U.S. Department of Agriculture
Office of Inspector General

Natural Resources Conservation Service's Financial Statements for Fiscal Years 2024 and 2023

November 2024

Audit Report 10403-0007-11

USDA OFFICE OF INSPECTOR GENERAL
United States Department of Agriculture

DATE: November 12, 2024

AUDIT NUMBER: 10403-0007-11

TO: Terry Cosby
Chief
Natural Resources Conservation Service

Lucas Castillo
Chief Financial Officer
Farm Production and Conservation Business Center

ATTN: Christopher Simmons
Performance, Accountability, and Risk Division Director
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

SUBJECT: Natural Resources Conservation Service's Financial Statements for Fiscal Years 2024 and 2023

KPMG LLP, an independent certified public accounting firm, was engaged to audit the financial statements of Natural Resources Conservation Service (NRCS), and for the fiscal years then ended; to provide a report on internal controls over financial reporting; to report on whether NRCS' financial management systems did not comply substantially 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 standards and Office of Management and Budget (OMB) audit guidance.

In its audit of NRCS' fiscal years 2024 and 2023 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, 2024 and 2023, 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 weaknesses[1] in internal control over financial reporting;
- two significant deficiencies[2] in internal controls over financial reporting related to implementation of and compliance with new accounting standard and general information technology controls;
- no instances in which NRCS' financial management systems did not substantially comply with FFMIA requirements; and
- no reportable noncompliance with provisions of laws tested or 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 tested and other matters. KPMG LLP is responsible for the attached auditor's report, dated November 7, 2024 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 standards and OMB audit guidance.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. For agencies other than the Office of the Chief Financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to KPMG LLP and my office by members of your staff during the 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.

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[1] A material weakness is a deficiency or a combination of deficiencies, in internal control over financial reporting, 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 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
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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, 2024 and 2023, 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, 2024 and 2023, 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. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 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.

Emphasis of Matter

As discussed in Notes 1.C and 9 to the consolidated financial statements, as of October 1, 2023, NRCS adopted Statement of Federal Financial Accounting Standards No. 54, *Leases*, as amended. Our opinion is not modified with respect to this matter.

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. 24-02 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. 24-02, 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.

Other Reporting Required by *Government Auditing Standards*

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, 2024, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in Exhibit I, that we consider to be significant deficiencies.

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, 2024 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 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. 24-02.

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.

NRCS's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the NRCS's response to the findings identified in our audit and described in Exhibit II. The NRCS's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other 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 7, 2024

Exhibit I – Significant Deficiencies

Number 1: Implementation of and Compliance with New Accounting Standards

The Farm Production and Conservation (FPAC) did not establish processes or design and implement controls to ensure proper and timely implementation of and compliance with Statement of Federal Financial Accounting Standards No. 54, *Leases*, as amended (SFFAS No. 54). Specifically, we noted the following:

- Management's initial estimate of the financial impact of implementation of the new standard was not adequately reviewed for accuracy.

- Management did not consider all relevant information available when developing an estimate for a portion of the lease population. In particular, lease payment amounts assumed in the estimate incorrectly included (1) operating costs and (2) tenant improvements for the entirety of the contract instead of the appropriate period stated in the contract.

- Management did not establish go-forward processes or internal controls to review new lease agreements or monitor existing lease agreements for changes in terms or conditions that would impact the determination of related lease account balances to ensure ongoing compliance with the standard.

The following criteria were considered in the determination and evaluation of the significant deficiency:

The Government Accountability Office's *Standards of Internal Control in the Federal Government* (Green Book), Principle 9, *Identify, Analyze, and Respond to Change*, states:

- 9.04 As part of risk assessment or a similar process, management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system. Changes in conditions affecting the entity and its environment often require changes to the entity's internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions. Management analyzes the effect of identified changes on the internal control system and responds by revising the internal control system on a timely basis, when necessary, to maintain its effectiveness.

The Green Book Principle 10, *Design Control Activities*, states:

- 10.02 Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system.

The Green Book Principle 12, *Implement Control Activities*, states:

- 12.02 Management documents in policies the internal control responsibilities of the organization.

- 12.04 […] Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities

SFFAS No. 54 and Technical Release 20: *Implementation Guidance for Leases* (TR20), states:

- TR20 Paragraph 52 - Should operating costs, such as utilities and janitorial services, included in a lease agreement, be excluded from the lease liability calculation? Yes, they should be excluded. Paragraph 73 of SFFAS No. 54 requires reporting entities with agreements that contain a lease and nonlease component to account for the lease and nonlease component as separate contracts or agreements, unless the contract or agreement meets the exception in paragraph 76 of SFFAS No. 54.

- SFFAS No. 54, Paragraph 73 - If a lessor or lessee enters into a contract or agreement that contains both a lease (such as the right to use a building) and a nonlease component (such as a maintenance services for the building), the federal entity should account for the lease and nonlease components as separate contracts or agreements, unless the contract or agreement meets the exception in paragraph 76.

- SFFAS No. 54, Paragraph 76 - If a contract or agreement does not include prices for individual components or if any of those prices appear to be unreasonable as provided in paragraph 75, lessors and lessees should use professional judgment to determine their best estimate for allocating the contract.

The deficiency was a result of management not sufficiently identifying, analyzing, and responding to the significant change resulting from newly effective accounting standards. Insufficient risk assessment of the impact of new accounting standards on the financial statements and on the internal control system increases the overall risk of material misstatement of the financial statements. While management was able to support and evidence material compliance with the standard, we noted that lease assets and lease liabilities are overstated by an estimate of $60 million.

Recommendation:

We recommend that management design and implement internal controls to ensure that management sufficiently analyzes and timely and appropriately responds to changes that impact the financial reporting and internal control system, such as new accounting standards.

Number 2: General Information Technology Controls

Management did not effectively design and implement access controls over the authorization and termination of end users. In addition, management did not perform reviews of security logs for certain financial system applications.

The following criteria were considered in the determination and evaluation of the significant deficiency:

The Green Book Principle 5, *Enforce Accountability*, states:

- 5.02: Management enforces accountability of individuals performing their internal control responsibilities. Accountability is driven by the tone at the top and supported by the commitment to integrity and ethical values, organizational structure, and expectations of competence, which influence the control culture of the entity. Accountability for performance of internal control responsibility supports day-to-day decision making, attitudes, and behaviors. Management holds personnel accountable through mechanisms such as performance appraisals and disciplinary actions.

