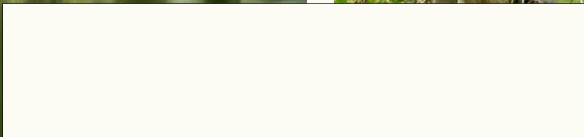
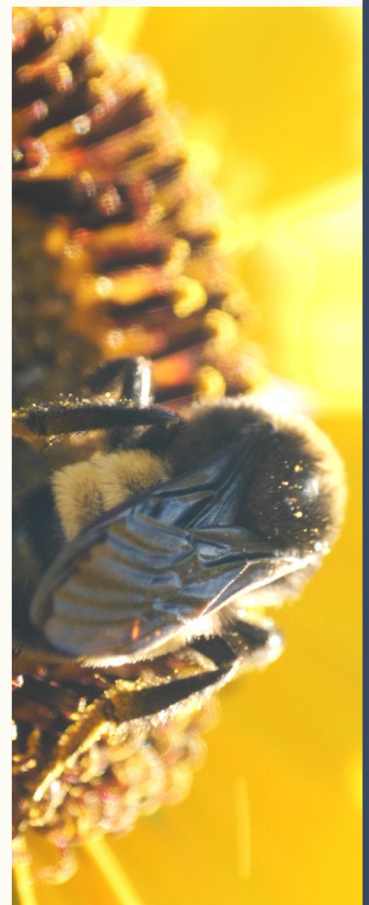




U.S. Department of Agriculture Office of Inspector General





OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



DATE: November 8, 2023

AUDIT

NUMBER: 10403-0006-11

TO: **Terry Cosby**
Chief
Natural Resources Conservation Service

ATTN: **Lucas Castillo**
Chief Financial Officer
Farm Production and Conservation Business Center

Gary Weishaar
Branch Chief for the External Audits and Investigations Division
Farm Production and Conservation Business Center

FROM: **Janet Sorensen**
Assistant Inspector General for Audit

JANET
SORENSEN

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SORENSEN
Date: 2023.11.08
13:25:16 -06'00'

SUBJECT: Natural Resources Conservation Service's Financial Statements for
Fiscal Years 2023 and 2022

KPMG LLP, an independent certified public accounting firm, was engaged to audit the financial statements of Natural Resources Conservation Services (NRCS) as of September 30, 2023 and 2022, and for the fiscal years then ended; to provide a report on internal controls over financial reporting; to report on whether NRCS' financial management system substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); and to report any reportable noncompliance with laws tested and other matters. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standard and Office of Management and Budget (OMB) audit guidance.

In its audit of NRCS' fiscal years 2023 and 2022 financial statements, KPMG LLP provided an unmodified opinion and reported:

- the consolidated financial statements present fairly, in all material respects, the financial position of NRCS as of September 30, 2023 and 2022, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles;

- no material weaknesses¹ or significant deficiencies² in internal control over financial reporting;
- no instances in which NRCS's financial management systems did not substantially comply with FFMIA; and
- no reportable noncompliance with provisions of laws tested and other matters.

In connection with the contract, the Office of Inspector General reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on NRCS' financial statements; conclusions about the effectiveness of internal control over financial reporting; or conclusions on whether NRCS' financial management systems substantially complied with the three FFMIA requirements or on compliance with laws and other matters. KPMG LLP is responsible for the attached auditor's report, dated November 8, 2023 and the conclusions expressed therein. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. Generally accepted government auditing standard and OMB audit guidance.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<https://usdaoig.oversight.gov>) in the near future.

¹ A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

² A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Chief, Natural Resources Conservation Service and
Inspector General, United States Department of Agriculture:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the United States Department of Agriculture, Natural Resources Conservation Service (NRCS), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the NRCS as of September 30, 2023 and 2022, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the NRCS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NRCS's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the Table of Contents, Message from the Chief, and the Other Information section but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2023, we considered the NRCS's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NRCS's internal control. Accordingly, we do not express an opinion on the effectiveness of the NRCS's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NRCS's consolidated financial statements as of and for the year ended September 30, 2023 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01.

We also performed tests of the NRCS's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the NRCS's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Purpose of the Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal



control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the NRCS's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 8, 2023

FY 2023

Agency Financial Report



Helping People Help the Land
USDA Natural Resources
Conservation Service

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Message from the Chief

On behalf of the Natural Resources Conservation Service (NRCS), I respectfully submit the Agency Financial Report (AFR) for fiscal year (FY) 2023.

In accordance with Department guidelines and as required by the Federal Managers Financial Integrity Act (FMFIA) and the Office of Management and Budget Circular A-123 on Management's Responsibility for Internal Control, NRCS acknowledges responsibility for its internal control environment.

Management conducted its annual assessment of internal controls and provided an unmodified statement of assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2023. Management has also assessed the completeness and reliability of the performance and financial data used in this report. Additionally, NRCS's independent auditors also issued an unmodified opinion on the NRCS financial statements for fiscal year 2023.

NRCS remains committed to operating its programs and operations in an effective and efficient manner and its financial management systems in compliance with Federal requirements.

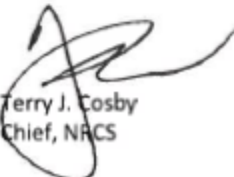
Mission and Organizational Structure

NRCS is comprised of more than 12,000 public servants who work together to provide financial and technical assistance to farmers, ranchers, and forest landowners to implement conservation practices across the landscape and protect and preserve our natural resources nationwide.

Mission Statement: We deliver conservation solutions so agricultural producers can protect natural resources and feed a growing world.

Vision: A world of clean and abundant water, healthy soils, resilient landscapes, and thriving agricultural communities through voluntary conservation.

NRCS operates under the direction of the USDA Under Secretary for Farm Production and Conservation (FPAC). The NRCS mission is carried out across four regions (which cover all fifty states, the Caribbean, and Pacific Basin Areas), three National Technology Support Centers, and nine National Centers.


Terry J. Cosby
Chief, NRCS

November 7, 2023

Management's Discussion and Analysis (Unaudited)

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis (MD&A) serves as a high-level overview for the years ended September 30, 2023 and 2022 of financial and non-financial performance for the Natural Resources Conservation Service (NRCS), an agency of the United States Department of Agriculture (USDA).

Mission and Organizational Structure

NRCS is comprised of more than 12,000 public servants who work together to provide financial and technical assistance to farmers, ranchers, and forest landowners to implement conservation practices across the landscape and protect and preserve our natural resources nationwide.

Mission Statement: We deliver conservation solutions so agricultural producers can protect natural resources and feed a growing world.

Vision: A world of clean and abundant water, healthy soils, resilient landscapes, and thriving agricultural communities through voluntary conservation.

NRCS operates under the direction of the USDA Under Secretary for Farm Production and Conservation (FPAC). The NRCS mission is carried out across four regions (which cover all fifty states, the Caribbean, and Pacific Basin Areas), three National Technology Support Centers, and nine National Centers.

Management’s Discussion and Analysis (Unaudited)

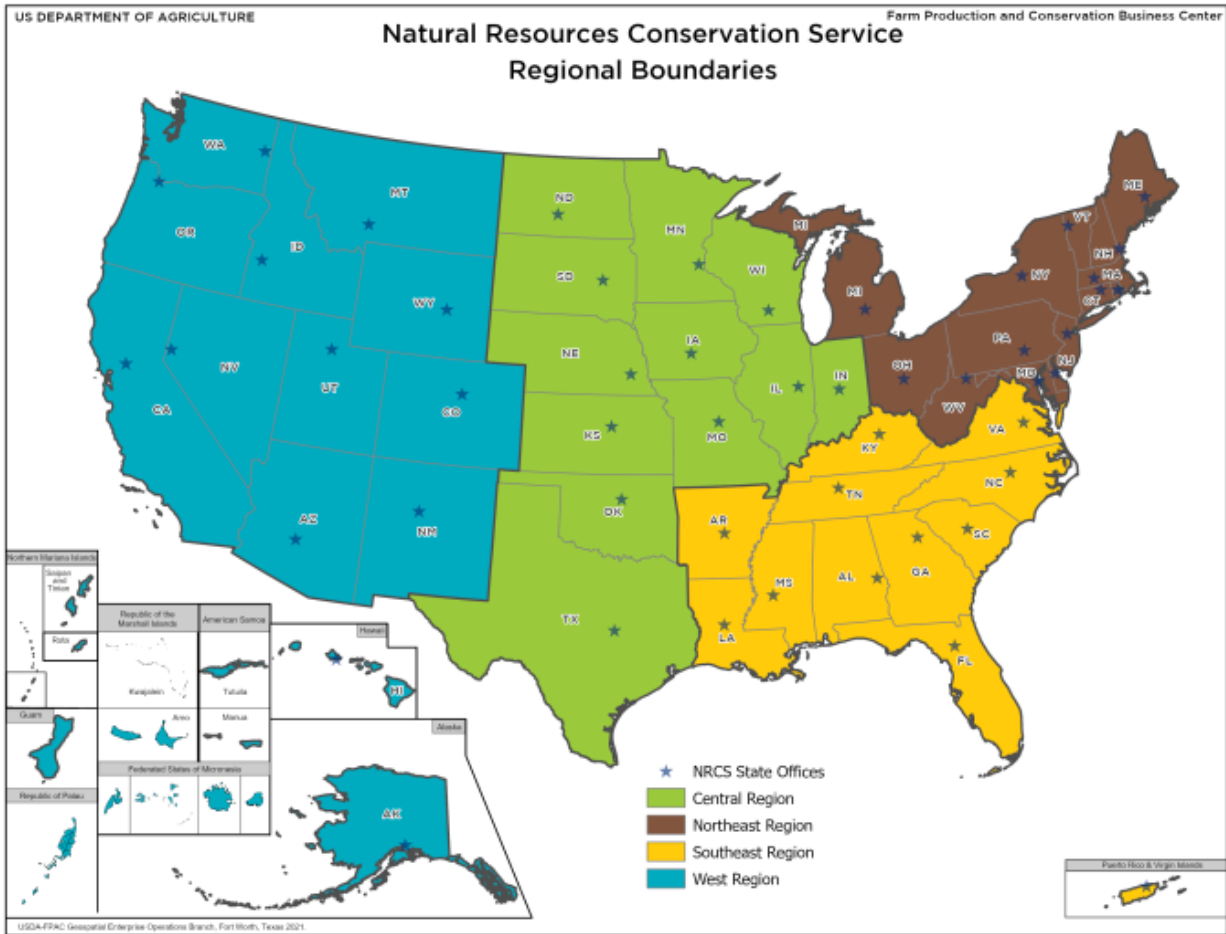


Table 1: NRCS Organizational Map of Regions

NRCS is a line and staff organization from the field office through the State Conservationist to the Regional Conservationist, and to the Chief. The four regions are organized geographically as Northeast, Southeast, Central, and West. At Headquarters, the Associate Chief supervises the Deputy Chief for Soil Science and Resource Assessment, Deputy Chief for Programs, Deputy Chief for Science and Technology, the Deputy Chief for Management and Strategy, and the Director of the Gulf Ecosystem Restoration Team.

Management’s Discussion and Analysis (Unaudited)

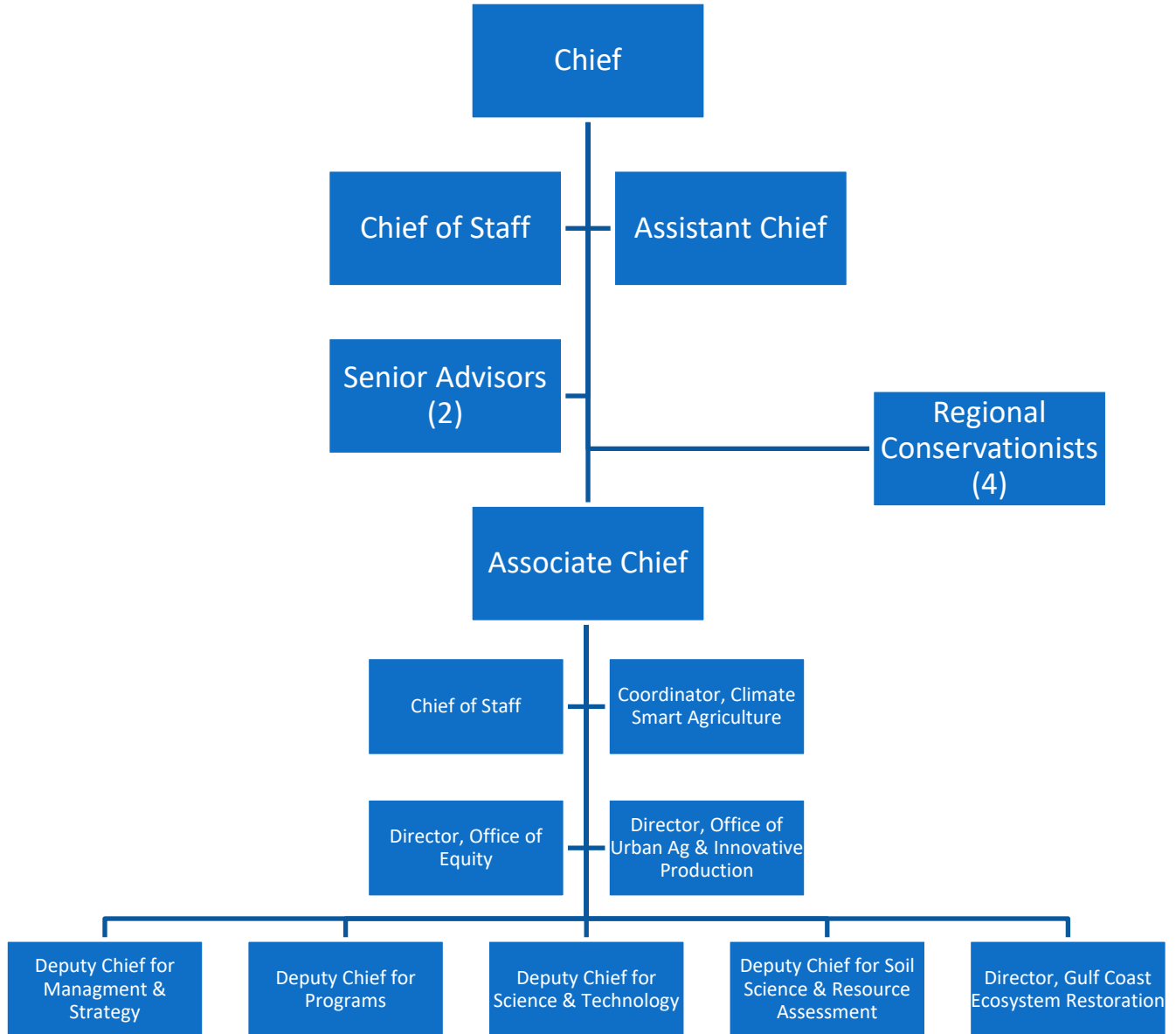


Table 2: NRCS Organizational Chart as of September 30, 2023

Performance Goals, Objectives, and Results

NRCS’s priorities are aligned with the USDA strategic plan, which extends through FY 2026. NRCS key performance measures (KPM) align with USDA Strategic Goal 1: Combat Climate Change to Support America’s Working Lands, Natural Resources, and Communities. NRCS is further guided by three strategic objectives within Strategic Goal 1:

