completed on your company in the last 12 months by a government agency?
2. If your response to item 1 is yes, identify the agency, location, and date of the review. A satisfactory showing of financial ability within the past 12 months may preclude the need for another review; therefore, we recommend you call our office to see if another review is desired. If so, proceed with item 3.
3. Identify all your affiliates by name and address. Describe the nature of the relationship, and how they are accounted for. In determining whether or not affiliation exists, consider the rule established for the Timber Contract Payment Modification Act (Buy-Out Act, Public Law 98-478, October 16, 1984), which states:

"Concerns are affiliated if directly or indirectly, (1) either one controls or has the power to control the other, or (2) one or more third parties controls or has the power to control both. In determining whether or not affiliation exists, the Forest Service shall consider all appropriate factors including, but not limited to, common ownership, common management, and contractual relationships. The Forest Service will determine the effect of joint venture agreements upon affiliation on a case-by-case basis, based upon the relationship established by the joint venture."

**21.23 - Exhibit 01--Continued**

4. \*\* REPLACE THIS PARAGRAPH WITH APPROPRIATE ONE FROM BELOW\*\*

**BID or PORTFOLIO VALUE OVER \$300,000.** Complete a separate Form FS-6500-24, Financial Statement, (except for Parts A, B, and C) for you and each of your affiliates. In lieu of completing Parts A, B, and C, attach a set of Financial Statements for the 3 most recent fiscal yearends (balance sheet, income statement, statement of cash flows, and accompanying footnotes). For the most recent fiscal year these statements and accompanying footnotes should be prepared in accordance with generally accepted accounting principles and must be accompanied by a report of either review or audit prepared by an independent Certified Public Accountant.

**BID or PORTFOLIO VALUE BETWEEN \$100,000 and \$300,000.** Complete a separate Form FS-6500-24, Financial Statement (except for Parts A, B, and C) for you and each of your affiliates. In lieu of completing Parts A, B, and C, attach a set of Financial Statements for the 3 most recent fiscal yearends (balance sheet, income statement, and statement of cash flows). For the most recent fiscal year the statements and accompanying footnotes should be prepared in accordance with generally accepted accounting principles and be accompanied by a report of compilation prepared by an independent Certified Public Accountant. **(Omit the reference to an independent CPA if bidder has a qualified accountant able to prepare statements in accordance with GAAP.)**

**BID or PORTFOLIO VALUE BETWEEN \$10,000 and \$100,000.** Complete a separate Form FS-6500-24, Financial Statement, for you and each of your affiliates.

5. Submit log volumes harvested and/or lumber volume manufactured for each year represented in item 4.

6. For you and your affiliates, list all defaulted Federal (Bureau of Land Management, Bureau of Indian Affairs and Forest Service) timber sale contracts with unresolved damage amounts, including the company name, timber sale name, contract number, damage amounts that have been billed, remaining volume and value, and the agency administering the contract.

7. List anticipated gains (losses) on current timber sale contracts by year (including the sale at issue and sales of all affiliates).

Anticipated gains and losses are needed to assess your ability over the long run to meet your existing commitments. We will assess this ability in connection with your company's, and your affiliate companies', net worth and projected gains or losses, as well as payments for default damages. To the extent that you have Forest Service sales in Region \_\_\_\_, we have projected your total gains/losses using a method similar to that used in connection with the Timber Contract Payment Modification Act (Buy-Out Act). The result of this determination is enclosed.



**21.23 - Exhibit 01--Continued**

To the extent you have current sales in your portfolio that are located in other Forest Service Regions, or on lands managed by other Federal, State, or private entities, you need to provide your own projection of gains and losses along with documentation showing how your determination was made. Further, if you disagree with our determination of gains and losses on Region's sales, you will need to provide supporting documentation if you propose different amounts.

**SECTION 8 IS REQUIRED FOR FIRST TIME BIDDERS AND FOR EXISTING PURCHASERS FOR SALES ABOVE \$100,000. DELETE THE PARAGRAPH IF NOT NEEDED.**

8. Submit a forecasted cash flow analysis that details the cash outlays and cash inflows expected to be experienced on the timber sale at issue, as well as all other sources and uses of cash for the period. This analysis should identify all sources and uses of cash. Include other business segments as well. The analysis requires evidence of sound harvest and sale volumes for the period with related costs and income (sale realizations) estimates.

**WHEN A CPA IS INVOLVED, INSERT THE FOLLOWING PARAGRAPH AND SELECT EITHER THE EXAMINED OR COMPILED FORECAST OPTION. DELETE THE PARAGRAPH IF A CPA IS NOT INVOLVED.**

Your forecast should be examined/compiled by an independent CPA, and should follow the American Institute of Certified Public Accountant (AICPA) "Guide for Prospective Financial Information".

9. Complete items 1 through 5 of the enclosed Request for Verification, Form FS-6500-25, and forward to financial and other institutions where you have assets such as cash and securities on deposit in order that they can confirm the amounts indicated on your financial statements. The verifier must return the form directly to us. A copy of this form is enclosed for your information and use.