The Green Book Principle 7, *Identify, Analyze, and Respond to Risks*, states:

- 7.01: Management should identify, analyze, and respond to risks related to achieving the defined objectives.

The Green Book Principle 11*, Design Activities for the Information System*, states:

- 11.12: Security management includes the information processes and control activities related to access rights in an entity's information technology, including who has the ability to execute transactions. Security management includes access rights across various levels of data, operating system (system software), network, application, and physical layers. Management designs control activities over access to protect an entity from inappropriate access and unauthorized use of the system. These control activities support appropriate segregation of duties.

The Green Book Principle 12*, Implement Control Activities*, states:

- 12.03: Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53: *Security and Privacy Controls for Information Systems and Organizations*, which details requirements for Policy and Procedures and Account Management.

The deficiency was a result of management not appropriately identifying, analyzing, and responding to risks related to achieving the defined objectives. Additionally, management did not enforce accountability of individuals performing their internal control responsibilities. Inadequate access controls increases the risk to the completeness, accuracy, validity, confidentiality, and availability of the financial data within the information technology systems.

Recommendations:

We recommend that management:

- Implement audit logging monitoring controls to reduce the risk that inappropriate and/or unusual activity that may compromise the integrity and availability of systems and data goes undetected and resolved.
- Enforce independent review of personnel's system access and redesign existing policies and procedures in order to perform the review of all personnel's access each fiscal year.
- Design, document, and implement preventive controls to remove system application access within an acceptable timeframe following a user's separation date.

Exhibit II - NRCS's Response to Findings

United States Department of Agriculture

Farm Production and Conservation Business Center

Natural Resources and Conservation

1400 Independence Avenue, SW
Room 3116-S

Washington, DC 20250

TO: Janet Sorensen
Assistant Inspector General for Audit
Office of Inspector General

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

FROM: Lucas Castillo
Chief Financial Officer
Farm Production and Conservation

SUBJECT: Natural Resources Conservation Service (NRCS) Audit Report Response

We have reviewed the KPMG Independent Auditors' Report dated November 7th, 2024. We are pleased with the Auditors' unmodified opinion on NRCS Fiscal Year (FY) 2024 and 2023 consolidated financial statements.

NRCS agrees with the findings presented in the auditors' report. NRCS is in the process of developing and implementing corrective actions to remediate the findings and will continue to work with the USDA Office of Inspector General to ensure effective remediation in FY 2025.

Please feel free to reach out to Kathleen Carroll at (816) 400-5654 if you have any questions.

2024 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) 2024.

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 controls are operating effectively as of September 30, 2024. Management has also assessed the completeness and reliability of the performance and financial data used in this report. In addition, NRCS's independent auditors have issued an unmodified opinion on the NRCS financial statements for FY 2024.

NRCS, in coordination with the Farm Production and Conservation Business Center, continues to make improvements in financial reporting. NRCS remains committed to administering our programs and operations in an effective and efficient manner and ensuring our financial management systems remain in compliance with Federal requirements.

About NRCS

NRCS has a mission to deliver conservation solutions so that agricultural producers can protect natural resources and feed a growing world. Our vison is a world of clean and abundant water, healthy soils, resilient landscapes, and thriving agricultural communities through voluntary conservation. Two-thirds of the land in the contiguous United States is privately owned and conservation-conscious stewardship of privately owned land is vital to the land's health and productivity.

NRCS is comprised of more than 14,000 public servants who work together to assist farmers, ranchers, and forest landowners across the country with conserving, protecting, and improving our natural resources while boosting agricultural productivity. NRCS operates across four regions (which cover all fifty states, the Caribbean, and Pacific Basin Areas), 3 National Technology Support Centers, and 9 National Centers. NRCS continues to offer financial and technical resources to help producers implement voluntary conservation practices across the landscape and protect and preserve our natural resources nationwide.

Terry J. Cosby

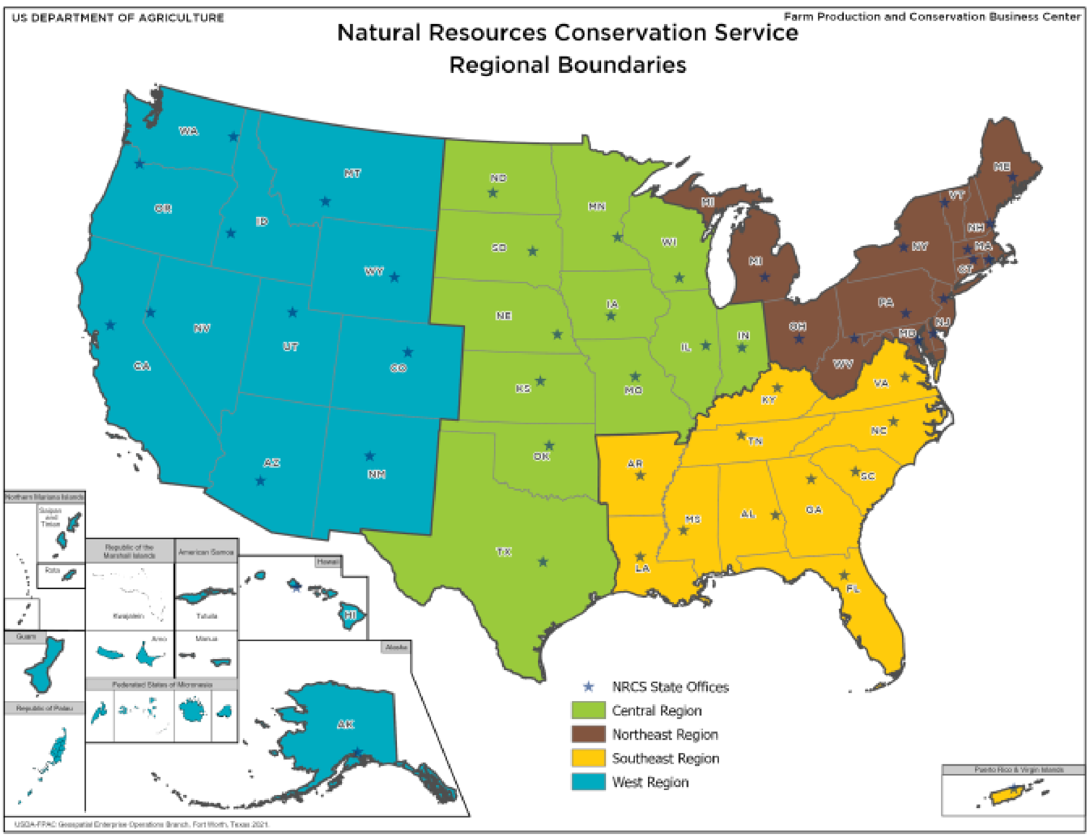
Chief, NRCS

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, 2024 and 2023 of financial and non-financial performance for NRCS. NRCS is a federal agency under the direction of the United States Department of Agriculture (USDA) Under Secretary for Farm Production and Conservation (FPAC).