Management’s Discussion and Analysis (Unaudited)

- Objective 1.1: Use Climate-Smart Management and Sound Science to Enhance the Health and Productivity of Agricultural Lands.
- Objective 1.3: Restore, Protect, and Conserve Watersheds to Ensure Clean, Abundant, and Continuous Provision of Water Resources.
- Objective 1.4: Increase Carbon Sequestration, Reduce Greenhouse Gas Emissions, and Create Economic Opportunities (and Develop Low-Carbon Energy Solutions).

Performance Goals and Results

The following table shows NRCS’s KPM accomplishments. Please note that complete end of FY 2023 updates will be found in the FY 2023 Annual Performance Report (APR), which will be published with the FY 2025 Annual Performance Plan and the FY 2025 budget by February 2024 on the Office of Budget and Program Analysis (OBPA) website, <https://www.usda.gov/our-agency/about-usda/performance>. Additionally, acreage displayed in the table below is not associated with Stewardship Land or Property, Plant, and Equipment (PP&E) Land acreage shown in the Required Supplemental Information (RSI). Acreage in the table below relates to technical and financial assistance provided through programs.

USDA Objective	Key Performance Indicator	Trend ¹			As of September 30, 2023		
		FY 2020	FY 2021	FY 2022	Target	Actual	Result ²
Objective 1.1: Use Climate-Smart Management and Sound Science to Enhance the Health and Productivity of Agricultural Lands	Cropland with conservation applied to improve soil quality, Conservation Technical Assistance (CTA) – (millions of acres)	6.4	3.6	3.4	6.0	4.7	Unmet ²
	Cropland with conservation applied to improve soil quality, Environmental Quality Incentive Program (EQIP) – (millions of acres)	3.9	3.4	3.3	3.4	3.3	Needs Improvement ²
	Cropland with an applied Soil Health Management System (SHMS) (thousand acres)		313	294	225	428	Met ²
	Working lands protected by conservation easements (thousand acres)	167	145	167	163	193	Met ²
Objective 1.3: Restore, Protect, and Conserve Watersheds to Ensure Clean, Abundant, and Continuous Provision of Water Resources	Tons of sediment prevented from leaving cropland and entering waterbodies (million tons)	8.2	8.1	8.3	6.0	8.3	Met ²
Objective 1.4: Increase Carbon Sequestration, Reduce Greenhouse Gas Emissions, and Create Economic Opportunities (and Develop Low-Carbon Energy Solutions)	Contract Implementation Ratio – EQIP (%)	87.0	87.0	86.9	87.0	82.4	Needs Improvement ²
	Practice Implementation Rate - (%)	43.0	68.0	65.6	53.0	65.6	Met ²

1. Data Source. NRCS tracks and evaluates Field and State level conservation planning efforts and practice implementation. The data source is the National Planning and Agreements Database and ProTracts.

2. Rationale for Met Range: Estimated performance October 1, 2022 through September 30, 2023. Met: A KPI is considered met only if the actual is at least 100% of the target, Need Improvement: KPI actual is 10% or less within range of the target, and Unmet: KPI actual is more than 10% off range from the target.

Table 3: Performance Scorecard for FY 2023 - Trends, Targets, and Results

Performance Data Verification and Validation

NRCS regularly collects program performance data through data collection tools, processes, and related software that provide information on a routine basis to support the agency’s strategic and performance planning, budget formulation, workforce planning, and accountability activities. The Conservation Desktop web application tracks and evaluates all field and state level conservation planning efforts and practice implementation, except for easement program data, which is tracked through the National Easement Staging Tool. The Conservation Effects Assessment Project surveys acts as the data source for performance data models.

Management's Discussion and Analysis (Unaudited)

- **Completeness of Data:** The reported performance measures are based on data from October 1, 2022, to September 30, 2023. Each performance record must adhere to quality assurance requirements during the upload process. Business rules, definitions, and internal controls enforce accountability policies or business requirements and diagnose potential entry errors. Error reports are generated for managers at multiple levels to review for completeness or rejected entries.
- **Reliability of Data:** The data reported for performance measures was determined within Performance Results System (PRS) based on information validated and received from the National Practices Applied Database (NPAD) and ProTracts. Applied conservation practices are date-stamped, geo-referenced, and linked to employee identification, enabling detailed quality assurance reviews. Reliability estimates of the performance data models are based on the statistical reliability of the National Resource Inventory.
- **Quality of Data:** The conservation data is reported by field staff trained in conservation planning and application for local resource conditions. Error checking enhancements and reports within the PRS application maintain data quality by allowing users at local, state, and national levels to monitor data inputs. State office and headquarters personnel periodically review the accuracy of the data. Each state conservationist certifies that the PRS data is complete and accurate. The data quality of performance data models is based on scientifically peer-reviewed modeling procedures and protocols.
- **Linking Performance to Programs:** To ensure program accountability and evaluate program efficiency, data on performance measures for conservation applied must be linked to the program that funded the staff time needed to carry out each activity.
- **Limitations Associated with Performance Management Reporting:** Problems with performance management reporting are typically caused by errors in data entry. NRCS developed several software controls within PRS to minimize such errors.

Analysis of Entity's Financial Statement and Stewardship Information

NRCS produces four principal consolidated financial statements on a quarterly basis to summarize the activity and associated financial position of the agency:

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources

Management's Discussion and Analysis (Unaudited)

NRCS strives to provide relevant, reliable, and accurate financial information related to agency activities.

Limitations of the Consolidated Financial Statements

The financial statements are prepared to report the financial position, financial condition, and results of operations, consistent with the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by Office of Management and Budget (OMB). Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

The following tables reflect the comparative amounts as of September 30, 2023 and 2022.

Assets

NRCS reported approximately \$22 billion in assets as of September 30, 2023, representing an increase of 10 percent compared with assets reported as of September 30, 2022.

Assets (in millions)	2023	2022	Difference	Percent Difference
Fund Balance with Treasury	\$ 21,989	\$ 20,013	\$ 1,976	10%
Accounts Receivable, Net	13	16	(3)	-19%
Advances and Prepayments	3	6	(3)	-50%
Total Intragovernmental Assets	\$ 22,005	\$ 20,035	\$ 1,970	10%
Accounts Receivable, Net	2	1	1	100%
Property, Plant and Equipment, Net	419	325	94	29%
Advances and Prepayments	62	50	12	24%
Total Assets	\$ 22,488	\$ 20,411	\$ 2,077	10%

Table 4: Assets

The year over year increase in assets was largely due to Fund Balance with Treasury, and the result of an increase in appropriations and funding transfers over the past two fiscal years for programs that were not fully executed before the end of the year.

Liabilities

NRCS reported approximately \$1 billion in liabilities as of September 30, 2023, a 29 percent increase versus the same period in FY 2022. The largest category that increased is Other Liabilities, specifically Grants and Agreements. As a result of the influx of funding over the past two fiscal years, NRCS entered into more new

Management's Discussion and Analysis (Unaudited)

obligations in FY2023 as compared to FY2022 and as a result, liabilities on those obligations increased.

Liabilities (in millions)	2023	2022	Difference	Percent Difference
Accounts Payable	\$ -	\$ 1	\$ (1)	-100%
Other Liabilities	46	44	2	5%
Total Intragovernmental Liabilities	\$ 46	\$ 45	\$ 1	2%
Accounts Payable	75	37	38	103%
Federal Employee and Veterans' Benefits	116	110	6	5%
Advances from Others and Deferred Revenue	17	18	(1)	-6%
Other Liabilities	1,200	914	286	31%
Total Liabilities	\$ 1,454	\$ 1,124	\$ 330	29%

Table 5: Liabilities

Net Position

The nine percent increase year over year in Net Position is largely the result of an increase in unexpended appropriations. Net position represents unexpended appropriations consisting of undelivered orders as well as unobligated funds, and the cumulative results of operations. This increase is attributable to an increase in funding over the past two fiscal years for programs that were not fully executed before the end of the year.

Net Position (in millions)	2023	2022	Difference	Percent Difference
Unexpended Appropriations	\$ 5,954	\$ 4,456	\$ 1,498	34%
Cumulative Results of Operations	15,080	14,831	249	2%
Total Net Position	\$ 21,034	\$ 19,287	\$ 1,747	9%

Table 6: Net Position

Net Cost of Operations

NRCS's net cost of operations was approximately \$5 billion as of September 30, 2023, representing a 19 percent increase from last year. This increase is explained by an increase in funding over the past two fiscal years which resulted in an increase in new obligations and expenses incurred on those obligations.

Net Cost of Operations (in millions)	2023	2022	Difference	Percent Difference
Gross Costs	\$ 5,103	\$ 4,312	\$ 791	18%
Less: Total Earned Revenue	51	58	(7)	-12%
Total Net Cost of Operations	\$ 5,052	\$ 4,254	\$ 798	19%

Table 7: Net Cost of Operations

Management’s Discussion and Analysis (Unaudited)

Budgetary Resources

Total budgetary resources were \$19 billion as of September 30, 2023. This is a nine percent increase versus 2022, and the result of an increase in appropriations and funding transfers for programs over the past two fiscal years that were not fully executed before the end of the year.

	2023	2022	Difference	Percent Difference
Budgetary Resources (in millions)	\$ 18,639	\$17,142	\$1,497	9%

Table 8: Budgetary Resources

Analysis of Systems, Controls, and Legal Compliance

Federal Managers’ Financial Integrity Act

The Federal Managers’ Financial Integrity Act of 1982 (FMFIA) requires ongoing evaluations of internal controls and financial management systems. These evaluations lead to an annual statement of assurance that:

- Obligations and costs comply with applicable laws and regulations.
- Federal assets are safeguarded against fraud, waste, abuse, and mismanagement.
- Transactions are accounted for and properly recorded.
- Financial management systems conform to standards, principles, and other requirements to ensure that Federal managers have timely, relevant, and consistent financial information for decision-making purposes.

NRCS evaluated its internal controls in accordance with OMB Circular No. A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*. NRCS operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA, the Federal Financial Management Improvement Act of 1996 (FFMIA), OMB Circular No. A-123, and other applicable laws and regulations. NRCS managers must ensure their programs operate efficiently and effectively and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements.

NRCS strives to operate its programs efficiently and effectively in compliance with FMFIA and other applicable laws and regulations.

FY 2023 Results

NRCS has made significant improvements regarding the monitoring of obligations and the timely recording of deobligations, which was reported as a material weakness in FY 2022. As a result, the material weakness has been resolved.

Management's Discussion and Analysis (Unaudited)

Federal Financial Management Improvement Act

The FFMIA is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply with (1) Federal Financial Management System (FFMS) requirements, (2) applicable Federal accounting standards, and (3) the U.S. Standard General Ledger (USSGL) at the transaction level.

In FY 2022, NRCS noted deficiencies in applicable Federal accounting standards, including the USSGL at the transaction level. Specifically, incorrect posting logic was being used for recoveries of prior year unpaid obligations. In FY 2023, NRCS enhanced processes to correct posting logic to achieve substantial compliance with FFMIA.

NRCS assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, in accordance with Departmental guidelines and as required by FMFIA and FFMIA as of September 30, 2023. As a result of the assessment, NRCS reports the Statement of Assurance below.

Management's Discussion and Analysis (Unaudited)

Statement of Assurance

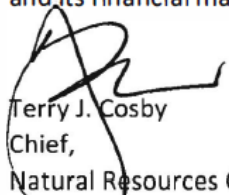
NRCS management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act.

NRCS conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, NRCS can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2023.

NRCS has also assessed the compliance of NRCS's financial management systems with federal financial management systems requirements in accordance with FMFIA Section 4; FFMIA Section 803(a); and OMB Circular No. A-123, Appendix D. They require federal agencies to implement and maintain financial management systems that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. NRCS management can provide reasonable assurance of compliance with FMFIA Section 4 and FFMIA as of September 30, 2023.

NRCS is compliant with the Payment Integrity Information Act (PIIA) of 2019. However, NRCS continues to report noncompliance with the Digital Accountability and Transparency Act (DATA) of 2014.

NRCS remains committed to operating its programs and operations in an effective and efficient manner and its financial management systems in compliance with Federal requirements.