Financial and other information provided in connection with this determination must be full, accurate, and complete to the best of your knowledge. The penalty for making false statements is prescribed in 18 U.S.C. 1001. Information you provide is confidential; however, all public requests for information are handled pursuant to the Freedom of Information Act (5 U.S.C. 552, as amended).

If you have any questions concerning information to be provided for the financial ability analysis, please call **(REPLACE THIS SENTENCE WITH THE CONTACT INFORMATION)**

Sincerely,

Enclosure - Request for Verification, Form FS 6500-25

cc:

Contracting Officer

## **21.3 - Information from Sources Other than Bidders**

### **21.31 - Credit Report**

As a minimum, a credit report should be requested on a bidding corporation, partners in the case of a partnership, or an individual in the case of a sole proprietorship. A credit report may also be requested for officers or other individuals that are providing guarantees.

### **21.32 - Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products**

A copy of the Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products, is necessary when analyzing a specific sale. This report is more useful in Regions using the residual value appraisal method than in Regions that use the transaction evidence appraisal method.

### **21.33 - Timber Sale Contract**

A copy of the timber sale contract is needed to determine the working capital needs of a first time purchaser because it contains the operating assumptions, details of road building, and other pertinent information.

### **21.34 - Verification**

The extent of Certified Public Accountant (CPA) involvement in statements provided by the bidder should be considered when determining the amount of verification needed.

1. The financial analyst should verify the existence and completeness of assets and liabilities and assure that liabilities are fully stated (complete) through confirmation or inquiry via third parties such as bankers, lien holders, credit reports, or State and county offices.
2. The financial analyst should verify material assets such as cash and securities directly with the financial firm holding the assets.
3. Because this process usually requires a release from the bidder, releases should be obtained during the initial information request.
  - a. The Report for Verification, Form FS-6500-25, can be used to obtain release of information from financial organizations.
  - b. The form is sent to the purchaser who completes the top half.
  - c. The purchaser in turn sends the form to the financial institution to complete the bottom half.
  - d. The financial institution sends the completed verification form to the Forest Service.

e. This procedure allows the analyst to receive documentation in verifying account balances. This form is on the fsweb at:

*[http://fsweb.wo.fs.fed.us/im/forms/fs\\_forms/fs-6500-25.rtf](http://fsweb.wo.fs.fed.us/im/forms/fs_forms/fs-6500-25.rtf).*

### **21.35 - Minimum Information Requirements in Timber Sales**

Exhibit 01 displays the minimum information usually required for various situations associated with award of timber sales, as well as evaluation of settlement offers and requests for extension of deferred payments.

**Forest Service Handbook 6509.18 – Financial Analysis Handbook**

**Chapter 20 - Timber Sales**

**Amendment:** 6509.18-2004-3

**Effective date:** September 14, 2004

**21.35 - Exhibit 01**

**Minimum Information Requirements**

		<u>HISTORICAL FINANCIAL STATEMENTS 1/</u>				<u>PROSPECTIVE FINANCIAL STATEMENTS</u>		
ACTIVITY		<u>Bidder Prepared</u>		<u>CPA</u>			<u>CPA 2/</u>	
	<u>CREDIT REPORT</u>	Form FS-6500-24 <u>All parts</u>	Form FS-6500-24 Except <u>Parts A,B,C</u>	<u>Compiled</u>	Reviewed or <u>Audited</u>	<u>Bidder Prepared</u>	<u>Compiled</u>	<u>Examined</u>
AWARD OF TIMBER SALE CONTRACT								
a. First Time Bidder	√ <u>3/</u>							
> \$300,000	√		√		√	√ OR	√	<u>4/</u>
\$100,000 - \$300,000	√		√	√ <u>5/</u>		√		<u>4/</u>
\$10,000 - \$100,000	√	√						
< \$10,000	√							
b. Existing Purchaser	√							
> \$300,000	√		√ <u>6/</u>		√	√ <u>7/</u>		<u>4/</u>
\$100,000 - \$300,000	√		√ <u>6/</u>	√		√ <u>7/</u>		
\$10,000 - \$100,000	√	√						
< \$10,000	√							
SETTLEMENT OFFERS <u>8/</u>								
> \$100,000	√				√			√
< \$100,000	√			√			√	
EXTENSION OF DEFERRALS <u>8/</u>								
> \$500,000	√				√			√
< \$500,000	√			√			√	

**21.35 - Exhibit 01--Continued**

**Minimum Information Requirements**

1/ Includes balance sheet, income statement, statement of cash flow, and all accompanying footnotes for the three most recent fiscal years for the bidder and all affiliates prepared in accordance with GAAP. There is no required CPA involvement except in the most recent fiscal year.

2/ Includes either a Compiled or Examined Financial Forecast prepared in accordance with current American Institute of Certified Public Accountants standards and guidelines. The specific assumptions and nature of the Certified Public Accountant's (CPA) engagement is tailored to fit the situation, is agreed to by the three parties, and is deemed reasonable.

3/ The credit report determines if more information is needed. In the case of high value sales, use the credit report to identify additional risk. In the case of low value sales, use the credit report to determine if any financial analysis is necessary.

4/ Contracting Officer and accountant/analyst may decide to require a CPA compiled forecast/projection rather than to use bidder prepared cash flow, depending upon the situation and availability of staffing (as defined and required in FSH 6509.18, Chapter 10).