Map of NRCS Regions

The below map illustrates NRCS's four regions and the locations of the State Offices.

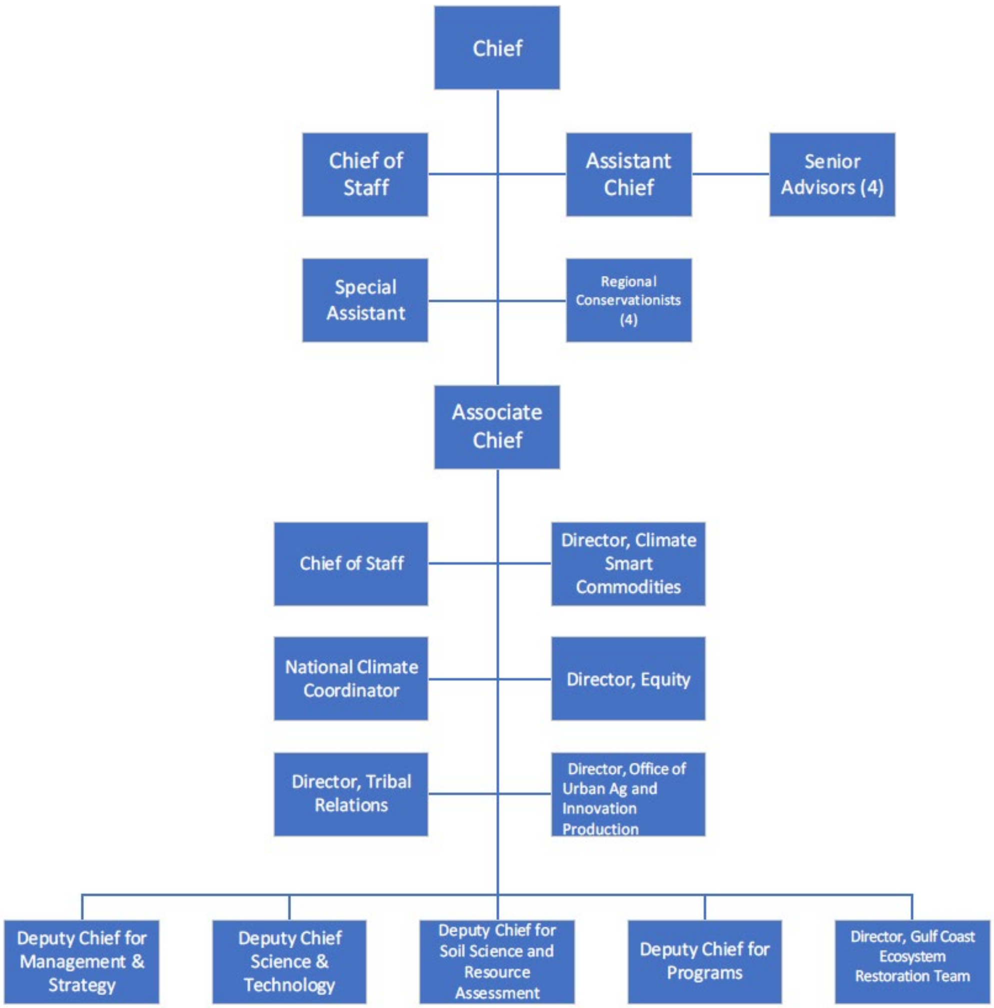


NRCS's Regional Conservationists oversee the four regions in the Northeast, Southeast, Central, and West. They are the NRCS Chief's leadership representatives and provide overall direction for agency operations, programs, activities, and personnel consistent with the Chief's guidance. Regional Conservationists supervise the Agency's State Conservationists and Directors of the Pacific Islands and Caribbean Areas.

For more about NRCS's Regional Conservationists, please visit [Leadership | Natural Resources Conservation Service (usda.gov)](https://www.nrcs.usda.gov).

NRCS Organizational Structure

NRCS is led by a Chief, an Associate Chief, Regional Conservationists and Deputy Chiefs over different focus areas. They provide leadership, guidance, and support for the agency's locally led conservation programs, partnership efforts, and business operations throughout the United States and abroad. Below is the NRCS Organizational Chart as of September 30, 2024.



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:

- **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 2024 updates will be found in the FY 2024 Annual Performance Report (APR), which will be published with the FY 2026 Annual Performance Plan and the FY 2026 budget by February 2025 on the Office of Budget and Program Analysis (OBPA) website, [Our Performance | USDA](). 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 (KPI)	Trend [1]			As of September 30, 2024		
		FY 2021	FY 2022	FY 2023	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)	3.6	3.4	4.7	8.0	9.5	Met
	Cropland with conservation applied to improve soil quality, Environmental Quality Incentive Program (EQIP) (millions of acres)	3.4	3.3	3.3	3.4	3.4	Met
	Cropland with an applied Soil Health Management System (SHMS) (thousands of acres)	313	294	428	225	261	Met
	Working lands protected by conservation easements (thousands of acres)	145	167	193	129	141	Met
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 (millions of tons)	8.1	8.3	8.3	6.0	8.8	Met
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	86.9	82.4	87.0	79.1	Needs Improvement
	Practice Implementation Ratio (%)	68.0	65.6	65.6	53.0	65.9	Met

[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, 2023 through September 30, 2024. Met: A KPI is considered met only if the actual is at least 100% of the target, Needs 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.

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 (CD) 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 act as the data source for performance data models.

- **Completeness of Data:** The reported performance measures are based on data from October 1, 2023, to September 30, 2024. 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), CD, 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 CD and ProTracts 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 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 CD and ProTracts 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**

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, 2024 and 2023. Amounts are stated in millions of dollars.