Terry J. Cosby
Chief,
Natural Resources Conservation Service

November 7, 2023

Management's Discussion and Analysis (Unaudited)

Federal Information Security Modernization Act (FISMA) of 2014

FISMA provides the framework for securing Federal Government information technology. Departments covered by the Paperwork Reduction Act must implement the requirements of FISMA, reporting annually to OMB and Congress on the effectiveness of the agency's security programs and Office of Inspector General evaluations. NRCS's security deficiencies are tracked in the FISMA Plan of Actions and Milestones (POA&Ms), which is updated monthly and reported to USDA quarterly for inclusion in its FISMA report to OMB.

The FPAC Business Center accomplished the following actions toward NRCS information security improvement during FY 2023, including:

- Ensured twenty-eight systems attained or maintained Authority to Operate (ATO) with FISMA requirements. Twenty-one systems were assessed during FY 2023. The remaining seven systems will be assessed within the calendar year (CY) assessment cycle ending 12/31/2023.
- Twelve POA&Ms were fully remediated in FY 2023.
- Conducted four High-Valued Asset (HVA) annual ATO assessments during FY 2023, the remaining two HVAs will be assessed within the CY assessment cycle ending 12/31/2023.
- Conducted an annual A-123 audit for the HVA ProTracts-FundManager system, resulting in no findings.
- Updated and enforced security standard operating procedures for all NRCS information systems.
- Reviewed proposed changes to information systems and applications to determine the impact on the security posture.
- Conducted vulnerability assessment scanning of NRCS systems on a routine and ad-hoc basis to ensure compliance and to identify opportunities to reduce risk.
- Assisted project and portfolio management and software development teams with vulnerability remediation measures for cloud, web, and Federal applications/systems.
- Deployed and managed security tools to identify, protect, detect, respond, and recover NRCS applications/systems.
- Achieved 84 percent compliance with mandated Information Security Awareness Training (ISAT) which enhanced NRCS's awareness of cybersecurity threats.
- Performed assessments with the U.S. Department of Homeland Security and OIG on NRCS ProTracts-FundManager and mitigated the findings, improving the security posture of the system.

Management’s Discussion and Analysis (Unaudited)

- Conducted informative briefings to Mission Delivery Agencies regarding identified risks, security findings, and how the findings would be addressed for their systems.

Inspector General Act Amendments of 1988

The Inspector General Act requires management to complete all final actions on audit recommendations within one year of the date of the Inspector General’s final audit report. As of September 30, 2023, there are four audits for which work has not yet been completed in accordance with the act.

GAO/OIG Active Audits

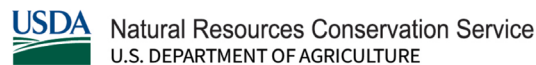
The summary of GAO/OIG active audits for the year ended September 30, 2023, provides an overview of the external audit activities in progress and three with a Final Report issued. After the final report has been provided to the agency, NRCS may have several audit recommendations to complete before the audit is officially closed.

Active Audit Name and Number	Start Date	Final Report Date
OIG – Conservation Stewardship Program – Participant Control of Land – 50601-0005-23	9/16/2021	*
OIG – USDA’s Fiscal Year 2019, First Quarter DATA Act Submission – 11601-0001-12		11/08/2019
GAO - Indo-Pacific Climate Change Risk -106236	1/18/2023	*
GAO – Civil Rights Mandate - 104716	3/8/2021	*
GAO – Alaska Native Issues, Federal Agencies Could Enhance Support for Native Village Efforts to Address Environmental Treats - GAO-22-104241	6/20/2020	5/18/2022
GAO - Farm Programs: USDA Should Take Additional Steps to Ensure Compliance with Wetland Conservation Provisions - GAO-21-241	6/30/2020	4/02/2021
GAO – Precision Agriculture - 105962	4/14/2022	*
*: Audit in progress and final report release is pending		*

Table 9: GAO/OIG Active Audits Summary

SECTION 2: FINANCIAL INFORMATION

Consolidated Financial Statements



Natural Resources Conservation Service
CONSOLIDATED BALANCE SHEETS
 As of September 30, 2023 and 2022
 (in millions)

	2023	2022
Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 21,989	\$ 20,013
Accounts Receivable, Net (Note 3)	13	16
Advances and Prepayments	3	6
Total Intragovernmental Assets	<u>22,005</u>	<u>20,035</u>
Other than Intragovernmental Assets:		
Accounts Receivable, Net (Note 3)	2	1
Property, Plant, and Equipment, Net (Note 4)	419	325
Advances and Prepayments	62	50
Total Other than Intragovernmental Assets	<u>483</u>	<u>376</u>
Total Assets	<u>22,488</u>	<u>20,411</u>
Stewardship Property, Plant, and Equipment (Note 5)		
Liabilities:		
Intragovernmental Liabilities:		
Accounts Payable	-	1
Other Liabilities (Note 7)	46	44
Total Intragovernmental Liabilities	<u>46</u>	<u>45</u>
Other than Intragovernmental Liabilities:		
Accounts Payable	75	37
Federal Employee and Veteran Benefits Payable (Note 6)	116	110
Advances from Others and Deferred Revenue	17	18
Other Liabilities (Note 7)		
Other Liabilities with Related Budgetary Obligations	1,145	864
Accrued Funded Payroll and Leave	54	49
Other	1	1
Total Other than Intragovernmental Liabilities	<u>1,408</u>	<u>1,079</u>
Total Liabilities	<u>1,454</u>	<u>1,124</u>
Commitments and Contingencies (Note 9)		
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Note 10)	-	-
Unexpended Appropriations - Funds from Other Than Dedicated Collections	5,954	4,456
Total Unexpended Appropriations (Consolidated)	<u>5,954</u>	<u>4,456</u>
Cumulative Results of Operations - Funds from Dedicated Collections (Note 10)	19	19
Cumulative Results of Operations - Funds from Other Than Dedicated Collections	15,061	14,812
Total Cumulative Results of Operations (Consolidated)	<u>15,080</u>	<u>14,831</u>
Total Net Position:	<u>21,034</u>	<u>19,287</u>
Total Liabilities and Net Position	<u>\$ 22,488</u>	<u>\$ 20,411</u>

The accompanying notes are an integral part of these consolidated financial statements

Natural Resources Conservation Service
Consolidated Statements of Net Cost
 For the Periods Ended September 30, 2023 and 2022
 (In Millions)

Strategic Goal:

Combat Climate Change to Support America's Working Lands, Natural Resources, and Communities

	2023	2022
Farm Bill Programs		
Gross Costs	\$ 3,305	\$ 3,087
Less: Earned Revenue	18	17
Net Program Costs	3,287	3,070
Conservation Operations Program		
Gross Costs	1,277	878
Less: Earned Revenue	25	18
Net Program Costs	1,252	860
Watershed and Flood Prevention Operations Program		
Gross Costs	319	284
Less: Earned Revenue	7	18
Net Program Costs	312	266
Watershed Rehabilitation Program		
Gross Costs	36	30
Less: Earned Revenue	1	5
Net Program Costs	35	25
Emergency Watershed Protection Program		
Gross Costs	147	23
Less: Earned Revenue	-	-
Net Program Costs	147	23
Other Programs		
Gross Costs	19	10
Less: Earned Revenue	-	-
Net Program Costs	19	10
Total Gross Costs	5,103	4,312
Less: Total Earned Revenue	51	58
Net Cost of Operations	\$ 5,052	\$ 4,254

The accompanying notes are an integral part of these consolidated financial statements.

Natural Resources Conservation Service
Consolidated Statements of Changes in Net Position
 For the Periods Ended September 30, 2023 and 2022
 (in millions)

	2023			2022		
	Funds from Dedicated Collections (Note 10)	All Other Funds	Total	Funds from Dedicated Collections (Note 10)	All Other Funds	Total
Unexpended Appropriations:						
Beginning Balance	\$ -	\$ 4,456	\$ 4,456	\$ -	\$ 2,040	\$ 2,040
Appropriations Received	-	2,896	2,896	-	3,572	3,572
Appropriations Transferred in/out	-	(2)	(2)	-	(49)	(49)
Other Adjustments	-	(2)	(2)	-	(2)	(2)
Appropriations Used	-	(1,394)	(1,394)	-	(1,105)	(1,105)
Net Change in Unexpended Appropriations	-	1,498	1,498	-	2,416	2,416
Total Unexpended Appropriations: Ending	\$ -	\$ 5,954	\$ 5,954	\$ -	\$ 4,456	\$ 4,456
Cumulative Results from Operations:						
Beginning Balance	\$ 19	\$ 14,812	\$ 14,831	\$ 20	\$ 11,084	\$ 11,104
Other Adjustments	-	(231)	(231)	-	(353)	(353)
Appropriations Used	-	1,394	1,394	-	1,105	1,105
Transfers-In/Out Without Reimbursement (+/-)	5	4,004	4,009	3	7,129	7,132
Imputed Financing	-	129	129	-	98	98
Other	-	-	-	-	(1)	(1)
Net Cost of Operations (+/-)	(5)	(5,047)	(5,052)	(4)	(4,250)	(4,254)
Net Change in Cumulative Results of Operations	\$ -	\$ 249	\$ 249	\$ (1)	\$ 3,728	\$ 3,727
Cumulative Results of Operations: Ending	\$ 19	\$ 15,061	\$ 15,080	\$ 19	\$ 14,812	\$ 14,831
Net Position	\$ 19	\$ 21,015	\$ 21,034	\$ 19	\$ 19,268	\$ 19,287

The accompanying notes are an integral part of these consolidated financial statements.

Natural Resources Conservation Service
Combined Statements of Budgetary Resources
 For the Periods Ended September 30, 2023 and 2022
 (in millions)

	2023	2022
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (Note 12)	\$ 11,977	\$ 6,737
Appropriations (discretionary and mandatory)	6,668	10,349
Spending authority from offsetting collections (discretionary and mandatory)	(6)	56
Total Budgetary Resources	\$ 18,639	\$ 17,142
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 9,769	\$ 5,798
Unobligated balance, end of year:		
Apportioned, unexpired accounts	6,197	7,412
Unapportioned, unexpired accounts	33	1,311
Unexpired unobligated balance, end of year	6,230	8,723
Expired unobligated balance, end of year	2,640	2,621
Total unobligated balance, end of year	8,870	11,344
Total Budgetary Resources	\$ 18,639	\$ 17,142
Outlays, Net		
Outlays, net (discretionary and mandatory)	\$ 4,694	\$ 4,287
Distributed offsetting receipts	(1)	(1)
Agency Outlays, net (discretionary and mandatory)	\$ 4,693	\$ 4,286

The accompanying notes are an integral part of these consolidated financial statements.

**Notes to the Consolidated Financial Statements
for the Years Ended September 30, 2023 and 2022**

Notes to the Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

NRCS is a technical service agency within the USDA. NRCS combines the authorities formerly assigned to the Soil Conservation Service (SCS) and additional programs that provide financial assistance for natural resource conservation on private lands. SCS was established in 1935 to carry out a continuing program of soil and water conservation in partnership with local conservation districts. In 1994, the Secretary of Agriculture reorganized SCS by establishing NRCS and broadened its responsibilities, using the authority provided in the Department of Agriculture Reorganization Act of 1994, Public Law (P.L.) 103-354 (7 U.S.C. 6962).

NRCS operates under the guidance of the USDA Under Secretary for Farm Production and Conservation. The NRCS mission is carried out across four regions (Northeast, Southeast, West, and Central) covering all 50 states, the Caribbean Area (Puerto Rico), the Pacific Islands Area, as well as three National Technology Support Centers (NTSCs), and the National NRCS Centers. The NTSCs are in the eastern, central, and western areas of the Nation. NTSCs acquire and/or develop new science and technology to provide cutting-edge technological support and direct assistance, and to transfer technologies to the states, the Pacific Islands Area, and the Caribbean Area. NTSCs also develop and maintain national technical standards and other technological procedures and references. Technological guidance and direction are also provided through the National NRCS Centers, including the National Design, Construction, and Soil Mechanics Center; National Soil Survey Center; National Water and Climate Center; Information Technology Center; National Water Management Center; National Employee Development Center; National Geospatial Center of Excellence; and the National Agroforestry Center. Centers are co-located with other NRCS field offices whenever possible. NRCS is a line and staff organization. The line of authority begins with the Acting Chief and extends down through the Associate Chief, Regional Conservationists (Northeast, Southeast, Central, and West), Deputy Chiefs, Division Directors, State Conservationists, and Assistant State Conservationists. Line Officers are responsible for direct assistance to the public. Staff positions provide specialized technical or administrative assistance to Line Officers.

Discretionary Programs

NRCS has discretionary funding appropriated by Congress to provide technical and financial assistance under the Private Lands Conservation Operations, Watershed and Flood Prevention Operations, Watershed Rehabilitation Program, and Water

Notes to the Consolidated Financial Statements for the Years Ended September 30, 2023 and 2022

Bank Program and Wetland Mitigation Banking programs. There is also mandatory funding provided under the Watershed and Flood Prevention Operations and Watershed Rehabilitation programs.

NRCS received \$75 million via internal apportionment from the USDA Office of the Secretary (OSEC) for the administration of Organic Transition Initiatives. The funding was appropriated to OSEC under Section 1001 of the American Rescue Plan Act (P.L. 117-2) and Section N of the Consolidated Appropriations Act, 2021 (P.L. 116-60). The unobligated balances for this funding were rescinded by the Fiscal Responsibility Act, 2023, enacted on June 3, 2023.