5/ If the Contracting Officer determines, through the analyst, that the bidder's financial statements were prepared in accordance with GAAP, the statements may be accepted in lieu of independently prepared CPA compiled statements. This determination is at the discretion of the Contracting Officer.

6/ Include a list of defaulted sales, a public and private harvest portfolio gain/loss-projection, timber volumes, and verifications by other agencies.

7/ Required only if portfolio losses exceed working capital or net worth.

8/ Required for settlement offers based on financial need.

## 21.4 - Analysis and Conclusions

1. Because techniques and intensity of analytical evaluation vary significantly case by case, perform different levels of analysis based on the bid value of the sale and/or on the current value of the bidder's current portfolio of sales.

2. Base the level of analysis on whether the bidders are first time purchasers, have a portfolio of sales, have defaulted sales, are reorganizing under Chapter 11 of the bankruptcy code, or are restructuring their assets.

### 21.41 - Analysis of First Time High Bidder

Consider four key areas when analyzing a new bidder who has no portfolio of sales: cash flow, net worth, sale profitability, and credit report. In addition, perform standard ratio analyses, determine available working capital, and examine all financial statements.

1. Cash Flow. It is the responsibility of the financial analyst to complete a financial review of the following information within 30 days after receipt of that information. It is the responsibility of the Contracting Officer to request the financial analysis for periodic progress reports during the 30-day timeframe. See the following exhibit 01 for an example of a cash flow analysis based on the criteria set forth in section 21.41.

a. Average Production. Determine the average production per operating month by dividing the total sale volume by the number of operating months. If the bidders' analysis assumes a level of production greater than the average, consider their level of production in the analysis, or consult with the Contracting Officer about the reasonableness of the assumption.

b. Cash Requirements. If the bidder's information for the time period between the falling of the timber and the payment for timber is different than the time periods below, use different time periods in the analysis. Otherwise determine the necessary cash using the following criteria.

(1) Three months stumpage and deposits.

(2) Three months felling expenses based on Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products (if available).

(3) Two months skidding, loading, and hauling expenses based on Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products (if available).

(4) Road building required prior to cutting.

(5) Cash deposit, unless the bidder plans to cut 25 percent of volume in the first 3 months; if this is the case, this item is zero.

c. Cash Sources. Determine sources of cash using the following criteria:

(1) Two months payment guarantee, if bidder can show ability to obtain payment guarantee.

(2) Cash per the bidder's financial statement.

(3) The bidder shows additional sources of cash (subject to verification), that do not appear on the financial statement, such as through lines of credit, loan commitments, or stumpage advances from a mill. Before considering sources of cash, the reviewer ensures that they were not reflected on the financial statement when it was prepared. For example, a bank line of credit, with a balance of \$50,000 when the review was being completed, may be totally encumbered at the time the financial statement was prepared. If this is the case, then that source of cash has already been considered in the financial statement and may not be reconsidered.

(4) The bidder shows operating costs that are lower than those on Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products, or may be able to document, through mill purchase agreements, that the timeframe, from falling the timber to payment, is less than the 3 months included in the analysis.

d. Analysis of Results. The bidder must show sources of cash that exceed cash requirements. Otherwise, the bidder receives a negative decision, regardless of net worth position and other factors.

2. Net Worth. Net worth is an indicator of the financial strength and health of a bidder. A company with a healthy net worth is more able to sustain losses, whereas a company with a minimal or negative net worth cannot. This makes the net worth a key indicator when determining risks to the government.

a. Regardless of other factors, consider negative net worth as a key indicator of financial risk.

b. Although a risk, book value of a firm's assets may not always reflect fair market value; fee timber lands may be appraised at a much higher value than indicated on the company's books.

c. If the financial statement of a first time purchaser indicates minimal or negative net worth, the quality and credibility of the cash flow statement takes on importance.

3. Sale Profitability. Calculate sale profitability using Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products, by subtracting the sale overbid from the profit margin. Check to see whether the bidder has bid away all the profit in the sale; if so, check to see if the bidder's net worth position indicates an ability to sustain the expected loss when the bidder operates the sale.

a. Because the information on Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products, is based on the operation of average efficiency, some

bidders may appear to bid away all the profit, when in reality they have not, because their operating costs are less than the operating costs on the form.

b. Depending on their bidding practices, bidders may be able to generate additional profits from the sale, if the actual volume differs from the Forest Service cruise volumes, or there is a special market for the timber.

4. Credit Report. The purpose of the credit report is to determine the bidder's credit history. Credit reports must include an accounts payable history, loan history, and public record information. Use the credit report as an indicator of financial problems. A credit report containing negative information should not be the sole basis for a negative decision without further verification or consideration of other factors. Provide the bidder with an opportunity to rebut negative information contained in credit reports.

5. Working Capital. Consider a new bidder's working capital carefully, especially if the timber sale in question expands the normal scope of operations for the bidding entity. Working capital is critical when the bidder has expanding volume commitments.



**21.41 - Exhibit 01**

Following is an example of a cash flow analysis based on the criteria set forth in section 21.41.