Assets

NRCS reported approximately $25.0 billion in assets as of September 30, 2024, representing an increase of 11 percent compared with assets reported as of September 30, 2023. The year over year increase in assets was largely seen in fund balance with treasury and due to an increase in appropriations. Another significant portion of the increase was reflected in property, plant, and equipment and primarily due to the implementation of the Statement of Federal Financial Accounting Standard (SFFAS) 54 *Leases.* The implementation of SFFAS 54 now requires recognition of right-to-use lease assets and amortization on the balance sheet.

Assets	**FY 2024**	**FY 2023**	**Difference**	**Percent Difference**
Fund Balance with Treasury	$ 24,187	$ 21,989	$ 2,198	10%
Accounts Receivable, Net	28	13	15	115%
Advances and Prepayments	5	3	2	67%
Total Intragovernmental Assets	24,220	22,005	2,215	10%
Accounts Receivable, Net	3	2	1	50%
Property, Plant, and Equipment, Net	725	419	306	73%
Advances and Prepayments	87	62	25	40%
Total Other than Intragovernmental Assets	815	483	332	69%
Total Assets	$ 25,035	$ 22,488	$ 2,547	11%

Liabilities

NRCS reported approximately $1.6 billion in liabilities as of September 30, 2024, a 12 percent increase versus the same period in FY 2023. The year over year increase is largely due to the implementation of SFFAS 54 which now requires recognition of lease liabilities on the balance sheet.

Liabilities	FY 2024	FY 2023	Difference	Percent Difference
Other Liabilities				
Accrued Liabilities for Other Services	$ 32	$ 24	$ 8	33%
Other	13	22	(9)	-41%
Total Intragovernmental Liabilites	45	46	(1)	-2%
Accounts Payable	49	75	(26)	-35%
Federal Employee Salary, Leave, and Benefits Payable	116	139	(23)	-17%
Pensions, Other Post Employment and Veterans Benefits Payable	30	31	(1)	-3%
Advances from Others and Deferred Revenue	17	17	-	0%
Other Liabilities				
Lease Liabilities	243	-	243	100%
All Other Liabilities	1,131	1,146	(15)	-1%
Total Other Than Intragovernmental Liabilities	1,586	1,408	178	13%
Total Liabilities	$ 1,631	$ 1,454	$ 177	12%

Net Position

The 11 percent increase year over year in net position is largely due to an increase in unexpended appropriations brought forward from FY 2023 and received in FY 2024.

Net Position	FY 2024	FY 2023	Difference	Percent Difference
Unexpended Appropriations	$ 7,810	$ 5,954	$ 1,856	31%
Cumulative Results of Operations	15,594	15,080	514	3%
Total Net Position	$ 23,404	$ 21,034	$ 2,370	11%

Net Cost of Operations

NRCS's net cost of operations was approximately $5.5 billion as of September 30, 2024, representing a 9 percent increase from last year. This increase is primarily due to an increase in operating expenses and program costs, along with the implementation of SFFAS 54.

Net Cost of Operations	FY 2024	FY 2023	Difference	Percent Difference
Gross Costs	$ 5,578	$ 5,103	$ 475	9%
Less: Total Earned Revenue	80	51	29	57%
Total Net Cost of Operations	$ 5,498	$ 5,052	$ 446	9%

Budgetary Resources

Total Budgetary Resources were $17.3 billion as of September 30, 2024. This is a 7 percent decrease that is primarily due to a decrease in unobligated balances brought forward from prior year budget authority that was offset by an increase in appropriations received.

	FY 2024	FY 2023	Difference	Percent Difference
Budgetary Resources	$ 17,291	18,639	(1,348)	-7%

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.

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.

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, 2024. As a result of the assessment, NRCS reports the Statement of Assurance below.

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, 2024.

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, 2024.

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. In addition, NRCS has one potential and one confirmed Antideficiency Act violation.

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 Digitally signed by Terry J. Cosby Date: 2024.11.06 10:23:48 -05'00'

Terry J. Cosby
Chief,
Natural Resources Conservation Service
November 6, 2024

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, 2024, there are four audits for which work has not yet been completed in accordance with the act.

Government Accountability Office (GAO)/Office of Inspector General (OIG) Active Audits

The summary of GAO/OIG active audits for the year ended September 30, 2024, provides an overview of the external audit activities in progress and six 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	1/5/2024
OIG – USDA's Fiscal Year 2019, First Quarter DATA Act Submission – 11601-0001-12		11/08/2019
OIG – IIJA-Watershed and Flood Prevention Operations – 10801-0001-24	6/29/2023	6/25/2024
OIG – Partnership for Climate -Smart Commodities – 10801-0001-22	9/4/2024	*
OIG – USDA Climate Hubs: Enhance Working Lands' Resilience and Productivity – 50801-0001-22	10/18/2023	9/24/2024
GAO – Alaska Native Issues, Federal Agencies Could Enhance Support for Native Villages Efforts to Address Environmental Treats – GAO-22-104241	6/20/2020	5/18/2022
GAO – Farm Programs: USDA Should Take Additional Steps to Enhance Compliance with Wetland Conservation Compliance – GAO-21-241	6/30/2020	4/2/2021
GAO – Safety of Watershed Dams - 107404	2/7/2024	*

* Audit is in progress and the final report has not yet been released.

SECTION II: FINANCIAL INFORMATION

NRCS Consolidated Financial Statements

Consolidated Balance Sheets

As of September 30, 2024 and 2023 ($ in millions)

	FY 2024	FY 2023
Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$ 24,187	$ 21,989
Accounts Receivable, Net (Note 3)	28	13
Advances and Prepayments	5	3
Total Intragovernmental Assets	24,220	22,005
Other than Intragovernmental Assets:		
Accounts Receivable, Net (Note 3)	3	2
Property, Plant, and Equipment, Net (Note 4)	725	419
Advances and Prepayments	87	62
Total Other than Intragovernmental Assets	815	483
Total Assets	25,035	22,488
Stewardship Property, Plant, and Equipment (Note 5)		
Liabilities:		
Intragovernmental Liabilities:		
Other Liabilities (Note 8)		
Accrued Liabilities for Other Services (Note 8)	32	24
Other (Note 8)	13	22
Total Intragovernmental Liabilities	45	46
Other than Intragovernmental Liabilities:		
Accounts Payable	49	75
Federal Employee Salary, Leave, and Benefits Payable (Note 7)	116	139
Pensions, Other Post Employment and Veterans Benefits Payable (Note 7)	30	31
Advances from Others and Deferred Revenue	17	17
Other Liabilities (Notes 8 and 9)		
Other Liabilities with Related Budgetary Obligations (Note 8)	1,130	1,145
Lease Liabilities (Notes 8 and 9)	243	-
Other (Note 8)	1	1
Total Other than Intragovernmental Liabilities	1,586	1,408
Total Liabilities	1,631	1,454
Commitments and Contingencies (Note 10)		
Net Position:		
Unexpended Appropriations - Funds from Dedicated Collections (Note 11)	-	-
Unexpended Appropriations - Funds from Other Than Dedicated Collections	7,810	5,954
Total Unexpended Appropriations (Consolidated)	7,810	5,954
Cumulative Results of Operations - Funds from Dedicated Collections (Note 11)	18	19
Cumulative Results of Operations - Funds from Other Than Dedicated Collections	15,576	15,061
Total Cumulative Results of Operations (Consolidated)	15,594	15,080
Total Net Position	23,404	21,034
Total Liabilities and Net Position	$ 25,035	$ 22,488

