



The Comptroller General  
of the United States

Washington, D.C. 20548

## Decision

Matter of: Timber Deposits or Credits--Inclusion in Annual  
Payments to States Pursuant to 16 U.S.C. § 500

File: B-226692

Date: April 29, 1988

---

### DIGEST

Deposits or credits established pursuant to contracts for the removal of timber from national forest land should not be included in annual distributions to states under 16 U.S.C. § 500, unless they are earned or offset by the corresponding removal of timber. This decision is based on both generally accepted and specifically applicable accounting principles and on analysis of 16 U.S.C. § 500.

---

### DECISION

The Secretary of Agriculture requested our decision concerning whether deposits or credits established pursuant to contracts for the removal of timber from national forests may be included in the computation of annual 25 percent payments to states under 16 U.S.C. § 500 prior to those deposits or credits actually being earned or offset by the removal of timber.<sup>1/</sup> In addition, in the event that we answer in the negative, the Secretary asked if we would object to a phasing-in of accounting changes to accommodate such a ruling. As discussed in more detail below, we conclude that deposits made by or credits granted to prospective purchasers of timber from national forests should not be included in annual payments to states until those deposits or credits are earned or offset by the corresponding removal of timber. The Forest Service has not given us information that would provide a basis for concluding that we have no objection to incremental implementation of the changes.

### BACKGROUND

Since 1908, at the end of each fiscal year, the federal government has paid 25 percent of all "moneys received" during that year from resource utilization in each national

---

<sup>1/</sup> After consulting the Office of the General Counsel of the Department of Agriculture, we consolidated and rephrased the questions submitted in the Secretary's original request.

042033/135701

forest to the state government in which that national forest is situated. Act of May 23, 1908, ch. 192, 35 Stat. 260, classified to 16 U.S.C. § 500 (1982). The Forest Service has traditionally interpreted "moneys received" to include deposits made by or credits granted to purchasers of timber prior to the removal of that timber. For example, the standard Forest Service timber sale contract requires the purchaser to make cash deposits or to establish purchaser credits in advance of cutting timber. The Forest Service has routinely included such receipts in annual distributions to the states pursuant to 16 U.S.C. § 500. Since 1976, Congress has expressly included collections for reforestation and timber stand improvement under the Knutson-Vandenberg Act (Act of June 9, 1930, ch. 416, 46 Stat. 527, classified in pertinent part to 16 U.S.C. § 576b), and earned or allowed purchaser road credits in the annual distribution to the states. National Forest Management Act, Pub. L. No. 94-588, § 16, 90 Stat. 2961 (1976), amending 16 U.S.C. § 500. At the end of each fiscal year, the Forest Service includes these advance deposits and the value of the credits in annual distributions to the states even if they have not yet been "earned" or "offset" by the corresponding removal of timber by purchasers.

However, an audit report of the Inspector General of the Department of Agriculture (USDA) recommended that the Forest Service exclude advance deposits or credits from annual distributions to the states. Citing the GAO Policy and Procedures Manual for Guidance of Federal Agencies (GAO-PPM), the Inspector General maintained that deposit fund accounts are properly considered liabilities and the funds held therein remain the property of the depositors until earned. The report concluded that advance deposits or credits should not be counted in the annual distribution to the states until they are earned by the federal government.

The request asked us to comment on the Inspector General's report, and points out that should the Forest Service implement this recommendation, the adjustment would result in a one-time reduction in the amount distributed to local governments for the first year. For that reason, in the event that we conclude that advance deposits should no longer be included in annual distributions to local governments, we were asked to advise on the possibility of "phasing in" any accounting changes over a period of time.

#### ANALYSIS

The Comptroller General has promulgated accounting principles and standards applicable to federal agencies in title 2 of the General Accounting Office Policy and Procedures Manual for the Guidance of Federal Agencies.

GAO-PPM, tit. 2 and appendix I (TS No. 2-24, October 31, 1984). Appendix I stipulates that an advance or prepayment made to the government in contemplation of the later delivery of goods (such as in the situation where a prospective purchaser of timber leaves a deposit or accumulates credits with the Forest Service prior to removing trees) shall be recorded as a liability, until that payment is earned. 2 GAO-PPM, appendix I, A30.04.

In addition, the Secretary of the Treasury has established a coordinated system of accounting and financial reporting relating to the financial operation of the federal government. 31 U.S.C. § 3513 (1982). Consistent with the GAO-PPM, this system stipulates that a deposit from an outside source for whom the government is acting as a custodian shall be classified as a deposit fund, liability account. Treas. Financial Manual, vol. 1, § 2-1560.10 (T.L. No. 382).

Thus, pursuant to accounting procedures generally followed by federal agencies, an advance deposit made by a prospective purchaser of timber from national forest land is to be accounted for as a liability. The GAO-PPM further defines "liability" as a present obligation to others which will be settled by the future transfer or use of assets at: (1) a specified or determinable date; (2) at the time of a specific event; or (3) on demand. 2 GAO-PPM, appendix I, at 7. This is consistent with generally accepted accounting principles used by the private sector as well. Financial Accounting Standards Board, Concept Statement 6, Elements of Financial Statements, 13-17 (1985).

Because an unearned deposit or credit represents a liability, it should not be expended until "earned" or "offset," in this case by the removal of timber. Meanwhile, assuming the prospective purchaser has no outstanding obligations to the federal government (See 45 Comp. Gen. 504, 505 (1966)), the depositor maintains the right to demand a refund of the deposit up until the time timber is removed.

For these reasons, we agree with the Inspector General of USDA that, because deposit funds have not yet been earned by the government, the government should not "spend" the funds by including them in annual distributions to the states.

One could argue that 16 U.S.C. § 500, read literally, allows unearned deposits to be included in annual distributions to the states. It expressly requires that 25 percent of all "moneys received" during a fiscal year from resource utilization in a national forest shall, at the end of that

year, be paid to the states in which that forest is located. Taken literally, "moneys received" encompasses all funds in the government's hands and therefore implies that unearned deposits should be included in annual distributions. However, the term "moneys received" cannot be construed without reference to the accounting principles discussed above.

The legislative history of a comparatively recent amendment to 16 U.S.C. § 500 provides additional support for this position. The National Forest Management Act of 1976, included "all amounts earned or allowed" as purchaser credits through the construction of roads by prospective purchasers as "moneys received" for purposes of annual distributions to the states. The amendment is not without ambiguity, but Senate Report No. 94-893 explicitly stated that the collections would not be included for distribution until set off against the value of timber removed from a national forest, as follows:

" . . . Under the amendment, the earned or allowed purchaser credits used through set-off against the value of timber . . . will be included in 'money received,' and States will receive twenty-five percent of that amount. . . ." S. Rep. No. 893, 94th Cong., 2d Sess. 24 (1976) (emphasis added).

Thus, Congress intended purchaser credits to be earned before including them in annual distributions, and there is no reason to assume that cash deposits were to be treated any differently.

Therefore, based on both generally accepted accounting principles and specially applicable federal accounting principles and standards and on our analysis of 16 U.S.C. § 500, we agree with the recommendation of the Inspector General of USDA that the Forest Service should not include advance deposits or credits in annual distributions to the states until they have been earned or offset by the corresponding removal of trees.

As to the subsidiary question regarding the possible incremental implementation of these accounting changes, the Forest Service has not given us any information concerning the magnitude or impact of the changes, nor has it described

a plan for phasing them in. We therefore have no basis on which to conclude that we have no objection to incremental implementation of the changes.

*for*   
Comptroller General  
of the United States