Facts of the case: Bid price indicates purchaser will make profit on sale. Realizations from sale of products will take three months as indicated by mill purchase agreement and operating plans.

Sale volume	5000 MBF*
Average stumpage rate	\$100/MBF
Required deposits	\$30/MBF
Normal operating season months	10
Falling & bucking per FS Form 2400-17	\$15/MBF
Yarding, loading & hauling per FS Form 2400-17	\$60/MBF
Advance road building expense	\$60,000
Required 10 percent cash deposit	\$50,000

(\*MBF = One thousand board feet)

Analysis:

1. Average production per operating month (5000 MBF/10 months) = 500 MBF

2. Cash required:

Stumpage (500 MBF x \$100 x 3 months) =	\$150,000
Deposits (500 MBF x \$30 x 3 months) =	45,000
Falling & bucking (500 MBF x \$15 x 3 months) =	22,500
Yard, load and haul (500 MBF x \$60 x 2 months) =	60,000
Advance road building	60,000
Cash deposit	<u>50,000</u>
Total estimate of cash required	<u>\$387,500</u>

3. Cash available:

Payment guarantee (500 MBF x \$130 x 2 months) =	\$130,000
Cash per financial statement	<u>300,000</u>
Total estimate of cash available	<u>\$430,000</u>

4. Based on the above analysis the bidder has projected favorable cash flow.

## 21.42 - Analysis of Bidders with an Existing Portfolio

When analyzing existing purchasers who are bidding on a new sale, ensure that the bidders can financially complete the current bid and all other sales in their portfolio. Use various analytical techniques that make sense and apply to a particular situation.

1. Net Worth. Follow the direction in section 21.41, paragraph 2.
2. Net Worth Versus Sale Profitability and Defaults. The key indicator in analyzing a purchaser with an existing portfolio is the comparison between the bidder's net worth and the profitability of the bidder's portfolio. If predicted portfolio gains/losses and default damages are greater than net worth, consider the bidder a financial risk, and require a cash flow projection, as discussed below in connection with insufficient working capital. Additionally, check to see if the book value of a firm's assets accurately reflects fair market values.
3. Defaults. Defaults are an indicator of bidder responsibility (Title 36 Code of Federal Regulations Part 223, section 101) but are not automatically an indicator of a bidder's financial ability. Many companies have defaulted sales as business decisions, not because they were financially unable to operate the sales. A default is an indicator of financial ability when the amount of the default damages is important with respect to a company's net worth.
4. Ratio Analysis. Various financial ratios may be used as indicators of financial strength. Additional direction on ratio analysis is found in chapter 10 of this handbook.
5. Working Capital. A bidder with a consistent level of sales and no extraordinary items, such as defaults or unprofitable sales, may be able to operate with near-zero working capital. Working capital is critical when the bidder has expanding volume commitments, defaults, or unprofitable sales. Under those circumstances, working capital can be compared to default damages plus losses on the portfolio of sales. If this results unfavorably, a cash flow analysis is required. Sometimes a cash flow analysis which focuses on requirements for one or two sales is sufficient (sec. 21.41). However, a cash flow analysis for a bidder with an existing portfolio is most meaningful as a forecast of the next 12 months when it considers all timber sales as well as other activities (sec. 21.42).
6. Cash Flow Forecast. In the case of a bidder with a large portfolio of unprofitable timber sale contracts or a relatively large amount of default damages, the analyst may require that an independent Certified Public Accountant examine or compile a forecasted cash flow statement. (See definition of statement of cash flows in sec. 05.) The cash flow forecast would show, as a minimum, expected expenditures associated with meeting Federal timber sale harvest requirements, default damages, and expected harvest volumes by sale.
7. Bankruptcy. Some bidders may have filed a petition of bankruptcy under Chapter 11 of the bankruptcy code. The company debt and equity is restructured and described by a court approved plan of reorganization.

a. Once a reorganization plan is approved by the court, the decision-making procedure on award of a sale recognizes the new debt and equity conditions.

(1) In this case, follow financial ability standards as applicable to other bidders, with the exception that the financial statements used by the court, together with the reorganization plan, to partially support the award decision for a period up to 12 months from the date of reorganization.

(2) These financial statements reflect the reduction of liabilities and other adjustments directed by the court.

(3) As with review of other bidders' information, the analyst may require further detail, such as a projected cash flow statement or other corroborating information.

b. If a reorganization plan was not approved by the Bankruptcy Court consider all the liabilities of the bidder when completing a financial analysis.

(1) Before the plan is approved, the bidder's current liabilities probably exceed current assets and it is not prudent to make an award.

(2) Before making a financial ability decision on an enterprise for a plan not yet approved, consult the Office of the General Counsel to assure there is no conflict with the Bankruptcy Court.

8. Credit Report. Follow the direction in section 21.41, paragraph 4, for the use of a credit report involving bidders with an existing portfolio.

9. Optional Forms of Assurance. After the conclusion of the analysis, if it is unclear that the bidder has sufficient resources in the company to operate the sales, consider asking the bidder to list other sources of financing not included on the financial statements, or to provide some additional security. Contracting Officers may accept evidence of these resources or accept added security in lieu of financial information if the bidder makes these available.

a. These assurances might be letters of intentions to provide lines of credit from financial institutions, or guarantees from affiliated corporations or individuals which make the affiliate responsible for debts of the bidder.