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Net Cost

For the Years Ended September 30, 2024 and 2023 ($ in millions)

	FY 2024	FY 2023
Farm Bill Programs		
Gross Costs	$ 4,003	$ 3,305
Less Earned Revenue	21	18
Net Program Costs	3,982	3,287
Conservation Operations Program		
Gross Costs	1,075	1,277
Less Earned Revenue	23	25
Net Program Costs	1,052	1,252
Watershed and Flood Prevention Operations Program		
Gross Costs	387	319
Less Earned Revenue	33	7
Net Program Costs	354	312
Watershed Rehabilitation Program		
Gross Costs	43	36
Less Earned Revenue	1	1
Net Program Costs	42	35
Emergency Watershed Protection Program		
Gross Costs	28	147
Less Earned Revenue	-	-
Net Program Costs	28	147
Other Programs		
Gross Costs	42	19
Less Earned Revenue	2	-
Net Program Costs	40	19
Total Gross Costs	5,578	5,103
Less Total Earned Revenue	80	51
Net Cost of Operations	$ 5,498	$ 5,052

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2024 and September 30, 2023 ($ in millions)

	FY 2024			FY 2023		
	Funds from Dedicated Collections (Note 11)	**All Other Funds**	**Total**	**Funds from Dedicated Collections (Note 11)**	**All Other Funds**	**Total**
Unexpended Appropriations:						
Beginning Balance	$ -	$ 5,954	$ 5,954	$ -	$ 4,456	$ 4,456
Appropriations Received	-	4,205	4,205	-	2,896	2,896
Appropriations Transferred in/out	-	(41)	(41)	-	(2)	(2)
Other Adjustments	-	(220)	(220)	-	(2)	(2)
Appropriations Used	-	(2,088)	(2,088)	-	(1,394)	(1,394)
Net Change in Unexpended Appropriations	-	1,856	1,856	-	1,498	1,498
Total Unexpended Appropriations	-	7,810	7,810	-	5,954	5,954
Cumulative Results from Operations:						
Beginning Balance	19	15,061	15,080	19	14,812	14,831
Other Adjustments	-	(257)	(257)	-	(231)	(231)
Appropriations Used	-	2,088	2,088	-	1,394	1,394
Transfers-In/Out Without Reimbursement (+/-)	5	4,021	4,026	5	4,004	4,009
Imputed Financing	-	155	155	-	129	129
Other	-	-	-	-	-	-
Net Cost of Operations (+/-)	(6)	(5,492)	(5,498)	(5)	(5,047)	(5,052)
Net Change in Cumulative Results of Operations	(1)	515	514	-	249	249
Total Cumulative Results of Operations	18	15,576	15,594	19	15,061	15,080
Net Position	$ 18	$ 23,386	$ 23,404	$ 19	$ 21,015	$ 21,034

The accompanying notes are an integral part of these financial statements

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2024 and 2023 ($ in millions)

	FY 2024	FY 2023
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (Note 14)	$ 9,410	$ 11,977
Appropriations (discretionary and mandatory)	7,777	6,668
Spending authority from offsetting collections (discretionary and mandatory)	104	(6)
Total Budgetary Resources	17,291	18,639
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	9,068	9,769
Unobligated balance, end of year:		
Apportioned, unexpired accounts	5,553	6,197
Unapportioned, unexpired accounts	56	33
Unexpired unobligated balance, end of year	5,609	6,230
Expired unobligated balance, end of year	2,614	2,640
Total unobligated balance, end of year	8,223	8,870
Total Budgetary Resources	17,291	18,639
Outlays, Net		
Outlays, net (discretionary and mandatory)	5,519	4,694
Distributed offsetting receipts	(4)	(1)
Agency Outlays, net (discretionary and mandatory)	$ 5,515	$ 4,693

The accompanying notes are an integral part of these financial statements

Notes to the Consolidated Financial Statements

As of September 30, 2024 and 2023 ($ in millions, unless stated otherwise)

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

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 (CSP)**
- **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 (CRP) (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 (CSP)**
- **Agricultural Conservation Easement Program (ACEP)**
- **Regional Conservation Partnership Program (RCPP)**
- **Conservation Technical Assistance Program (CTA)**
- **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 was $3.7 billion for both periods ended September 30, 2024 and 2023.

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. Change in Accounting Standards

NRCS adopted SFFAS 54 *Leases*, as amended, as of October 1, 2023, as a prospective change in accounting principle. In accordance with SFFAS 54, Federal reporting entities are required to report a right-to-use lease asset and a lease liability for non-intragovernmental, non-short-term contracts or agreements, when the entity has the right to obtain and control access to economic benefits or services from an underlying property, plant, or equipment asset for a period of time in exchange for consideration under the terms of the contract or agreement.

Additionally, SFFAS 54 as amended by SFFAS 62, *Transitional Amendment to SFFAS 54*, states that agencies are allowed a transitional accommodation for the treatment of contracts or agreements that contain non lease component(s), as well as lease component(s) where the purpose of such contracts or agreements is primarily attributable to the non-lease component(s), such as service components. For contracts or agreements meeting these criteria, a reporting entity may elect to account for such contracts or agreements, including the lease component(s), as non-lease contracts or agreements in their entirety. This election applies to contracts or agreements existing as of October 1, 2023, and/or those subsequently entered into or modified on or prior to September 30, 2026 (which is the end of the accommodation period). The entity may elect a shorter accommodation period (contracts or agreements subsequently entered into or modified on or prior to September 30, 2025, September, 30, 2024, or those existing as of October 1, 2023). NRCS has elected to apply the accommodation through September 30, 2026.