Mandatory Programs

The Food Security Act of 1985, as amended by the Agriculture Improvement Act of 2018, (P.L. 115-334, (2018 Farm Bill) provides authority for NRCS to administer mandatory conservation program activities with funding provided through Commodity Credit Corporation (CCC) borrowing authority. The CCC is a government-owned and operated entity that was created to stabilize, support, and protect farm income and prices. Initially incorporated in 1933, the CCC was transferred to the USDA in 1939, and reincorporated on July 1, 1948 as a federal corporation within USDA. The authorizing language in the 2018 Farm Bill specifies that the funds, facilities, and authorities of CCC be used to administer various mandatory conservation programs.

NRCS receives mandatory funding under the 2018 Farm Bill to provide technical and financial assistance for the following programs:

- Environmental Quality Incentives Program (EQIP)
- Conservation Stewardship Program (CSTP)
- Agricultural Conservation Easement Program (ACEP)
- Regional Conservation Partnership Program (RCPP)
- Feral Swine Eradication and Control Pilot Program (FSCP)
- Voluntary Public Access and Habitat Incentive Program (VPAP)
- Conservation Reserve Program (CRPG) (Technical Assistance only)

NRCS receives mandatory funding under the Inflation Reduction Act of 2022 to provide technical and financial assistance for the following programs:

- Environmental Quality Incentives Program (EQIP)
- Conservation Stewardship Program (CSTP)
- Agricultural Conservation Easement Program (ACEP)
- Regional Conservation Partnership Program (RCPP)
- Conservation Technical Assistance Program (COTA)

**Notes to the Consolidated Financial Statements
for the Years Ended September 30, 2023 and 2022**

- Greenhouse Gas Inventory and Assessment Program (GGIA)

In addition, NRCS receives mandatory funding under Section 524(b) of the Federal Crop Insurance Act (7 U.S.C 1524(b)) for the Agricultural Management Assistance Program (AMAP). The funding for these programs is received from CCC through non-expenditure transfers for the estimated obligations to be incurred through the end of each quarter. In addition to the programs mentioned above, NRCS provides Conservation Innovation Grants (CIG), which are funded through EQIP. CIG is a voluntary program that enables NRCS to work with other public and private entities to accelerate technology transfer and adoption of promising technologies and approaches to address some of the Nation's most pressing natural resource concerns. Authorized funding for the mandatory Farm Bill programs funded by transfers from CCC is \$3.7 billion and \$3.4 billion, respectively, as of September 30, 2023 and 2022.

B. Basis of Presentation and Accounting

The Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources and related notes (hereinafter referred to as the "consolidated financial statements") are presented to report the assets, liabilities and net position; net costs; changes in net position; and budgetary resources of NRCS. The consolidated financial statements have been prepared from the books and records of NRCS in accordance with GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB).

The consolidated financial statements present both proprietary and budgetary information. The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred. Budgetary accounting is designed to recognize the obligation of funds according to legal requirements. The recognition of budgetary accounting transactions is essential for compliance with legal restraints and controls over the use of federal funds.

C. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenues, and expenses. Actual results could differ from these estimates. Significant estimates underlying the accompanying consolidated financial statements include the majority of accrued liabilities and federal employee health benefits.

**Notes to the Consolidated Financial Statements
for the Years Ended September 30, 2023 and 2022**

D. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

E. Fund Balance with Treasury

The U.S. Department of the Treasury processes cash receipts and disbursements on behalf of NRCS. Funds on deposit with Treasury include general funds and discretionary appropriations, non-expenditure transfers, clearing accounts, deposit funds, one trust fund, and one revolving fund that are available to pay liabilities and finance authorized expenditures.

F. Accounts Receivable, Net

Accounts receivable represent amounts due to NRCS from other federal agencies and the public. Amounts are presented net of an allowance for amounts estimated to be uncollectible.

G. Property, Plant and Equipment (PP&E), Net

PP&E includes real and personal property used in normal business operations, including one multi-use heritage asset (see Note 5). NRCS real and personal property are recorded at cost and generally have an estimated useful life of five years or more. The capitalization threshold for real and personal property is \$25,000.

Internal use software is software purchased or internally developed for NRCS use in administering programs and other agency administrative functions. Software may be a commercial off-the-shelf (COTS) solution or developed internally by NRCS-funded contractors. For purchased software, capitalized costs are equal to the amount paid to the vendor for the COTS software. Capitalized costs for internally developed software include the amount paid to the contractor to design, program, install, and implement the software. Internal use software is capitalized if the cumulative initiative or program feature cost meets or exceeds \$100,000 and has at least a two-year useful life.

H. Advances to Others

Payments made in advance of the receipt of goods and services are recorded by NRCS as advances at the time of payment and recognized as expenditures or expenses when the related goods and services are received.

Notes to the Consolidated Financial Statements for the Years Ended September 30, 2023 and 2022

I. Liabilities

Liabilities represent the probable and measurable future outflow of funds or other resources arising from past transactions or events. Depending on the type of transaction, NRCS recognizes a liability in one of two ways. If an exchange transaction occurs (i.e., receipt of goods or services in return for a promise to provide money or other resources in the future), a liability is recognized in the period in which the exchange occurred. If a nonexchange transaction occurs (i.e., government programs where there is a one-way flow of resources or promises), a liability is recognized for any unpaid amounts due and payable as of the reporting date. Transactions under many conservation programs are considered nonexchange and amounts are considered due and payable upon certification of work performed by program participants.

J. Workers Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a work-related injury or occupational disease. Benefit claims incurred for NRCS employees under FECA are administered by the U.S Department of Labor (DOL). NRCS reimburses DOL for FECA claims. Consequently, NRCS recognizes a liability for this compensation comprised of: (1) an accrued liability that represents money owed for claims paid by the DOL through the current fiscal year, and (2) an actuarial liability that represents the expected liability for NRCS approved compensation cases to be paid beyond the current fiscal year.

K. Employee Annual, Sick, and Other Leave

Annual and other vested leave, such as compensatory time earned, credit hours, and restored leave, is accrued as it is earned, and the accrual is reduced as leave is taken. Each quarter, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Sick leave and other types of non-vested leave are expensed when incurred.

L. Pension and Other Retirement Benefits

NRCS employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). On January 1, 1987, the FERS, a

Notes to the Consolidated Financial Statements for the Years Ended September 30, 2023 and 2022

mixed system of defined benefit and defined contribution plans, went into effect pursuant to P.L. 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to enroll in FERS and Social Security or remain in CSRS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the Federal Government's Thrift Savings Plan (TSP) for each employee. Employees may invest up to the Internal Revenue Service limit into their TSP account each calendar year. Additionally, for FERS employees, NRCS automatically contributes one percent of base pay, and matches employee contributions up to an additional four percent of base pay. Since 1987, the FERS program has been modified twice in terms of how much employees are required to contribute to the defined benefit savings plan. Employees hired after December 31, 1983 and on or before December 31, 2012 contribute .8 percent of base pay for FERS retirement. Pursuant to P.L. 112-96, employees hired (or rehired with less than five years creditable or potentially creditable service under CSRS) on or after January 1, 2013 contribute 3.1 percent of base pay for FERS retirement coverage. Pursuant to the Bipartisan Budget Act of 2013, employees hired (or rehired with less than five years creditable or potentially creditable service under FERS) on or after January 1, 2014 contribute 4.4 percent of base pay for FERS retirement coverage.

For FERS participants, NRCS also makes matching contributions for programs of the Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA).

NRCS recognizes the imputed cost of pension and other health and life insurance retirement benefits during the employee's active years of service. Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors and information regarding the full cost of health and life insurance benefits to NRCS for current period expense reporting.

M. Revenues and Other Financing Sources

Non-expenditure transfers

The language in 2018 Farm Bill, like the previous enacted Farm Bills, authorizes the "funds of the Commodity Credit Corporation" to be used to carry out the appropriated programs. NRCS receives non-expenditure transfers of Farm Bill funds from CCC borrowing authority as authorized under Sections 4(j) and (l) of the Commodity Credit Corporation Charter Act.

Notes to the Consolidated Financial Statements for the Years Ended September 30, 2023 and 2022

Appropriations

NRCS receives annual, multi-year, and no-year Congressional appropriations that are used within statutory limits for operating expenditures and financial assistance payments to landowners. Other funding sources include reimbursable agreements with other federal agencies, State and local governments, tribal agencies, and the public.

Appropriations are recognized as used at the time NRCS incurs the related program or administrative expenses or when the appropriations are expended for capitalized property or equipment. Other revenues are recognized as earned on an accrual basis when services are delivered.

Exchange and non-exchange revenue

NRCS classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue arises from transactions where each party to the transaction gives value and receives value in return. NRCS collects exchange revenue under reimbursable agreements for technical services provided to federal and non-federal entities at the full cost of the services to be provided. Bills are issued for actual costs in accordance with terms of the underlying agreement. At the end of each quarter, accruals are recorded for the earned, unbilled portion of each agreement. An entry is recorded to estimate an allowance for possible uncollectible amounts from non-federal customers based on the historical aging of receivables. NRCS is authorized to use all or a portion of its exchange revenue for specific purposes.

Non-exchange revenue is revenue the Federal Government is able to demand or receive because of its sovereign powers and includes donations. Penalties and cash donations received from private citizens and organizations are examples of non-exchange revenue.

Imputed financing

NRCS records an imputed revenue to offset costs borne by other federal entities. These inter-entity costs, such as the Treasury Judgment Fund and OPM post-retirement costs, are paid on behalf of USDA by the performing Agency. Refer to Note 11 for additional detail.

N. Funds from Dedicated Collections

In accordance with SFFAS 43, *Funds from Dedicated Collections*, NRCS reports the funds from dedicated collections for which it has program management responsibility when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-

**Notes to the Consolidated Financial Statements
for the Years Ended September 30, 2023 and 2022**

federal source only for designated activities, benefits, or purposes; (2) explicit authority for the funds to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of revenues and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

O. Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. Specifically, the Statement of Net Cost, Emergency Watershed Protection and Other Program gross costs, earned revenue, and net program costs for FY 2022 have been reclassified.

The Emergency Watershed Protection Program was a new program for NRCS in fiscal year (FY) 2022. At that time, the gross costs, earned revenue, and net program costs were not significant enough to be reported separately, so these amounts were included in the Other Program gross costs, earned revenue, and net program costs. Due to the increased activity of this program in FY 2023, this program has now been separated from the Other Program category.

Note 2 – Fund Balance with Treasury

NRCS's Fund Balance with Treasury includes primarily general funds (appropriated and transferred in), one trust fund, and one revolving fund that are available to pay liabilities and finance authorized purchase commitments. Additionally, other fund types include deposit and clearing accounts. Non-budgetary Fund Balance with Treasury includes proceeds from vehicle sales, intragovernmental payments and collections, and funds on deposit from non-federal entities. Fund Balance with Treasury is an asset to the reporting entity, but not to the Government because it is a liability to the General Fund of the Treasury. Fund Balance with Treasury increases when appropriations and transfers in from other agencies are received and decreases with disbursements and transfers out to other agencies and the Treasury. NRCS has no unused funds in cancelled appropriations that have not been returned to the U.S. Department of the Treasury.

The Unavailable Unobligated balances are amounts that: 1) due to their expired status are not available for new obligation and therefore cannot be disbursed, or 2) are unexpired but have not yet been apportioned for execution purposes.

**Notes to the Consolidated Financial Statements
for the Years Ended September 30, 2023 and 2022**

Status of Fund Balance with Treasury (in millions)	2023	2022
Unobligated Balance:		
Available	\$ 6,197	\$ 7,413
Unavailable	2,674	3,931
Obligated balance not yet disbursed	13,079	8,630
Non-budgetary Fund Balance with Treasury	39	39
Total	\$ 21,989	\$ 20,013

Table 10: Status of Fund Balance with Treasury

Note 3 – Accounts Receivable, Net

Intragovernmental accounts receivable represents amounts due under reimbursable and cooperative agreements with federal entities for services provided by NRCS under the Economy Act, 31 U.S.C. §1535, Public Law 101-646, 16 U.S.C. 3951, and Clean Water Act 118 (C). Accounts Receivable with the public is comprised primarily of cost share agreements with agricultural producers and state and local governments owed to NRCS for providing financial and technical assistance on conservation projects. The allowance for uncollectible accounts is recorded using aging methods based on an analysis of historical collections and write-offs.

Accounts Receivable (in millions)

	2023	2022
Intragovernmental		
Total Intragovernmental Receivables	\$ 13	\$ 16
Other than Intragovernmental		
Gross Receivables	3	2
Allowance for Doubtful Accounts	(1)	(1)
Total Other than Intragovernmental Receivables, Net	\$ 2	\$ 1
Total Receivables, Net	\$ 15	\$ 17

Table 11: Accounts Receivable

Note 4 –Property, Plant, and Equipment (PP&E), Net

Depreciation of PP&E is recorded using the straight-line method based on the estimated useful life in years as listed below. There are no restrictions on use or convertibility of PP&E. In terms of Net Book Value, the largest category of PP&E is internal use software (IUS). IUS are internally developed program and information systems that have been put into place or are being developed by contractors or NRCS employees after undergoing a detailed and structured investment review process to determine if the need for the system cannot be met through an existing

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product and if the benefits of the proposed system are worth the cost. General office and field equipment is the second largest category of PP&E, followed by buildings, improvements, and renovations. NRCS also has one multi-use heritage asset which is reported in Note 5 – Stewardship PP&E.