(1) These assurances are not in lieu of contractual security requirements, but they are added sources of evidence that the bidder has or will have access to adequate financing.

(2) Unless the assurance is provided by a well established financial institution, the financial ability of the party making the assurance should also be reviewed.

b. Other types of assurances offered by a bidder may take the form of increased down payments or bonding beyond the advertised contract requirements. In these instances, the Contracting Officer may consider that added security is provided for the sale at issue.

(1) Contracting Officers and analysts should evaluate these circumstances carefully because the bidder may have jeopardized an already inadequate source of operating funds by providing this added security.

(2) Contracting Officers need to evaluate if the risk to the Government from non-performance is adequately compensated by the additional guarantee of payment.

## **22 - Settlement Offers**

Settlement authority and standards are listed in FSM 6572.11. Further guidance for accepting installment payments is contained in the Service-wide Finance and Accounting Handbook, FSH 6509.11k, chapter 70, and should be followed except where in conflict with guidance in this handbook.

### **22.1 - When Financial Ability Analysis is Required**

1. Request a financial ability analysis in connection with offers to settle a timber sale default claim when:

- a. Contract holders offer less than full amount on basis of their financial inability to pay, and/or
- b. Contract holders propose to pay the claim by use of installment payments.

2. This financial analysis requires use of financial statements and projections of financial condition.

3. This does not apply to situations where the Forest Service has not received an offer to settle and is searching for evidence that a contract holder has sufficient assets to justify bringing a lawsuit.

### **22.2 - Information Requirements**

The decision on the detail and degree of documentation varies extensively from case to case, and it is made in consultation with the Office of the General Counsel and Fiscal and Public Safety staffs.

#### **22.21 - Contract Holders Not Endangered By Bankruptcy**

The following required information and analysis should occur if the contract holder is solvent, but the holder claims operations cannot continue without debt compromise or deferral of debt payment.

1. In this situation, the contract holder supplies the basic financial data listed in FSM 6572.11 and the additional items discussed in this section, such as cash flow projections.

- a. The holder must provide a prediction of future financial condition to justify reduction or deferral of payments.

- b. The contract holder must hire an independent Certified Public Accountant (CPA) to provide the compilation or examination of a forecast of the holder's future financial statements. These statements indicate future financial condition and results of operations, in compliance with the standards set forth in section 22.32 of this handbook.
    - c. The assumptions for the forecast depend upon the terms of the proposed settlement. See section 22.3 in this handbook for a description of the uses of the forecast.
  2. If the holder proposes to pay the entire amount by the installment method, the projected timeframe needs to cover the proposed payment period. The installment agreement includes a forecast demonstrating financial conditions, both with and without provision, for payment of debt by installments.
  3. When the contract holder proposes some reduction in the amount of the debt (that is, settlement) due to financial condition, the forecast/projection extends for a period of at least five years, based upon the alternative assumption of paying the entire amount in installments.
    - a. This forecast/projection must be compared to the assumption of paying the total debt up front.
    - b. If holder proposes both a reduction of debt and a payment in installments, the holder may be required to compare forecast/projection of their proposed payments to several different payment alternatives.
  4. Interest rates, determined at current Treasury rates (FSM 6533.2), are included on proposed debt service arrangements for default payments.
  5. If the amount of the proposed reduction, or the amount to be paid in installments exceeds \$100,000, the forecast must be audited by the CPA; otherwise it may be compiled.

## **22.22 - Contract Holders at or Near Bankruptcy**

Contract holders, who are at or near bankruptcy, should, as a minimum, provide basic financial data listed in section 12.1. Contracting Officers should consult the Office of the General Counsel and Fiscal and Public Safety staffs on whether audited, reviewed, or forecast/projected financial statements are justified.

## **22.3 - Analysis and Conclusions**

### **22.31 - Considerations**

In making a recommendation based on review of financial condition, analysts should consider the following general rule:

Debt payments, whether lump sum or installments, are the maximum amount possible without exceeding the sum total of:

1. Working Capital.
2. Loans available from third parties.
3. Amounts realizable from assets not needed for operation of the concern.
4. Amounts available from affiliates.
5. Amounts available from expected profits, using financial projection as a source of expected profits.

An example of the application of the general rule is found in the following exhibit 01.

**22.31 - Exhibit 01**

**Application of the General Rule**

This example shows the operator has total default damages of \$1,000,000. The operator submits a settlement offer of \$250,000, payable over two years. The operator proposes to pay twenty-five cents on the dollar in settlement of debt.

Results of financial analysis are as follows:

1. Working Capital	\$60,000
2. Loans available from third parties	0
3. Amounts realizable from assets not needed for operation of the concern.	5,000
4. Amounts available from affiliates.	20,000
5. Amounts available from expected profits from financial projection covering 5-year period. (Financial projection indicates substantial profitability for firm in years 3-5.)	<u>420,000</u>
	<u>\$505,000</u> Total

Based on this analysis, the amount recommended for reduction of debt equals the total debt of \$1,000,000 minus \$505,000; \$495,000 is written off. If the recommendation is accepted by the Contracting Officer, the Forest Service accepts \$505,000 in settlement for the original debt of \$1,000,000. This amount is accepted in installment payments over a five-year period if the cash flow projection shows that the enterprise could not continue in business over this timeframe if it had more accelerated payments.