Further disclosure of NRCS's leases is provided in Note 9.

D. Use of Estimates

Management has made certain estimates 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, federal employee health benefits, and right-to-use lease assets and liabilities.

E. 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.

F. 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.

G. 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.

H. Property, Plant and Equipment, Net

Property, Plant, and Equipment (PP&E), Net 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 (IUS) 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. IUS is capitalized if the cumulative initiative or program feature cost meets or exceeds $100,000 and has at least a two-year useful life.

In 2024, NRCS implemented SFFAS 54 and now reports lease assets and liabilities. Right-to-use lease assets are classified as such if they have a value greater than $25,000. The lease terms range 24 months to 569 months (47 years and 5 months). Further disclosure of leases is included in Note 1C and Note 9.

I. Stewardship Land

Stewardship land consists of conservation easements acquired under a variety of easement programs and authorities that are for both permanent and temporary terms. Temporary easements are for either 30- or 99-year terms. Stewardship land is recorded in accordance with guidance contained in SFFAS 6 paragraph 25 and SFFAS 29 paragraphs 33. Included in the definition of stewardship land is land and land rights acquired for conservation purposes.

J. 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.

K. 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.

L. 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.

M. 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.

N. Pension and Other Retirement Benefits

Pension and other retirement benefits expense is recognized at the time the employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

O. Revenues and Other Financing Sources

Non-Expenditure Transfers

The 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.

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.

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.

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 NRCS by the performing Agency. Refer to Note 12 for additional detail.

P. 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-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.

Q. Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation in accordance with OMB Circular A-136. Specifically, Balance Sheet amounts presented under the former Accrued Funded Payroll and Leave line item have been reclassified to the current Federal Employee Salary, Leave, and Benefits Payable and Pensions, Other Post Employment, and Veterans Benefits Payable line items. Certain FY 2023 amounts disclosed in Note 6, Liabilities Not Covered by Budgetary Resources, Note 7, Federal Employee Benefits Payable, Note 8, Other Liabilities, and Note 14, Reconciliation of Net Cost to Net Outlays have also been reclassified.

Note 2 – Fund Balance with Treasury

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.

Non-budgetary Fund Balance with Treasury includes proceeds from vehicle sales, intragovernmental payments and collections, and funds on deposit from non-federal entities.

Status of Fund Balance with Treasury	FY 2024	FY 2023
Unobligated Balance:		
Available	$ 5,553	$ 6,197
Unavailable	2,670	2,674
Obligated Balance not yet Disbursed	15,921	13,079
Non-Budgetary FBWT	43	39
Total	$ 24,187	$ 21,989

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). Other than intragovernmental accounts receivable 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, Net	2024	2023
Intragovernmental		
Total Intragovernmental Receivables	$ 28	$ 13
Other than Intragovernmental		
Gross Receivables	6	3
Allowance for Doubtful Accounts	(3)	(1)
Total Other than Intragovernmental Receivables, Net	3	2
Total Receivables, Net	$ 31	$ 15

Note 4 – Property, Plant, and Equipment, 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 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 product and if the benefits of the proposed system are worth the cost. Right-to-Use lease assets is the second largest category of PP&E (reported in Note 9 - Leases), followed by buildings, improvements and renovations which is comprised of general office and field equipment buildings. NRCS also has one multi-use heritage asset which is reported in Note 5 – Stewardship PP&E.

FY 2024	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Equipment	5 - 20	$ 240	$ 116	$ 124
Internal Use Software	5	690	368	322
Internal Use Software in Development	N/A	37	-	37
Land and Land Rights	N/A	1	-	1
Buildings, Improvements and Renovations	15 - 30	19	12	7
Other Structures and Facilities	15 - 30	4	4	-
Lessee Right-To-Use Lease Assets	>2	289	58	231
Leasehold Improvements	2	3	-	3
Total PP&E		$ 1,283	$ 558	$ 725

FY 2023	Estimated Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Equipment	5 - 20	$ 181	$ 102	$ 79
Internal Use Software	5	562	260	302
Internal Use Software in Development	N/A	27	-	27
Land and Land Rights	N/A	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 PP&E		$ 798	$ 379	$ 419

Total PP&E and Accumulated Depreciation (FY 2024)	Net PP&E
Balance Beginning of Year, Unadjusted	$ 419
Effects of Implementation of SFFAS 54	271
Balance Beginning of Year, Adjusted	690
Capitalized Acquisitions	208
Right-To-Use Lease Assets	18
Amortization of Right-To-Use Lease Assets	(58)
Dispositions	(1)
Depreciation Expense	(132)
Balance at End of Year	$ 725

For FY 2024, the Total PP&E and Accumulated Depreciation table (above) beginning balance of PP&E has been adjusted to reflect the impact of the prospective SFFAS 54 implementation as of October 1, 2023. This adjustment amount represents right-to-use lease assets with lease start dates prior to October 1, 2023.

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 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.

Acquisition and Withdrawal of Heritage Assets and Stewardship Land

The following table provides a count of the NRCS heritage asset and conservation easements as of September 30, 2024 and September 30, 2023.

NRCS Count of Heritage Assets and Stewardship Land

FY 2024 (In Units)	Beginning Balance	Additions	Withdrawls	Ending Balance
Heritage Assets				
Research Centers	1	-	-	1
Stewardship Land				
Conservation Easements	19,623	204	2	19,825
FY 2023 (In Units)				
Heritage Assets				
Research Centers	1	-	-	1
Stewardship Land				
Conservation Easements	19,421	203	1	19,623

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 Other than Intragovernmental Not Covered by Budgetary Resources is comprised primarily of unfunded lessee lease liability and 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.