Property, Plant and Equipment (PP&E), Net
(in millions)

FY 2023	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Personal Property:				
Equipment	5 - 20	\$ 181	\$ 102	\$ 79
Internal Use Software	5	562	260	302
Internal Use Software in Development	0	27	-	27
Total Personal Property		\$ 770	\$ 362	\$ 408
Real Property:				
Land and Land Rights		\$ 1	\$ -	\$ 1
Buildings, Improvements and Renovations	15 - 30	18	11	7
Other Structures and Facilities	15 - 30	4	4	-
Leasehold Improvements	2	3	-	3
Assets Under Capital Lease	15 - 30	2	2	-
Total Real Property		\$ 28	\$ 17	\$ 11
Total		\$ 798	\$ 379	\$ 419
FY 2022	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Personal Property:				
Equipment	5 - 20	\$ 131	\$ 90	\$ 41
Internal Use Software	5	427	182	245
Internal Use Software in Development	0	27	-	27
Total Personal Property		585	272	313
Real Property:				
Land and Land Rights		\$ 1	\$ -	\$ 1
Buildings, Improvements and Renovations	15 - 30	18	11	7
Other Structures and Facilities	15 - 30	4	4	-
Leasehold Improvements	2	3	-	3
Assets Under Capital Lease	15 - 30	3	2	1
Total Real Property		\$ 29	\$ 17	\$ 12
Total		\$ 614	\$ 289	\$ 325

Table 12: PP&E

**Notes to the Consolidated Financial Statements
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Total PP&E and Accumulated Depreciation	Net PP&E
Balance Beginning of Year	\$ 325
Capitalized Acquisitions	196
Dispositions	-
Depreciation Expense	<u>(102)</u>
Balance at End of Year	<u>\$ 419</u>

Table 13: Total 2023 PP&E and Accumulated Depreciation, Net

Note 5 – Stewardship PP&E

Stewardship PP&E consists of assets whose physical properties resemble those of PP&E that are traditionally capitalized in the consolidated financial statements. Due to the nature of these assets, valuation would be difficult and matching costs with specific periods would not be meaningful. NRCS Stewardship PP&E includes stewardship land and one heritage asset.

Information concerning deferred maintenance and repairs and estimated land acreage is discussed in unaudited Required Supplementary Information.

Stewardship Land

The stewardship land for NRCS consists of conservation easements. NRCS’s mission objectives in administering the conservation easement programs are to provide landowners with financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch lands.

NRCS’s objectives in managing, monitoring, and enforcing the terms and conditions of easement deeds are to ensure that (1) taxpayer investments are properly used in accordance with the intent of the program; (2) the agency is a good steward of the land; and (3) the land is properly maintained and managed compliant with agreed upon terms and conditions of the easement deed.

Stewardship resources involve substantial investment in order to gain long-term benefits for the American public and help the agency satisfy its mission. The purpose of purchasing easements is to restore or enhance wetlands, farmland, grasslands, forest ecosystems, and restore, protect, maintain, and enhance the functions of floodplains.

NRCS, on behalf of USDA, administers and owns conservation easements on private lands through a variety of programs. The specific uses for the land are identified

**Notes to the Consolidated Financial Statements
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under each program. Landowners are not allowed to withdraw from the program. However, termination or expiration of the easement may occur.

For the purpose of reporting, all easements where NRCS (or a variant of the United States administered through NRCS authorities) is listed as a grantee of the easement are included in the agency's stewardship land count. The NRCS stewardship land easements include conservation easements enrolled through program authorities and other easements administered by NRCS. As not all stewardship land conservation easements are permanent in duration, adjustments to end of year count and acreage balances may be made to account for expired or extinguished easements.

Heritage Assets

Heritage assets are unique for their historical or natural significance, for their cultural, educational, or artistic importance, or for their significant architectural characteristics. NRCS generally expects that heritage assets will be preserved indefinitely.

NRCS owns one heritage asset, the Tucson Plant Materials Center (TPMC), which is included in PP&E as a multi-use asset. It was listed in the National Register of Historic Places on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues relating to rangeland, mines, urban land, cropland riparian areas, and desert land. The TPMC provides technical assistance to NRCS field offices, Resource Conservation and Development groups, conservation districts, federal, state, or tribal agencies, and private landowners throughout the Southwest.

The following table provides a count of the NRCS heritage asset and conservation easements as of September 30, 2023 and 2022.

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Stewardship Property, Plant and Equipment, Net				
(in numbers)				
FY 2023	Beginning Balance	New Assets	Withdrawn Assets	Ending Balance
Heritage Assets				
Research Centers	1	0	0	1
Stewardship Land				
Conservation Easements	19,421	203	1	19,623
FY 2022				
Heritage Assets				
Research Centers	1	0	0	1
Stewardship Land				
Conservation Easements	19,207	214	0	19,421

Table 14: Stewardship PP&E

Note 6 – Liabilities Not Covered by Budgetary Resources

By law, federal agencies cannot make outlays unless Congress has authorized and appropriated funds and OMB has provided an apportionment. A portion of the liabilities reported on the Balance Sheets are currently not funded by budgetary resources. Examples include unfunded employee costs for annual leave earned but unused and FECA benefits that are accrued to cover liabilities associated with employee deaths, disabilities, medical issues, and other costs for which funds have not been appropriated. The other liabilities will be paid at the time that a qualifying event occurs and will be expended from appropriations available at that time.

Other Intragovernmental Liabilities Not Covered by Budgetary Resources consists of FECA accruals. Other Liabilities with the Public Not Covered by Budgetary Resources is comprised primarily of future indemnity costs for unfunded employee leave and retirement benefits.

Liabilities which do not require budgetary resources include non-fiduciary deposit funds in the Liability for Clearing Accounts, and the Liability for Advances and Prepayments from non-federal customers.

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Liabilities Not Covered by Budgetary Resources
(in millions)

	2023	2022
Intragovernmental:		
Unfunded FECA Liability	\$ 6	\$ 6
Total Intragovernmental	\$ 6	\$ 6
Unfunded Leave	\$ 85	\$ 79
FECA Actuarial	31	31
Total Federal Employee and Veterans' Benefits	116	110
Estimated Cleanup Cost	1	1
Total liabilities not covered by budgetary resources	\$ 123	\$ 117
Total liabilities covered by budgetary resources	\$ 1,317	\$ 990
Total liabilities not requiring budgetary resources	14	17
Total Liabilities	\$ 1,454	\$ 1,124

Table 15: Liabilities Not Covered by Budgetary Resources

Note 7 – Other Liabilities

Other liabilities encompass both intragovernmental and those with the public. Major other liabilities include Other Liabilities with Related Budgetary Obligations. The largest of these with the public include Grants and Agreements of \$984 million and \$726 million, and Accrued Liabilities for Technical and Other Services of \$184 million and \$130 million, as of September 30, 2023 and September 30, 2022, respectively.

**Notes to the Consolidated Financial Statements
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Other Liabilities (in millions)	2023		
	Non-Current	Current	Total
Intragovernmental			
Accrued Liabilities for Other Services	\$ -	\$ 24	\$ 24
Employer Contributions and Payroll Taxes	-	18	18
Unfunded FECA Liability	3	3	6
Custodial Liabilities	-	1	1
Liability for Deposit Funds and Clearing Accounts	-	(3)	(3)
Subtotal Intragovernmental	\$ 3	\$ 43	\$ 46
Other than Intragovernmental			
Other Liabilities with Related Budgetary Obligations	\$ -	\$ 1,145	\$ 1,145
Accrued Funded Payroll and Leave	-	54	54
Estimated Cleanup Cost Liability	-	1	1
Subtotal Other than Intragovernmental	\$ -	\$ 1,200	\$ 1,200
Total Other Liabilities	\$ 3	\$ 1,243	\$ 1,246

Other Liabilities (in millions)	2022		
	Non-Current	Current	Total
Intragovernmental			
Accrued Liabilities for Other Services	\$ -	\$ 21	\$ 21
Employer Contributions and Payroll Taxes	-	17	17
Unfunded FECA Liability	3	3	6
Custodial Liabilities	-	1	1
Liability for Deposit Funds and Clearing Accounts	-	(1)	(1)
Subtotal Intragovernmental	\$ 3	\$ 41	\$ 44
Other than Intragovernmental			
Other Liabilities with Related Budgetary Obligations	\$ -	\$ 864	\$ 864
Accrued Funded Payroll and Leave	-	49	49
Capital Lease Liability	1	-	1
Subtotal Other than Intragovernmental	\$ 1	\$ 913	\$ 914
Total Other Liabilities	\$ 4	\$ 954	\$ 958

Table 16: Other Liabilities

Note 8 – Leases

NRCS has entered into leasing agreements with the General Services Administration (GSA) and other parties through leasing authority delegated by GSA. The leases are for office space for field office operations or for buildings and land for Plant Materials Centers. The lease arrangements generally range from five to ten years, but may be longer for Plant Materials Centers (PMCs), and generally contain renewal options. Most leases are subject to cancellation upon certain funding conditions and all are covered by budgetary resources. NRCS enters into operating leases primarily for office space and some equipment.

**Notes to the Consolidated Financial Statements
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	2023
Entity as Lessee: Capital Leases (in millions)	
Summary of Assets Under Capital Lease	
Land and Buildings	\$ 2
Less: Accumulated Amortization	(2)
Total Assets Under Capital Lease	\$ -

	2022
Entity as Lessee: Capital Leases (in millions)	
Summary of Assets Under Capital Lease	
Land and Buildings	\$ 3
Less: Accumulated Amortization	(2)
Total Assets Under Capital Lease	\$ 1

Table 17: Capital Leases Summary

FY 2023					
Future Payments Due for					
Operating Leases - Land and Buildings					
(in millions)					
Fiscal Year	Federal Non-Cancellable	Non-Federal Non-Cancellable	Federal Cancellable	Non-Federal Cancellable	Total
Year 1 (2024)	\$ 13	\$ 13	\$ 19	\$ 19	\$ 64
Year 2 (2025)	2	-	26	21	\$ 49
Year 3 (2026)	1	-	24	16	\$ 41
Year 4 (2027)	1	-	21	14	\$ 36
Year 5 (2028)	1	-	15	9	\$ 25
After 5 Years	2	-	32	30	\$ 64
Total Future Lease Payments	\$ 20	\$ 13	\$ 137	\$ 109	\$ 279

FY 2022					
Future Payments Due for					
Operating Leases - Land and Buildings					
(in millions)					
Fiscal Year	Federal Non-Cancellable	Non-Federal Non-Cancellable	Federal Cancellable	Non-Federal Cancellable	Total
Year 1 (2023)	\$ 11	\$ 12	\$ 19	\$ 17	\$ 59
Year 2 (2024)	-	-	27	16	43
Year 3 (2025)	-	-	24	9	33
Year 4 (2026)	-	-	21	7	28
Year 5 (2027)	-	-	18	5	23
After 5 Years	-	-	43	13	56
Total Future Lease Payments	\$ 11	\$ 12	\$ 152	\$ 67	\$ 242

Table 18: Total Future Payments for Operating Leases

Note 9 – Commitments and Contingencies

NRCS is potentially subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations.

For the year ended September 30, 2023, one case, Ultima v USDA 2:20-cv-00041, was evaluated to have a reasonably possible chance of an unfavorable outcome.

**Notes to the Consolidated Financial Statements
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No amount has been accrued in the financial statements for this claim since the estimated amount or range of potential loss is unknown.

For the year ended September 30, 2022, no pending legal matters existed that were considered probable or reasonably possible, which require recognition (accrual) in the Balance Sheet or require further disclosure.

Note 10 – Funds from Dedicated Collections

NRCS recognizes Treasury accounts 12X4368, the Damage Assessment and Restoration Revolving Fund, and 12X8210, Miscellaneous Contributed Funds, as funds from dedicated collections in compliance with SFFAS 43, *Funds from Dedicated Collections*. Funds from dedicated collections are financed by specifically identified revenues which remain available over time. Financial information for these funds is presented separately in accordance with federal reporting requirements.

The Damage Assessment and Restoration Revolving Fund is privately funded and authorized by 33 U.S.C. 2706 (b) (2). The resources in this fund are available to federal and state agencies involved in restoring natural resources damaged as a result of the 2010 oil spill in the Gulf of Mexico.

Revenues from the Miscellaneous Contributed Fund are required by 7 U.S.C. 450(b) to be used for work under cooperative agreements for soil survey, watershed protection, and resource conservation and development activities. Since these funds are used to finance work by cooperators, there are very few agency expenses associated with this account.

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	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2023 (in millions)			
Assets:			
Intragovernmental Assets:			
Fund Balance with Treasury	\$ 19	\$ 1	\$ 20
Total Intragovernmental Assets	\$ 19	\$ 1	\$ 20
Total Assets	\$ 19	\$ 1	\$ 20
Liabilities:			
Total Liabilities	\$ 1	\$ -	\$ 1
Net Position			
Cumulative Results of Operations	\$ 18	\$ 1	\$ 19
Total Liabilities and Net Position	\$ 19	\$ 1	\$ 20

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Statement of Changes in Net Position for the Period Ended September 30, 2023 (in millions)			
Cumulative Results of Operations:			
Beginning Balance	\$ 18	\$ 1	\$ 19
Transfers in/out without Reimbursement, Net	5	-	5
Net Cost of Operations	(5)	-	(5)
Net Change	-	-	-
Cumulative Results of Operations	\$ 18	\$ 1	\$ 19
Net Position	\$ 18	\$ 1	\$ 19

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Statement of Net Cost for the Period Ended September 30, 2023 (in millions)			
Gross Program Costs	\$ 5		\$ 5
Less: Earned revenues	-		-
Net Program Costs	\$ 5	\$ -	\$ 5

Table 19: Funds from Dedicated Collections

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	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2022 (in millions)			
Assets:			
Intragovernmental:			
Fund Balance with Treasury	\$ 19	\$ 1	\$ 20
Total Intragovernmental Assets	\$ 19	\$ 1	\$ 20
Total Assets	\$ 19	\$ 1	\$ 20
Liabilities:			
Total Liabilities	\$ 1	-	\$ 1
Net Position			
Cumulative Results of Operations	\$ 18	\$ 1	\$ 19
Total Liabilities and Net Position	\$ 19	\$ 1	\$ 20

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Statement of Changes in Net Position for the Period Ended September 30, 2022 (in millions)			
Cumulative Results of Operations:			
Beginning Balance	\$ 19	\$ 1	\$ 20
Transfers in/out without Reimbursement, Net	3	-	3
Net Cost of Operations	(4)	-	(4)
Net Change	(1)	-	(1)
Cumulative Results of Operations	\$ 18	\$ 1	\$ 19
Net Position	\$ 18	\$ 1	\$ 19

	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Statement of Net Cost for the Period Ended September 30, 2022 (in millions)			
Gross Program Costs	\$ 4	-	\$ 4
Less: Earned revenues	-	-	-
Net Program Costs	\$ 4	-	\$ 4

Table 20: Funds from Dedicated Collections - FY 2022

**Notes to the Consolidated Financial Statements
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Note 11 – Inter-Entity Costs

NRCS reports the full cost of products and services generated from the consumption of resources. Unless otherwise noted, full cost is the total amount of direct and indirect resources used to produce a product or provide a service. Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with Federal accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our consolidated financial statements.