## **22.32 - Forecasts and Projections**

1. The independent Certified Public Accountant's (CPA) standard report of a financial forecast includes:
  - a. An identification of the financial forecast,
  - b. A statement that the examination of the financial forecast was made in accordance with the American Institute of Certified Public Accountants (AICPA) standards,
  - c. A brief description of the nature of the examination,
  - d. An opinion that the financial forecast is presented in conformity with the (AICPA) presentation guidelines, and
  - e. An opinion that the underlying assumptions provide a reasonable basis for the forecast.
2. The analyst should review the report and forecast carefully. For example, if full repayment of the damage claim amount results in bankruptcy during this period, whereas the amount offered in settlement does not, then CPAs can recommend accepting a lower amount.
3. Analysts should also use independent projections and the same assumptions as the CPA's reports, with payback amounts which are between the amounts offered in settlement and full damage claim to determine maximum payback amount without adverse financial impact on the contract holder. The difference between this amount and the amount offered in settlement serves as a basis for negotiations between the Contracting Officer and the contract holder.
4. The accountant performing the analysis should point out forecasts of future operations which indicate that working capital or net worth positions would improve at a later date. The Contracting Officer should consider this in the settlement action.
5. The Contracting Officer, with the assistance of the financial analyst should use the forecast as an aid to determine if the offer is reasonable, or if a counter offer should be made.

## **22.33 - Other Considerations**

1. Financial analysts should consider the possibility that assets were concealed, current liabilities were improperly classified as long-term liabilities, or other inappropriate or misleading information was presented on financial statements by the bidder. This occurs more often when dealing with compiled rather than reviewed or audited statements.
2. Analysts should be alert to situations where income was improperly transferred to affiliates or individuals and may result in enforced collection proceedings.



## 23 - Deferred Payment Extension

When the contract holder proposes deferral beyond five years, require the contract holder to document in a financial analysis (sec.23.1) the projected cash flows and working capital balances through the last year of the deferral period. No deferral shall be allowed beyond the point where cumulative cash flow or working capital balance becomes positive.

### 23.1 - Financial Analysis

1. In addition to the financial data listed in section 23.2, require the operator to submit forecasted financial statements, on an examined or compiled basis, and prepared by an independent Certified Public Accountant (CPA). Section 23.3 contains criteria and assumptions to be applied by the CPA. Section 22.32, contains reporting standards and guides that CPAs must use in their performance.

- a. If the aggregate amount of requested deferral is \$500,000 or more, the forecasted financial statements by the CPA must be on an examined basis.
- b. If the amount of requested deferral is less than \$500,000 the forecasted financial statements by the CPA may be on a compiled basis.

2. The forecasted financial statements must include amortization of the note and related interest, and an extension for the number of years beyond five, to a maximum of ten, as proposed by the operator.

### 23.2 - Financial Criteria

1. Criteria for an Aggregate Deferral of \$500,000 or More. Consider extending the note period beyond five years when:

- a. Purchaser is unable to provide security for five year note through bonding company or other means, and
- b. A financial forecast for the five year period by an independent CPA shows:
  - (1) Negative working capital derived from the projected statement of financial position for year five, and
  - (2) Negative cash and cash equivalents balance on the projected statement of cash flows for year five.

2. Criteria for a Deferral of Less Than \$500,000. Use the criteria in paragraph 1(a), except that an independent CPA may compile a financial projection instead of auditing it.

### **23.3 - Analysis of Financial Forecasts**

The financial analyst shall consider and base a recommendation to grant or deny an extension on the following criteria:

1. Forecasted statements of cash flow for positive or negative balance at end of projected period, and the details of projected cash flows from operating, investing, and financing activities.
2. Forecasted statement of financial position for working capital balance at end of projected period.
3. Indicators that support or have negative influence on a recommendation to allow deferment.
4. The summary of significant assumptions, such as the number of timber sales projected for award, sales realizations, and capital expansions.
5. Compiled financial projections and independent verifications of assertions made by management about asset or liability valuations and other material matters affecting future finances.

### **24 - Report After an Analysis**

The financial analyst shall document a recommendation to grant or deny an extension in a report to the Contracting Officer. Samples of a report are found in the following exhibits 01, 02, and 03.

**Forest Service Handbook 6509.18 – Financial Analysis Handbook**

**Chapter 20 - Timber Sales**

**Amendment:** 6509.18-2004-3

**Effective date:** September 14, 2004

**24 - Exhibit 01**



**United States  
Department of  
Agriculture**

**Forest  
Service**

**Arroya National Forest**

**1111 Gilmour  
Sometown, ST. 00001  
802-000-0005**

**File Code:** 2430  
**Route To:**

**Date:** January 1, 2004

**Subject:** Boran Logging and Utah Skyhook, Inc.  
Financial Ability to Perform

**To:** Timber Management Officer, Arroya N.F.

**FOR OFFICIAL USE ONLY**

Background

I have been directed to review the financial statements of Boran Logging Company and Utah Skylines, Inc., and express an opinion as to their financial ability to perform the Choice Timber Sale - Arroyo NF. This sale is unique in that one of the contract provisions requires the purchaser to manufacture 80 percent of the logs in the Little Mesa area and further, that sufficient yard facilities be available to dry all lumber. In addition, the purchaser must have capacity to surface approximately one half of the lumber manufactured at the site.