	FY 2024	FY 2023
Intragovernmental:		
Unfunded FECA Liability	$ 6	$ 6
Subtotal Intragovernmental	6	6
Other than Intragovernmental:		
Unfunded Leave	91	85
FECA Actuarial	30	31
Unfunded Lessee Lease Liability	229	-
Estimated Cleanup Cost	1	1
Subtotal Other than Intragovernmental	351	117
Total liabilities not covered by budgetary resources	357	123
Total liabilities covered by budgetary resources	1,259	1,317
Total liabilities not requiring budgetary resources	15	14
Total Liabilities	$ 1,631	$ 1,454

Note 7 – Federal Employee Benefits Payable

The amounts for the Federal Employee Salary, Leave, and Benefits Payable and the Pensions, Other Post Employment and Veterans Benefits Payable balance sheet lines are comprised of the following items:

Federal Employee Salary, Leave, and Benefits Payable

	FY 2024	FY 2023
Other than Intragovernmental		
Accrued Funded Payroll and Leave	$ 25	$ 54
Unfunded Leave	91	85
Total Federal Employee Salary, Leave, and Benefits Payable	$ 116	$ 139

Pensions, Other Post Employment and Veterans Benefits Payable

	FY 2024	FY 2023
Other than Intragovernmental		
Actuarial FECA Liability	$ 30	$ 31
Total Pensions, Other Post Employment and Veterans Benefits Payable	$ 30	$ 31

Note 8 – Other Liabilities

Other liabilities encompass both intragovernmental and other than intragovernmental. Major other liabilities include Other Liabilities with Related Budgetary Obligations. The largest of this category include Grants and Agreements of $909 million and $984 million, and Accrued Liabilities for Technical and Other Services of $247 million and $184 million, as of September 30, 2024 and 2023, respectively.

FY 2024	Non-Current	Current	Total
Intragovernmental			
Accrued Liabilities for Other Services	$ -	$ 32	$ 32
Employer Contributions and Payroll Taxes	-	9	9
Unfunded FECA Liability	3	3	6
Custodial Liabilities	-	1	1
Liability for Deposit Funds and Clearing Accounts	-	(3)	(3)
Subtotal Intragovernmental	3	42	45
Other than Intragovernmental			
Other Liabilities with Related Budgetary Obligations	-	1,130	1,130
Lease Liabilities	-	243	243
Estimated Cleanup Cost Liability	-	1	1
Subtotal Other than Intragovernmental	-	1,374	1,374
Total Other Liabilities	$ 3	$ 1,416	$ 1,419

FY 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
Estimated Cleanup Cost Liability	-	1	1
Subtotal Other than Intragovernmental	-	1,146	1,146
Total Other Liabilities	$ 3	$ 1,189	$ 1,192

Note 9 – Leases

FASAB issued SFFAS 54 which introduced a new model for lease accounting and had a mandated implementation date of October 1, 2023. SFFAS 54 addresses lease accounting standards by both lessees and lessors. For financial reporting purposes, all lease transactions must be recognized in accordance with SFFAS 54.

NRCS's population of Intragovernmental leases consists primarily of 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, buildings, and land for Plant Materials Centers (PMCs), and equipment. The lease arrangements generally range from five to ten years but may be longer for PMCs, and generally contain renewal options. Most leases are subject to cancellation upon certain funding conditions, and all are covered by budgetary resources.

The population of NRCS's Other than Intragovernmental Leases consists of over 1,400 real property leases classified as Right-to-Use under the new standard. The majority of these leases are also for field office operations and are shared with other USDA agencies, specifically Farm Service Agency (FSA), Rural Development (RD), and the FPAC Business Center.

Intragovernmental lease expense information as of September 30, 2024 is reported as follows:

FY 2024 Lessee Expenses	
Intragovernmental:	
Land and Buildings	$ 83
Total Lease Expense	$ 83

Other than Intragovernmental lease asset and future lease payments as of September 30, 2024 is reported as follows:

FY 2024 Lessee Assets	
Other Than Intragovernmental:	
Land and Buildings	$ 289
Accumulated Amortization	(58)
Total Lease Assets	$ 231

Future Lease Payments as of September 30, 2024:

FY	Principal	Interest	Total
2025	$ 47	$ 11	$ 58
2026	46	12	58
2027	40	9	49
2028	32	8	40
2029	18	8	26
2030-34	46	11	57
2035-39	10	2	12
2040-44	4	1	5
Total	$ 243	$ 62	$ 305

Other than Intragovernmental lease expense information as of September 30, 2024 is reported as follows:

FY 2024 Lessee Expenses	
Other than Intragovernmental:	
Amortization	$ 58
Interest	12
Variable	-
Other	32
Total Lease Expense	$ 102

Note 10 – 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, 2024, one case, Damian Zamora Vazquez and Margarito Zamora Vazquez v. USA No: 6:24-cv-01147, was evaluated to have a probable chance of an unfavorable outcome. 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, 2023, one case, Ultima v USDA 2:20-cv-00041, was evaluated to have a reasonably possible chance of an unfavorable outcome. No amount had been accrued in the financial statements for this claim since the estimated amount or range of potential loss was unknown. This case is no longer pending or threatened.

Note 11 – 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.

Balance Sheet as of September 30, 2024	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Assets:			
Intragovernmental:			
Fund Balance with Treasury	$ 18	$ 1	$ 19
Total Intragovernmental Assets	18	1	19
Total Assets	18	1	19
Liabilities:			
Total Liabilities	1	-	1
Net Position			
Cumulative Results of Operations	17	1	18
Total Liabilities and Net Position	$ 18	$ 1	$ 19

Statement of Changes in Net Position for the Year Ended September 30, 2024	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Cumulative Results of Operations:			
Beginning Balance	$ 18	$ 1	$ 19
Transfers in/out without Reimbursement, Net	5	-	5
Net Cost of Operations	(6)	-	(6)
Net Change	(1)	-	(1)
Cumulative Results of Operations	17	1	18
Net Position	$ 17	$ 1	$ 18

Statement of Net Cost for the Year Ended September 30, 2024	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
Gross Program Costs	$ 6	$ -	$ 6
Less: Earned revenues	-	-	-
Net Program Costs	$ 6	$ -	$ 6

Balance Sheet as of September 30, 2023	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
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

Statement of Changes in Net Position for the Year Ended September 30, 2023	Damage Assessment and Restoration Revolving Fund	Miscellaneous Contributed Funds	Total Funds from Dedicated Collections
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

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

Note 12 – 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 $155 million and $129 million, respectively, for the periods ending September 30, 2024 and 2023 for accrued pension and postretirement benefit expense and the Treasury Judgment Fund.

Note 13 – 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 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.

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, 2024 and 2023, were as follows:

	FY 2024		FY 2023	
Prior year total unobligated balance	$	8,870	$	11,344
Recoveries of Prior Year Obligations		600		632
Other Adjustments		(60)		1
Unobligated balance from prior year budget authority, net	**$**	**9,410**	**$**	**11,977**

Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders were $15,013 and $12,027 million, respectively, for the years ended September 30, 2024 and 2023.