NRCS recognizes the amount of accrued pension and postretirement benefit expenses for current employees as imputed financing costs. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. Any amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against NRCS are also recognized as imputed financing. NRCS recognized imputed financing of \$129 million and \$98 million, respectively, for the periods ending September 30, 2023 and 2022 for accrued pension and postretirement benefit expense and the Treasury Judgment Fund.

Note 12 – Statement of Budgetary Resources

The purpose of Federal budgetary accounting is to control, monitor, and report on funds made available to Federal agencies by law and help ensure compliance with law. The following budget terms are commonly used, as referenced in OMB Circular A-11:

Appropriations: A provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources: Amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Offsetting collections: Payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for

Notes to the Consolidated Financial Statements for the Years Ended September 30, 2023 and 2022

goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend offsetting collections is a form of budget authority. (Compare to "Governmental receipts" and "Offsetting receipts.")

Offsetting receipts: Payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts. (Compare to "Governmental receipts" and "Offsetting collections.")

Obligation: A binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Outlay: A payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are "means of financing" transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of Government spending.

For further information about budget terms and concepts, see the "Budget Concepts" chapter of the Analytical Perspectives volume of the President's Budget: Analytical Perspectives | The White House.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

NRCS's Unobligated Balance Brought Forward from the prior fiscal year has been adjusted for recoveries of prior year unpaid obligations and other adjustments such as cancelled authority. Unobligated Balance Brought Forward, October 1 as of September 30, 2023 and 2022, were as follows:

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Net Adjustments to Unobligated Balances, Brought Forward, October 1 (in millions)

	2023	2022
Prior year total unobligated balance	11,344	6,197
Recoveries of Prior Year Obligations	632	588
Other Adjustments	1	-48
Unobligated balance from prior year budget authority, net	11,977	6,737

Table 21: Net Adjustments to Unobligated Balance, Brought Forward, October 1

Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders were \$12,027 and \$7,955 million, respectively, for the years ended September 30, 2023 and 2022.

FY 2023 Undelivered Orders (in millions)	Federal		Non-Federal	
Paid	\$	3	\$	61
Unpaid		551		11,412
Total	\$	554	\$	11,473

FY 2022 Undelivered Orders (in millions)	Federal		Non-Federal	
Paid	\$	6	\$	49
Unpaid		339		7,561
Total	\$	345	\$	7,610

Table 22: Undelivered Orders

Legal Arrangements Affecting the Use of Unobligated Balances

Under the authority provided in the 2004 and 2008 Farm Bills, NRCS generally received funding for the mandatory conservation programs with one-year authority, which would normally cause the funds to be cancelled five years after the close of the fiscal year for which they were provided. However, many of the obligations entered into with the mandatory conservation program funding do not disburse within the five-year period. Therefore, Congress has provided extended disbursement authority for these funds, which allows the agency to retain the funds and continue disbursing for valid obligations made during the period the funds were available for obligation. The extended disbursing authority does not provide the authority to enter into new obligations in FY 2023 using the unobligated balances from the expired years.

NRCS was granted extended disbursement authority for treasury symbols 1221004, 1231004, 1241004, and 1251004 by Section 766 of the Consolidated Appropriations Act, 2005 (P.L. 108-447), which stated that "Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 in fiscal years 2002, 2003, 2004, and 2005 shall remain available until expended to cover

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obligations made in fiscal years 2002, 2003, 2004, and 2005, respectively, and are not available for new obligations”.

Section 752 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2006 (P.L. 109-97) provided extended disbursement authority for treasury symbol 1261004. Section 752 stated that “Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 in the current fiscal year shall remain available until expended to cover obligations made in the current fiscal year and are not available for new obligations”. Sections 101 and 102 of the Revised Continuing Appropriations Resolution, 2007 (P.L. 110-5), provided extended disbursement authority for treasury symbol 1271004.

Section 725 of the Consolidated Appropriations Act, 2008 (P.L. 110-161) provided extended disbursement authority for treasury symbol 1281004. Section 725 stated in part that “Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 in the current fiscal year shall remain available until expended to disburse obligations made in the current fiscal year”. In addition, Section 725 provided extended disbursement authority for “Funds made available under Section 524 (b) of the Federal Crop Insurance Act, 7 U.S.C. 1524(b), in fiscal years 2004, 2005, 2006, 2007, and 2008 and shall remain available until expended to disburse obligations made in fiscal years 2004, 2005, 2006, 2007, and 2008, respectively, and are not available for new obligations”.

Section 720 of the Omnibus Appropriations Act, 2009 (P.L. 111-80) provided extended disbursement authority for treasury symbol 1291004. Section 720 states “Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 and section 524(b) of the Federal Crop Insurance Act, 7 U.S.C. 1524(b), in the current fiscal year shall remain available until expended to disburse obligations made in the current fiscal year”.

Finally, Section 719 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2010 states “Funds made available under section 1240I and section 1241(a) of the Food Security Act of 1985 and section 524(b) of the Federal Crop Insurance Act, 7 U.S.C. 1524(b), in the current fiscal year shall remain available until expended to disburse obligations made in the current fiscal year.” This language has been included in every Agriculture or Consolidated Appropriations Act since FY 2010. The latest applicable language is Section 707 of the Consolidated Appropriations Act, 2018 (PL 115-141).

The majority of the unobligated balances in treasury symbols 1221004 and 1231004 were returned to the Treasury in FY 2009. Beginning in FY 2009, the unobligated balances for treasury symbols with extended disbursing authority were not cancelled at end of the fifth expired year. Instead, the unobligated balance remains in expired status until the treasury symbol is closed or expended, in accordance with OMB Circular A-11.

Notes to the Consolidated Financial Statements for the Years Ended September 30, 2023 and 2022

The 2014 Farm Bill changed the period of availability for most of the mandatory conservation programs (except the Agriculture Management Assistance program) from one-year to no-year funding. Thus, extended disbursing authority will no longer be needed for these funds in FY 2019 and beyond. In addition, the 2014 Farm Bill repealed five mandatory conservation programs (Agricultural Water Enhancement Program, Farm and Ranch Lands Protection Program, Grassland Reserve Program, Wildlife Habitat Incentive Program, and Wetlands Reserve Program) and restored the authority to obligate expired unobligated balances from FYs 2009 through 2013 for these five repealed programs. These funds are to be used to complete implementation of contracts and easements entered into prior to the repeal of the programs.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2022 SBR and the FY 2022 actual numbers presented in the FY 2024 Budget of the United States Government are summarized in the table below. The President’s Budget with actual numbers for FY 2023 has not yet been published. Upon release of the FY 2025 budget, it will be available at the OMB website. OMB Circular A-136 states that the reconciliation should identify and explain material differences between amounts reported in the SBR and actual amounts reported in the Budget of the United States Government as required by U.S. GAAP.

Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government
(in millions)

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2022 Budget Reconciliation				
Statement of Budgetary Resources	\$ 17,142	\$ 5,798	\$ -	\$ 4,287
Reconciling Items				
Expired Accounts not reflected in the Budget	(2,645)	(24)	-	-
Internal Apportionments	(65)	(20)	-	-
Other	(3)	(3)	-	-
Budget of the US Government	\$ 14,429	\$ 5,751	\$ -	\$ 4,287

Table 23: Explanation of Differences Between SBR and the Budget of the US Government

The reconciling items consist of:

- Expired budgetary authority available for upward adjustments of obligations, which is excluded from the President’s Budget “Actual” columns per OMB Circular A-11, but is included in the SBR.
- In FY 2022, internal apportionments for various programs under the American Rescue Plan Act (P.L. 117-2) was included in the SBR but was not included in the NRCS Budget section, thus on the reconciliation, it is treated as an adjustment. The purpose of the act is to make loans and grants and provide other assistance to maintain and improve food and agricultural supply chain resiliency.
- “Other” reconciling items include rounding adjustments.

**Notes to the Consolidated Financial Statements
for the Years Ended September 30, 2023 and 2022**

Note 13 – Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting information. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

In 2023, the reconciling differences are from components of the net costs that are not part of the net outlays. This consists of activities that result in expense or revenue recognition which do not involve a cash outlay, including a net \$4.6 million from the disposition of assets.

Notes to the Consolidated Financial Statements for the Years Ended September 30, 2023 and 2022

FY 2023

Reconciliation of Net Cost to Net Outlays

	Intragovernmental \$	With the Public \$	Total \$
Net Operating Cost - Statement of Net Cost	774	4,278	5,052
Components of Net Operating Costs Not Part of Budgetary Outlays:			
Property, Plant and Equipment Depreciation	-	(102)	(102)
Property, Plant and Equipment Disposal & Revaluation	-	-	-
Other	-	-	-
Increase/(Decrease) in Assets:			
Accounts Receivable	(3)	1	(2)
Other Assets	(4)	13	9
(Increase)/Decrease in Liabilities Not Effecting Budgetary Outlays:			
Accounts Payable	-	(38)	(38)
Salaries and Benefits	-	(6)	(6)
Other Liabilities	(2)	(285)	(287)
Other Financing Sources:			
Federal employee Retirement Costs paid by OPM and Imputed to the Agency (Note 11)	(129)	-	(129)
Total Components of Net Operating Cost not part of Budgetary Outlays:	(138)	(417)	(555)
Components of Net Outlays not part of Net Cost:			
Acquisition of Capital Assets	-	196	196
Other	-	-	-
Total Components of Net Outlays not part of Net Cost:	-	196	196
Net Outlays	\$ 636	\$ 4,057	\$ 4,693
Related Amounts on the Statement of Budgetary Resources			
Outlays, Gross			\$ 4,694
Distributed Offsetting Receipts			(1)
Outlays, Net			\$ 4,693

FY 2022

Reconciliation of Net Cost to Net Outlays

	Intragovernmental \$	With the Public \$	Total \$
Net Operating Cost - Statement of Net Cost	672	3,582	4,254
Components of Net Operating Costs Not Part of Budgetary Outlays:			
Property, Plant and Equipment Depreciation	-	(74)	(74)
Property, Plant and Equipment Disposal & Revaluation	-	1	1
Other	-	(1)	(1)
Increase/(Decrease) in Assets:			
Accounts Receivable	3	(1)	2
Other Assets	(1)	15	14
(Increase)/Decrease in Liabilities Not Effecting Budgetary Outlays:			
Accounts Payable	(2)	(3)	(5)
Salaries and Benefits	-	1	1
Other Liabilities	14	12	26
Other Financing Sources:			
Federal employee Retirement Costs paid by OPM and Imputed to the Agency (Note 12)	(98)	-	(98)
Total Components of Net Operating Cost not part of Budgetary Outlays:	(84)	(50)	(134)
Components of Net Outlays not part of Net Cost:			
Acquisition of Capital Assets	-	166	166
Other	(1)	1	-
Total Components of Net Outlays not part of Net Cost:	(1)	167	166
Net Outlays	\$ 587	\$ 3,699	\$ 4,286
Related Amounts on the Statement of Budgetary Resources			
Outlays, Gross			\$ 4,287
Distributed Offsetting Receipts			(1)
Outlays, Net			\$ 4,286

Table 24: Reconciliation of Net Cost to Net Outlays (Budget to Accrual Reconciliation)

**Notes to the Consolidated Financial Statements
for the Years Ended September 30, 2023 and 2022**

Note 14 – Subsequent Events

Management is not aware of any events or transactions that have occurred subsequent to the balance sheet date, but prior to the issuance of the financial statements, that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements.

Required Supplementary Information (Unaudited)

SECTION 3: REQUIRED SUPPLEMENTARY INFORMATION **(UNAUDITED)**

Condition of Heritage Assets and Stewardship Lands

Heritage Assets

In 1997, the Tucson Plant Materials Center (TPMC) in Tucson, Arizona was placed on the National Register of Historic Places. The TPMC Office and what is now the Field Office/Conference Room along with 5 acres of surrounding areas comprise the historically significant parts of the TPMC. The TPMC service area encompasses the Sonoran, Chihuahuan, and Mohave deserts in areas of Arizona, California, Nevada, New Mexico, and Utah. Major land uses in this area include irrigated farmland, rangeland, and mines. The TPMC develops and evaluates adapted plant materials and technologies for needs throughout the service area. Because the asset is used in general government operations as well as being designated as a heritage asset, it is classified as a multi-use heritage asset in accordance with SFFAS No. 29. The condition and deferred maintenance of this asset is included with the PP&E assets discussed below.