Briefly, what I did was verify purchaser's assets, liabilities and net worth, determine borrowing capacity, and program the capital needed to perform the timber sale, using Form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products, appraisal data.

The purchaser does not have manufacturing facilities in the Little Mesa area, but will, if necessary, secure real property and a portable sawmill to meet the conditions of the sale.

I estimate the purchaser's manufacturing conversion costs and capital outlay at \$140 per Thousand Board Feet (MBF), and \$350,000 for the portable sawmill operation.

Financial

The purchaser furnished reviewed financial statements. At that time combined net worth was \$526,194. By inquiry, I have established at October 22, 1989, that purchaser has \$142,000 cash and \$340,000 in unused line of credit available. As of this date there are no other uncompleted timber sales. Between November 30, 1988, and October 22, 1989, \$148,466 in liabilities was retired and purchaser has \$482,000 available to perform the Choice sale.

**24 - Exhibit 01--Continued**

Logging and Manufacturing Costs

Logging and stumpage costs, derived from the form FS-2400-17, Report of Timber Sale-Convertible and Nonconvertible Products, are \$167 per MBF. Manufacturing costs were constructed at \$140 per MBF using various sources, and in many instances comparative estimates (see attached work papers). The estimate was based on a 2 MBF per hour production rate.

Capital Outlay

Equipment cost to set up a portable sawmill operation is \$350,000, with a per thousand (M) cost of \$15.00. The purchaser would probably finance or lease most of the equipment, but for this analysis, I have assumed purchase with cash.

Cash Flow

The enclosure, Exhibit 24-2, is a projection of costs and revenues expected to occur with the following assumptions: 20 percent of the pine logs will be sold at \$350 per M. Lumber will be sold at an average per M of \$450. Cost of money is 12 percent. Logging occurs for 6 months per season. Lumber production is 350 M per month (2 M per hour). The analysis was not continued past May 1988 because of surplus cash accumulated at that point.

Conclusion

It is my opinion that Boran Logging and Utah Skyhook, Inc. have adequate financial ability to perform the Choice Timber Sale.

JOHN FINEQUILL  
Staff Accountant

Enclosure

**Forest Service Handbook 6509.18 – Financial Analysis Handbook**

**Chapter 20 - Timber Sales**

**Amendment: 6509.18-2004-3**

**Effective date: September 14, 2004**

**24 - Exhibit 02**

**Flow of Costs and Revenues**

<b><u>Date</u></b>	<b><u>Transaction</u></b>	<b><u>Costs</u></b>	<b><u>Revenues</u></b>	<b><u>Cumulative Balance</u></b>
Oct 85	Deposit with Bid	10,700		10,700
Apr 86	6 Mo. interest on deposit with Bid @12%	642		11,342
May 86	1 Mo. logging \$184 x 600M	110,400		121,742
May 86	1 Mo. interest on \$121,100	1,211		122,953
Jun 86	1 Mo. logging \$184 x 600M	110,400		233,353
Jun 86	Interest on \$231,500 @ 12%	2,315		235,668
Jun 86	Sale of Pine Logs 600M x \$350		210,000	25,668
Jul 86	1 Mo. logging \$184 x 600M	110,400		136,068
Jul 86	Interest on \$341,900	3,419		139,487
Jul 86	Sale of P. Logs 844M x \$350		295,400	<155,913>
Aug 86	1 Mo. logging 184 x 600 M	110,400		< 45,513>
Aug 86	Interest on \$452,300	4,068		< 41,445>
Aug 86	1 Mo. Mfg Cost 350M x \$140	49,000		7,555
Aug 86	Interest on \$455,800	4,558		12,113
Sep 86	Logging and Mfg. Cost	159,400		171,513
Sep 86	Lumber Sales 350M x \$450		157,500	14,013
Sep 86	Interest on 615,200	6,152		20,165
Oct 86	Logging and Mfg. Cost	159,400		179,565
Oct 86	Lumber Sales 350M x \$450		157,500	22,065
Oct 86	Interest on 774,600	7,746	29,811	
Nov 86	Lumber Sales 350M x \$450	157,500		<127,689>
Nov 86	Interest on 646,911	6,469		<121,220>
Dec 86	Lumber Sales 350M x \$450		157,500	<278,720>
Dec 86	Interest on 486,411	4,894		<273,826>
Jan 86	Lumber Sales 350M x \$450		157,500	<431,326>
Jan 86	Interest on 331,911	3,319		<428,007>
Feb 86	Lumber Sales 406M X \$450		182,700	<610,707>
Feb 86	Interest on 149,211	1,492		<609,215>
Mar 86	Interest on 149,211	1,492		
Apr 86	Interest on 149,211	1,492		
May 86	Interest on 149,211	1,492		

**Forest Service Handbook 6509.18 – Financial Analysis Handbook**

**Chapter 20 - Timber Sales**

**Amendment:** 6509.18-2004-3

**Effective date:** September 14, 2004

**24 - Exhibit 02--continued**

<u>Date</u>	<u>Transaction</u>	<u>Costs</u>	<u>Revenues</u>	<u>Cumulative Balance</u>
May 86	Interest Income Average Balance			
	500,000 (Jan-May 12%)		25,000	<629,739>

**Assumptions:**

Cost of Money = Prime + 2% = 12%

Logging Season = 6 months. Contract = 2 years

Logging Production = 7,220 MBF + mo. = 600 MBF per mo.

Logging Cost = Line 31 of 2400-17 = \$116.12

Stumpage Bid = 50.68

Contingency for equip breakdown = 17.00

Total cost to Millsite \$183.80

Pine Log Sales \$350 LS Quote from Purchaser was \$400.

Lumber Sales \$450 LT Quote from Purchaser was \$475.

Manufacturing Cost \$140 LT See Working Papers.

**Forest Service Handbook 6509.18 – Financial Analysis Handbook**

**Chapter 20 - Timber Sales**

**Amendment:** 6509.18-2004-3

**Effective date:** September 14, 2004

**24 - Exhibit 03**



**United States  
Department of  
Agriculture**

**Forest  
Service**

**Arroya National Forest**

**1111 Gilmour  
Sometown, ST. 00001  
802-000-0005**

**File Code:** 2430

**Date:** January 28, 2003

**Route To:** \*

**Subject:** Financial Ability  
John Dill - Blue Salvage Sale

**To:** Timber Management Officer, Arroya N.F.

**FOR OFFICIAL USE ONLY**

This is a financial ability analysis for John Dill who is the apparent high bidder on the Blue Salvage Sale. The analysis was performed under guidelines set forth 26 C.F.R. 223.101 and the Financial Analysis Handbook, FSH 6509.18.

Exhibit 01 is a schedule of working capital requirements to log Unit 1 of 5 units, plus an amount needed to satisfy the bidder's existing defaulted sales.

There are no current assets shown on the bidder's financial statement, and consequently no working capital is available to satisfy the default and log the sale. The financial statement indicated a net worth of \$1,883,934 consisting primarily of land and cinders. The accounting firm that prepared the statement was unable to verify fair market value of these assets and questioned their marketability due to numerous liens recorded against them. Our own investigation shows an assessed valuation of the property at \$272,838 with similar amounts in liens. Without a current appraisal, I cannot ascertain fair market value. However, I do not believe fair market value is 3.6 times assessed value as shown on the statement.

Valuation of the cinder pit at \$2.25 per cubic yard is questionable when the Mesa NF sells cinders for \$0.60 and the Arroyo NF for \$0.25 per cubic yard. A realistic estimate of the cinder value would be no more than \$1.00 per cubic yard.

As to the bidder's credit standing, I have talked with the State Workmen's Compensation Board, six operators in the Forest Products Industry, the Internal Revenue Service, and five employees in the Forest Service all of whom at one time were unable to collect debts from the bidder.

In summary, the financial statement reflects no working capital. The net worth is inflated, and even at realistic values I believe it would be difficult for the bidder to secure financing in view of the \$284,000 in liens. For the foregoing reasons, it is my opinion the bidder lacks financial ability to perform the sale.

**JOHN FINEQUILL**  
Staff Accountant

## **24.1 - Award of Timber Sale**

1. If the analysis indicates that the purchaser is financially unable to complete the sale, the accountant/analyst must recommend that the Contracting Officer consider a determination of financial inability. The accountant may recommend that, in lieu of not awarding the sale, the Contracting Officer may require additional security, in the form of performance guarantees or increased cash deposits, if such additional security is adequate to protect the interest of the Government (sec. 21.43).

2. Another alternative is to obtain the value of cross guarantees from affiliate companies with additional resources. The format for these guarantees is approved by the Office of the General Counsel. See FSH 2409.18, Timber Sale Preparation Handbook, for information on additional security.

### **24.11 - Bidders Record of Integrity and Business Ethics in the Report**

In addition to adequacy of financial resources, analysts should comment on bidders' and affiliates' records of integrity and business ethics if such information comes to light (36 CFR 223.101). Review of a credit report, showing slow or late payments and prior bankruptcies, may indicate a lack of integrity or business ethics.

### **24.12 - Bidder's Past Performance in Report**

Analysts should comment on bidder's past performance records on timber sale contracts if any of this data comes to their attention during the review.

### **24.13 - Certificates of Competency in the Report**

If a small business (FSM 2436) is not financially responsible, Contracting Officers must notify the Small Business Administration (SBA) of their determination.

1. Award is withheld for a period of up to 15 days following receipt by SBA of this notification.

2. The SBA will offer the company the opportunity to apply for a Certificate of Competency.

a. When it is necessary to go to SBA, the Forest Service should work with them and obtain a release in writing from the operator to share financial data with SBA.

b. Forest and Regional Office accountants should establish working relationships with their SBA office.