Stewardship Land

The following chart depicts the condition status of NRCS stewardship land easements as of September 30, 2023 and 2022 (see Note 5 for more information about easement assets). The chart is based on data from the National Easements Staging Tool (NEST). NRCS conducts monitoring and enters monitoring data into NEST on a fiscal year basis. Due to weather and other conditions related to the management of easements, much of the annual monitoring is completed and entered into NEST in the 4th quarter of the fiscal year.

For further information on Stewardship Land, please refer to Note 5 of the consolidated financial statements and the Land Required Supplementary Information.

Required Supplementary Information (Unaudited)

Stewardship Easement Condition Status				
FY 2023 (in numbers)	Condition	Description	Easements Meeting the Condition	Percentage
	Green	Easements are maintained in accordance with all terms and conditions	14,976	76%
	Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	1,520	8%
	Red	Easements with documented violations that require corrective action	2,764	14%
	Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY22	363	2%
			19,623	100%
FY 2022 (in numbers)	Condition	Description	Easements Meeting the Condition	Percentage
	Green	Easements are maintained in accordance with all terms and conditions	15,163	78%
	Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	1,654	8%
	Red	Easements with documented violations that require corrective action	2,255	12%
	Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY21	349	2%
			19,421	100%

Table 25: Stewardship Easement Condition Status

Required Supplementary Information (Unaudited)

Deferred Maintenance and Repairs

NRCS owns, builds, purchases, and contracts services for assets such as office buildings, greenhouses, warehouse and storage buildings, roads, bridges, and other structures. The agency utilizes and maintains these assets in support of efforts to work with landowners and land managers to protect natural resources on private lands.

The NRCS portfolio of real property assets includes 27 sites with owned land or buildings. There are 24 PMCs, which are research farms consisting of an office building, greenhouses, service buildings, and warehouse and storage facilities. Other features of PMCs typically include equipment shelters, irrigation water wells, pumps or distribution systems, paved or gravel surfaces, and fuel storage and pumps. Three additional sites include one storage facility and two unmanned relay stations for snow survey and climate data.



Maintenance of NRCS assets includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or upgrading it to service needs different from or significantly greater than those originally intended. When maintenance is not completed on assets as needed or scheduled and is delayed into the future, it is defined as deferred maintenance. Deferred maintenance represents a cost that the Federal Government has elected not to fund and therefore the costs are not reflected in the financial statements.

NRCS is committed to sustaining a manageable level of infrastructure, disinvesting in infrastructure that can no longer be managed to appropriate standards, right-sizing its asset portfolio, and reducing the backlog of deferred maintenance.

Deferred Maintenance Policies

Deferred maintenance estimates for assets are based on condition surveys performed on a five-year maximum revolving schedule. NRCS conducted condition surveys in fiscal years 2014 and 2018. NRCS maintains an inventory and description of all owned facilities and structures in USDA's Corporate Property Automated Information System (CPAIS).

Estimated costs for replacement, repair, or maintenance of all classes of PP&E are based on the probable or actual extent of the observed defect, inclusive of the cost to design, procure, construct, and manage the replacement, repair, or

Required Supplementary Information (Unaudited)

maintenance. These estimates are based on invoice or bid documents provided by the facility manager and on construction costs developed from construction resources and industry standards, along with knowledge of past costs for similar properties, city cost indices, and assumptions regarding future economic conditions.

NRCS uses AssetCALC, a third-party software, to maintain detailed information on asset components and maintenance schedules and costs. AssetCALC data is the basis for computing the cost to return assets requiring maintenance to an acceptable condition. The AssetCALC estimated costs used are a result of facility condition assessments and additional maintenance items which became deferred since the facility condition assessments were conducted, less the cost of maintenance completed.

NRCS reviews information in CPAIS and AssetCALC annually for accuracy and completeness. NRCS estimates deferred maintenance and repair costs for all accountable owned real property, whether it is capitalized or fully depreciated.

Estimated Deferred Maintenance

The dollar amounts in the following table include costs to return assets with deferred maintenance to acceptable condition as of September 30, 2023 and 2022.

Deferred Maintenance, Totals by Asset Class
September 30, 2023

Asset Class	Overall Condition	Cost to Return to Acceptable		Change in Costs from Beginning to Ending Balance (dollars)
		Beginning Balance (October 1, 2022)	Ending Balance (September 30, 2023)	
Office Buildings	critical-good	244,808	250,017	5,209
Greenhouses	critical-good	168,339	173,159	4,820
Service Buildings	critical-good	246,847	274,126	27,279
Warehouse/Storage Buildings	critical-good	404,982	412,597	7,615
Other Buildings	critical-good	139,544	155,304	15,760
Irrigation Systems	poor-good	21,173	21,173	-
Other Constructed Structures and Features	critical-good	158,009	166,426	8,417
Total		1,383,702	1,452,802	69,100

September 30, 2022

Asset Class	Overall Condition	Cost to Return to Acceptable		Change in Costs from Beginning to Ending Balance (dollars)
		Beginning Balance (October 1, 2021)	Ending Balance (September 30, 2022)	
Office Buildings	critical-good	360,332	244,808	(115,524)
Greenhouses	critical-good	173,609	168,339	(5,270)
Service Buildings	critical-good	226,901	246,847	19,946
Warehouse/Storage Buildings	critical-good	390,030	404,982	14,952
Other Buildings	critical-good	129,704	139,544	9,840
Irrigation Systems	poor-good	21,173	21,173	-
Other Constructed Structures and Features	critical-good	136,125	158,009	21,884
Total		1,437,874	1,383,702	(54,172)

Table 26: Deferred Maintenance, Totals by Asset Class

Required Supplementary Information (Unaudited)

NRCS has maintained a consistent level of deferred maintenance through FY 2023 by addressing critical deferred maintenance needs even as additional assets fell below acceptable condition.

NRCS uses the information in AssetCALC to rank and prioritize maintenance projects. AssetCALC classifies each asset component as critical or noncritical depending on the importance of the component to the asset function. A critical component is defined as one that affects the strategic goals and objectives of NRCS, the health and safety of the public or NRCS employees or provides emergency services for local or national security purposes. All other components are classified as noncritical. There is also a current condition field in the AssetCALC data base. The physical condition of building systems and related components are defined as being in one of four conditions. The following rating system is used to assess the condition of all building and structural components through observation:

- 4 - New/Excellent: new or excellent condition
- 3 - Acceptable: Satisfactory as-is; requires only routine maintenance
- 2 - Still Usable: Below acceptable but usable/satisfactory as-is; repair or replacement is required in the near term due to current physical condition or estimated remaining useful life
- 1 - Failed/Unusable: immediate repair, replacement, or significant maintenance is required

NRCS deferred maintenance includes all items that are rated as 1 - Failed/Unusable and the 2 - Still Usable items which have reached the end of their useful life.

NRCS combines the critical/noncritical and current condition factors, to rank critical components, with a current condition of "failed/unusable" as highest priority. In addition, NRCS considers the condition index score and condition rating of a building when deciding to address deferred maintenance. In some cases when the condition index score is very low, NRCS decides that disposal and replacement of an asset, rather than repairing it, is more cost effective to meet increased capacity, energy efficiency, and changes in mission-related activities.

The overall condition of major asset classes varies depending on the location, age, and type of property. The following table displays how NRCS defines asset condition based on critical maintenance needed in the current year and the number of assets in each category as of September 30, 2023 and 2022.

Required Supplementary Information (Unaudited)

September 30, 2023

Condition Index	Condition Rating	Number of Assets
Greater than 95.00	good	357
Between 90.00 and 94.99	satisfactory*	23
Between 70.00 and 89.99	poor	32
Less than 70.00	critical	21
Total		433

September 30, 2022

Condition Index	Condition Rating	Number of Assets
Greater than 95.00	good	355
Between 90.00 and 94.99	satisfactory*	24
Between 70.00 and 89.99	poor	30
Less than 70.00	critical	20
Total		429

* Note: Termed "fair" on previous reports. Changed to "satisfactory" to align with USDA definitions.

Table 27: Condition, Definition, and Characterization of Assets

NRCS manages its buildings in compliance with regulations and guidance from GSA, USDA, and Executive Orders. Buildings shall also comply with applicable codes such as the National Life Safety Code, Occupational Safety and Health Administration rules, and the Architectural Barriers Act Accessibility Standard, and other regulatory and compliance requirements as determined by condition surveys. NRCS applies these regulations and requirements consistently to all major classes of PP&E. Guidelines used may vary from the norm based on the mission of each facility and use of each asset. NRCS began to make significant investments in FY 2015 to address the backlog of deferred maintenance. This has continued into FY 2023. NRCS has completed many of these projects to address deferred maintenance issues. Projects that are still in the process of being completed will affect NRCS's deferred maintenance estimate into FY 2024.

Required Supplementary Information (Unaudited)

Combined Statement of Budgetary Resources by Major Budget Account

Natural Resources Conservation Service
Combined Statements of Budgetary Resources by Major Budget Account
 For the Periods Ended September 30, 2023 and 2022
 (in Millions)

FY 2023	Farm Bill	Conservation Operations	Watershed & Flood Prevention	Watershed Rehabilitation	Emergency Watershed Protection	Other	Total
Budgetary Resources:							
Unobligated balance from prior year budget authority, net	\$ 5,493	\$ 4,945	\$ 1,260	\$ 119	\$ 101	\$ 59	\$ 11,977
Appropriations (discretionary and mandatory)	4,580	929	1,047	2	-	110	6,668
Spending authority from offsetting collections (discretionary and mandatory)	46	(47)	(6)	1	-	-	(6)
Total Budgetary Resources	\$ 10,119	\$ 5,827	\$ 2,301	\$ 122	\$ 101	\$ 169	\$ 18,639
Status of Budgetary Resources:							
New obligations and upward adjustments (total)	\$ 4,783	\$ 3,901	\$ 873	\$ 56	\$ 6	\$ 150	\$ 9,769
Unobligated balance, end of year:							
Apportioned, unexpired accounts	2,745	1,870	1,403	66	95	18	6,197
Unapportioned, unexpired accounts	10	-	22	-	-	1	33
Unexpired unobligated balance, end of year	2,755	1,870	1,425	66	95	19	6,230
Expired unobligated balance, end of year	2,581	56	3	-	-	-	2,640
Total unobligated balance, end of year	5,336	1,926	1,428	66	95	19	8,870
Total Budgetary Resources	\$ 10,119	\$ 5,827	\$ 2,301	\$ 122	\$ 101	\$ 169	\$ 18,639
Outlays, Net:							
Outlays, net (discretionary and mandatory)	\$ 3,344	\$ 863	\$ 277	\$ 29	\$ 164	\$ 17	\$ 4,694
Distributed offsetting receipts	-	-	-	-	-	(1)	(1)
Agency Outlays, net (discretionary and mandatory)	\$ 3,344	\$ 863	\$ 277	\$ 29	\$ 164	\$ 16	\$ 4,693

FY 2022	Farm Bill	Conservation Operations	Watershed & Flood Prevention	Watershed Rehabilitation	Emergency Watershed Protection	Other	Total
Budgetary Resources:							
Unobligated balance from prior year budget authority, net	\$ 5,572	\$ 230	\$ 873	\$ 50	\$ -	\$ 12	\$ 6,737
Appropriations (discretionary and mandatory)	3,376	5,562	923	119	300	69	10,349
Spending authority from offsetting collections (discretionary and mandatory)	8	35	6	7	-	-	56
Total Budgetary Resources	\$ 8,956	\$ 5,827	\$ 1,802	\$ 176	\$ 300	\$ 81	\$ 17,142
Status of Budgetary Resources:							
New obligations and upward adjustments (total)	\$ 3,906	\$ 920	\$ 673	\$ 69	\$ 202	\$ 28	\$ 5,798
Unobligated balance, end of year:							
Apportioned, unexpired accounts	2,460	3,568	1,126	107	98	53	7,412
Unapportioned, unexpired accounts	11	1,300	-	-	-	-	1,311
Unexpired unobligated balance, end of year	2,471	4,868	1,126	107	98	53	8,723
Expired unobligated balance, end of year	2,579	39	3	-	-	-	2,621
Total unobligated balance, end of year	5,050	4,907	1,129	107	98	53	11,344
Total Budgetary Resources	\$ 8,956	\$ 5,827	\$ 1,802	\$ 176	\$ 300	\$ 81	\$ 17,142
Outlays, Net:							
Outlays, net (discretionary and mandatory)	\$ 3,208	\$ 802	\$ 234	\$ 33	\$ 2	\$ 8	\$ 4,287
Distributed offsetting receipts	-	-	-	-	-	(1)	(1)
Agency Outlays, net (discretionary and mandatory)	\$ 3,208	\$ 802	\$ 234	\$ 33	\$ 2	\$ 7	\$ 4,286

Required Supplementary Information (Unaudited)

Land

PP&E Land

NRCS owns land on twelve PMC locations. Of the twelve, eleven are owned by NRCS, and one is operated under a contribution agreement. PMC land is used for seed and plant production, for plant studies, for demonstration areas, and for buildings and facilities to support PMC activities. PMC land not usable for these purposes may be managed as natural areas to provide buffers between PMC operations and other areas. PMCs manage land resources consistent with NRCS conservation practices to maintain soil, water, and other natural resources, and ensure the land is acceptable for future PMC activities.

NRCS has one small parcel of land (0.2 acres), obtained from another Federal agency in 1955, that houses a storage unit used for field office supplies. The parcel, located in a residential/mixed use area, is maintained in accordance with local requirements.

Stewardship Land

Stewardship land consists of conservation easements acquired under a variety of easement programs and authorities. NRCS's mission objectives in administering the conservation easement programs are to provide landowners with financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch land.

USDA stewardship land easement acreage as documented in Table 28 accurately reflects the number of acres under USDA stewardship land easement as of September 30, 2023. However, for the reasons discussed in this section, this number may be adjusted in future reports.

Early stewardship land conservation easements were acquired without the benefit of being professionally surveyed. Although the best technology at the time was utilized to determine easement size, there is variation to the accuracy of those methods compared to present day surveying techniques. Presently, all USDA stewardship land conservation easements are surveyed by licensed surveyors to determine the size of the easement. While these surveys provide an accurate report of the size of the easement, USDA is continually making efforts to enhance its survey standards and requirements to reflect survey equipment improvements and ensure accurate reporting. Annual monitoring of stewardship land conservation easements allows NRCS to observe situations that may lead to the need for an updated survey. For example, lack of signage on an easement boundary or other circumstances that result in undefined easement boundaries often precipitate encroachment by adjacent landowners and violations of the terms of the easement. In order to reduce the frequency of these encroachments and easement violations, USDA stewardship land easements occasionally require new surveys to reestablish the easement boundaries. Because these boundary reestablishment

Required Supplementary Information (Unaudited)

surveys are conducted under the most current survey standards and requirements, the new survey may reflect a change in the acres as originally reported for that particular easement which may result in adjustment in the reporting of USDA stewardship land easement acreage.

In addition, the 2014 Farm Bill granted authority to NRCS to amend USDA stewardship land easements through an easement administration action. If approved, the resulting amendment may result in an increase in the reported USDA stewardship land easement acreage, or, in the case of an authorized easement termination, a reduction in the easement and acre count. Finally, though rare, litigation involving existing USDA stewardship land easements may result in the termination of an easement or a modification to the boundary of an easement, both of which would result in an adjustment to the reported USDA stewardship land easement acreage.

The table below provides the acreage of the NRCS PP&E (operational) and Stewardship Land (conservation and preservation) for FY 2023. Of the Stewardship Land, 3.2 million acres are of a permanent duration. The remaining approximately 476 thousand acres are considered temporary, ranging from 30 to 99 years in duration. There are no costs associated with the maintenance of these land rights.

	Conservation and Preservation	Operational	Commercial Use	Total Estimated Acreage
Start of Prior Year	*	*	*	*
End of Prior Year/Start of Current Year	3,649,692	1,900	-	3,651,592
End of Current year (September 30, 2023)	3,689,002	1,900	-	3,690,902
Held for Disposal of Exchange				
End of Prior Year	-	-	-	-
End of Current Year	-	-	-	-
* Comparative not required for FY 2022				

Table 28: Estimated Acreage by Predominant Use

Other Information (Unaudited)

SECTION 4: OTHER INFORMATION (UNAUDITED)

Management Challenges

The Reports Consolidation Act of 2000 requires the USDA Office of Inspector General (OIG) to report annually on the most serious management challenges faced by USDA and its agencies. The following management challenges were identified and related to NRCS in the FY 2023 Management Challenges Report:

Management Challenge 2: Providing Benefits

Natural Resources Conservation Service (NRCS), Hurricane Disaster Assistance - Emergency Watershed Protection Program (10702-0001-23)

NRCS completed the corrective actions to address eight of the nine recommendations made by the Office of Inspector General in its audit of NRCS's Emergency Watershed Protection (EWP) Program. Work to resolve the remaining recommendation is ongoing. To improve program monitoring, NRCS developed a national program database. To improve internal controls, NRCS revised the EWP Program Manual to verify sponsor eligibility and ensure the correct and timely completion of project reports. The frequency of reviews of unliquidated obligations was increased and performance metrics were added to the EWP Program Manual.

Management Challenge 3: Delivering Efficient Programs

NRCS, Natural Resources Conservation Service's Financial Statements for Fiscal Years 2022 and 2021 (10403-0005-11)

NRCS completed the corrective actions to address twelve of the thirteen recommendations made by OIG in its audit of NRCS's financial statements for fiscal years 2021 and 2020. Work to resolve the remaining recommendation is ongoing. To improve controls over obligations and unfilled customer orders, NRCS developed a process with deadlines and multiple levels of review to monitor obligations that remain static for multiple quarters. Guidance was developed and training was conducted to ensure obligations are posted timely, completely, and accurately. A report of unfilled customer orders was provided on a regular and ongoing basis to responsible personnel and to agency leadership. The reporting requirements were incorporated into agency procedures.

To improve controls over the review and recording of expenditure transactions, NRCS updated its accrual policies and procedures and ensured newly awarded and active contracts were reviewed on a regular basis. Updated guidance and training were provided to applicable agency personnel on the recording of expenditures for real and personal property. To improve controls over journal vouchers, NRCS conducted training and issued an updated journal voucher policy to stakeholders. To improve compliance with Single Audit Act requirements, NRCS developed a

Other Information (Unaudited)

process to identify and monitor single audit submissions related to agency agreements. A process on the resolution of entity audit findings was also developed.

NRCS, Natural Resources Conservation Service's Financial Statements for Fiscal Years 2022 and 2021 (10403-0005-11)

NRCS completed the corrective actions to address five of the six recommendations made by OIG in its audit of NRCS's financial statements for fiscal years 2022 and 2021. Work to resolve the remaining recommendation is ongoing. To improve controls over obligations and the timely liquidation of obligations, NRCS issued an unliquidated obligations (ULO) certification notice identifying deadlines for the closeout of open obligations. The agency identified and provided the status all open obligations to stakeholders and followed up on open obligations with a repeat status from the prior quarter by elevating them to management. Metrics were developed to monitor obligation status and aging, and the applicable standard operating procedures were issued including the updated metrics. To improve controls over journal vouchers, NRCS distributed the journal voucher policy to relevant stakeholders. The population of journal vouchers was then sampled and testing was performed on the population to validate users were complying with the voucher policy.

Other Information (Unaudited)

Summary of Financial Statement Audit and Management Assurances

The tables below provide a summary of the financial statement audit results and management assurances for FY 2023. As noted below, all FY 2022 material weaknesses and non-compliance have been resolved.

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Unconsolidated	Ending Balance
Improved Controls are Needed Over Obligations	1		1		0
TOTAL MATERIAL WEAKNESS	1		1		0

Table 29: Summary of Financial Statement Audit

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unmodified					
Material Weakness	Beginning Balance	New	Resolved	Unconsolidated	Reassessed	Ending Balance
Improved Accounting and Controls are Needed over Unliquidated Obligations (ULOs)	1				1	0
Improved Accounting and Controls Needed Over Accrued Expenses	1		1			0
TOTAL MATERIAL WEAKNESS	2		1		1	0

Table 30: Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)

Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unmodified					
Material Weakness	Beginning Balance	New	Resolved	Unconsolidated	Reassessed	Ending Balance
No Issues						

Table 31: Effectiveness of Internal Control over Operations (FMFIA Section 2)

Conformance with Federal Financial Management System Requirements (FMFIA Section 4)						
Statement of Assurance	Unmodified					
Material Weakness	Beginning Balance	New	Resolved	Unconsolidated	Reassessed	Ending Balance
No Issues						

Table 32: Conformance with Federal Financial Management System Requirements (FMFIA Section 4)

Compliance with Section 803(a) of FFMIA		
	Agency	Auditor
1.	System Requirements	No lack of substantial compliance noted
2.	Applicable Federal Accounting Standards	No lack of substantial compliance noted
3.	USSGL at Transaction Level	No lack of substantial compliance noted

Table 33: FFMIA Compliance

Other Information (Unaudited)

Payment Integrity

Background

Payment integrity means ensuring payments made to people on behalf of the government are managed correctly and that appropriate internal controls and checks and balances exist to minimize the likelihood of errors. An improper payment is any payment that should not have been made per statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when a payment lacks sufficient underlying documentation, the payment must also be considered an improper payment.

Agencies must report information on payment integrity, disclosing payments that were processed correctly and those payments that were improper. Since the Improper Payments Information Act (IPIA) of 2002, OMB has worked with agencies to increase the number of Federal payments to the right person, amount, and date. The IPIA, as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), and the Payment Integrity Information Act 2019 (PIIA), requires agencies to annually report information on improper payments to the President and Congress through their annual Performance and Accountability Report (PAR) or Annual Financial Report (AFR). In addition, more detailed information on improper payments may be found at <https://paymentaccuracy.gov/>.

Risk Assessments

The Department issues detailed guidance for the risk assessment process. Agency programs deemed high-risk are required to be tested on an annual basis. Programs deemed low risk are required to be risk assessed or management certifies whether a program remains low risk. In FY 2023, OCFO determined all NRCS programs are low risk and no programs were tested.

Testing Criteria and Improper Payment Estimation

For high-risk programs, NRCS statistically selects payment samples to estimate the amount and percentage of improper payment dollars. The goal of this review is to obtain an overall estimate of the percentage of improper payment dollars within +/- 3.0 percent precision at the 95 percent confidence level. NRCS uses these results to

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identify issues and implement corrective actions to reduce improper payments on an ongoing basis.

If testing is performed, testing criteria is applied to verify the following:

- Recipient was eligible for payment.
- Payment was made to the proper recipient.
- Payments issued for goods and/or services were delivered within the appropriate period of performance.
- Payments were made for the goods and/or services that were reflected on the contract documents.
- Payment amounts are equal to or less than the contract amount (not in excess of contract amount).
- Appropriate documentation (when applicable) contains the eligible recipient's signature.
- An NRCS official's signature acknowledging receipt of goods and/or services is present.
- Payment amounts agree to invoice amounts/payment requests.
- Payments were supported by adequate program specific documentation.

Testing Results

In FY 2023, due to its historically low improper payment rate, the Emergency Watershed Protection - Disaster Relief Program (pursuant to Public Laws 115-123 and 116-120) was deemed low risk and therefore no testing was performed. Testing was performed in FY 2022. Sampling results are summarized below.

Improper Payments – Emergency Watershed Protection Program – Public Laws 115-123 and 116-120			
Program	Outlays	Improper \$	Improper %
FY 2022 (in millions)	\$205	\$0	0%

Table 34: Improper Payments; Watershed Protection Program

Future Outlays and Reduction Targets

Since NRCS had no high-risk programs and testing was not performed, the Department did not require Reduction Targets.

Recapture of Improper Payments

NRCS recaptures improper payments via various programmatic reviews and during the normal course of business. Therefore, NRCS does not have an agency-specific

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supplier credit recovery audit program. States and centers are required to submit improper payment documentation as improper payments are identified to ensure collection efforts are initiated and pursued. Types of improper payments include payments regarding ineligible land, ineligible participants, duplicate payments, and payments to the wrong payee.

NRCS actively pursues improper payments. If improper payments are discovered that result in monetary loss to the government, NRCS takes aggressive steps to recover the funds. A demand letter is sent to participants explaining that an improper payment has been made and requesting that the funds be returned to NRCS. As a follow-up to the demand letter, a bill is sent to the participant requesting payment within 30 days. Participants may appeal, but if the appeal efforts prove unsuccessful, the participant must repay the amount in full. If the debt is not paid within 120 days, the debt will be referred to the U.S. Department of the Treasury's Treasury Offset Program for collection. Once this happens, before a debtor receives a payment from any Federal source (e.g., tax refunds), the debt will be withheld from the Federal payment and returned to NRCS.

The table below depicts improper payments identified and recovered during the normal course of business. The amounts recovered do not necessarily align with the improper payments identified. Amounts recovered could be related to improper payments made in previous fiscal years.

Improper Payment Amount Identified Current Year	Improper Payment Amount Recovered Current Year
\$624,920	\$460,272

Table 35: Improper Payments and Recoveries (in dollars)

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The tables below depict improper payments identified and recovered from the Supplier Credit Recovery Audit Program and overpayments recaptured outside of payment recapture audits.

FY 2023								
Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Funds to Treasury	Funds to Office of Inspector General	Funds Invested in the Federal Financial Improvement Program	Returned to NRCS for Original Purpose
Supplier Credit Recovery Audit Program	\$0	N/A	\$0	\$0	\$0	\$0	\$0	\$0
Overpayments Recaptured Outside of Payment Recapture Audits	\$460,272	Various	\$0	\$0	\$0	\$0	\$0	\$460,272

FY 2022								
Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Funds to Treasury	Funds to Office of Inspector General	Funds Invested in the Federal Financial Improvement Program	Returned to NRCS for Original Purpose
Supplier Credit Recovery Audit Program	\$0	N/A	\$0	\$0	\$0	\$0	\$0	\$0
Overpayments Recaptured Outside of Payment Recapture Audits	\$1,952,770	Various	\$0	\$0	\$0	\$0	\$0	\$1,952,770

Table 36: Disposition of Funds Through Recapture Audit (in dollars)

Agency Improvement of Payment Accuracy with the Do Not Pay (DNP) Initiative

Prior to award, NRCS ensures contract and grant vendors maintain current registrations in the System for Award Management. Additionally, for Protracts contracts, NRCS ensures that payments are not made to deceased individuals by checking the Death Master File prior to obligation and payment. NRCS uses these systems directly, rather than through the DNP portal, due to its extensive use of system interfaces in business processes. Though NRCS did not identify any improper payments through the DNP portal in FY 2023, NRCS will work more closely with the Department and other FPAC agencies in FY 2024 to streamline and consolidate DNP portal adjudication activities across all FPAC agencies.

Grants Programs

For FY 2023, federal agencies are required to provide a high-level summary of expired, but not closed, grants and cooperative agreement awards for which closeout has not yet occurred and for which the period of performance has elapsed by two years or more prior to September 30, 2023.

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Category	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	4	0	0
Number of Grants/Cooperative Agreements with Undispersed Balances	12	2	0
Total Amount of Undispersed Balances	\$2,395,890	\$319,950	\$0

Table 37: Grants/Cooperative Agreements Not Closed and the Period of Performance has Elapsed by More than Two Years (in dollars)

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