FY 2024	**Federal**		**Non-Federal**	
Paid	$	5	$	86
Unpaid		702		14,220
Total	**$**	**707**	**$**	**14,306**

FY 2023	**Federal**		**Non-Federal**	
Paid	$	3	$	61
Unpaid		551		11,412
Total	**$**	**554**	**$**	**11,473**

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 2024 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 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. 111-8) 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, 2019 (PL 116-6).

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.

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 2023 SBR and the FY 2023 actual numbers presented in the FY 2025 Budget of the United States Government are summarized in the table below. The President's Budget with actual numbers for FY 2024 has not yet been published. Upon release of the FY 2026 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.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2023 Budget Reconciliation				
Statement of Budgetary Resources	$ 18,639	$ 9,769	$ (2) *	$ 4,694
Reconciling Items				
Expired Accounts not reflected in the Budget	(2,645)	(7)	-	-
Internal Apportionments	(124)	(131)	-	(7)
Other	(4)	(1)	-	(2)
Budget of the US Government	**$ 15,866**	**$ 9,630**	**$ (2)**	**$ 4,685**

*Difference between amount presented in this table and the FY 2023 Statement of Budgetary Resources is due to rounding

The reconciling items consist of:

- **Expired budgetary authority available for upward adjustments of obligations, which are excluded from the President's Budget "Actual" columns per OMB Circular A-11 but are included in the SBR.**
- **In FY 2023, internal apportionments for the Office of the Secretary (12X0115) were included in the SBR but were not included in the NRCS Budget section, thus on the reconciliation, it is treated as an adjustment.**
- **In FY 2023, internal apportionments for the Food Supply Chain and Agriculture Pandemic Response Program Account (12X0408) were included in the SBR but were not included in the NRCS Budget section, thus on the reconciliation it is treated as an adjustment.**
- **In FY 2023, internal apportionments for the Conservation Operations Program (122/11000) were not included in the SBR but were included in the Budget, thus on the reconciliations it is treated as an adjustment.**
- **"Other" reconciling items include rounding adjustments.**

Note 14 – 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 2024, 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 $8.5 million from the disposition of assets.

FY 2024

Reconciliation of Net Cost to Net Outlays	Intragovernmental	Other than Intragovernmental	Total
Net Cost	$ 898	$ 4,600	$ 5,498
Components of Net Cost Not Part of Budgetary Outlays:			
Property, Plant and Equipment Depreciation Expense	-	(132)	(132)
Property, Plant and Equipment Disposal & Revaluation	-	(1)	(1)
Lessee Lease Amortization	-	(58)	(58)
Increase/(Decrease) in Assets:			
Accounts Receivable	15	1	16
Other Assets	2	25	27
(Increase)/Decrease in Liabilities:			
Accounts Payable	-	27	27
Lessee Lease Liability	-	45	45
Federal Employee and Veteran Benefits Payable	-	22	22
Pensions, Pther Post-Employment, and Veterans Benefits Payable	-	1	1
Other Liabilites	2	16	18
Financing Sources:			
Imputed Cost (Note 12)	(155)	-	(155)
Total Components of Net Cost not part of Budgetary Outlays:	(136)	(54)	(190)
Components of Budgetary Outlays not part of Net Cost:			
Acquisition of Capital Assets	-	208	208
Other	-	-	-
Total Components of Budgetary Outlays not part of Net Cost:	-	208	208
Miscellaneous Items:			
Distributed Offsetting Receipts	(1)	-	(1)
Custodial/Non-exchange revenue	-	-	-
Non-Entity Activity	-	-	-
Total Other Reconciling Items	(1)	-	(1)
Total Net Outlays	$ 761	$ 4,754	$ 5,515
Budgetary Outlays, Net			$ 5,515

FY 2023

Reconciliation of Net Cost to Net Outlays	Intragovernmental	Other than Intragovernmental	Total
Net Cost	$ 774	$ 4,278	$ 5,052
Components of Net Cost Not Part of Budgetary Outlays:			
Property, Plant and Equipment Depreciation Expense	-	(102)	(102)
Property, Plant and Equipment Disposal & Revaluation	-	-	-
Increase/(Decrease) in Assets:			
Accounts Receivable	(3)	1	(2)
Other Assets	(4)	13	9
(Increase)/Decrease in Liabilities:			
Accounts Payable	-	(38)	(38)
Federal Employee and Veteran Benefits Payable	-	(6)	(6)
Other Liabilites	(1)	(285)	(286)
Financing Sources:			
Imputed Cost (Note 12)	(129)	-	(129)
Total Components of Net Cost not part of Budgetary Outlays:	(137)	(417)	(554)
Components of Budgetary Outlays not part of Net Cost:			
Acquisition of Capital Assets	-	196	196
Other	-	-	-
Total Components of Budgetary Outlays not part of Net Cost:	-	196	196
Miscellaneous Items:			
Distributed Offsetting Receipts	(1)	-	(1)
Custodial/Non-exchange revenue	-	-	-
Non-Entity Activity	-	-	-
Total Other Reconciling Items	(1)	-	(1)
Total Net Outlays	$ 636	$ 4,057	$ 4,693
Budgetary Outlays, Net			$ 4,693

Note 15 – 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, which have a material effect on the financial statements and therefore require adjustment or disclosure in the statements.

SECTION III: 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 five 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, 2024 and September 30, 2023 (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 fourth quarter of the fiscal year.

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

Stewardship Easement Condition Status
FY 2024

Condition	Description	Easements Meeting the Condition	Percentage
Green	Easements are maintained in accordance with all terms and conditions	15,125	76%
Yellow	Easements with minor administrative issues requiring corrective actions to fully comply with all terms and conditions	1,574	8%
Red	Easements with documented violations that require corrective action	2,972	15%
Not Assessed	Easements that did not require monitoring, had an undetermined condition, or were closed in FY 2023	154	1%
	Total	19,825	100%

FY 2023

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 FY 2022	363	2%
	Total	**19,623**	**100%**

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 25 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. There is one site which is a storage facility. During this fiscal year, NRCS disposed of two sites consisting of unmanned relay stations for snow survey and climate data and disposed of one building at the Louisiana PMC that was heavily damaged by a hurricane. The ending balances reflect the deletion of these assets and any associated deferred maintenance.

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 and is preparing for an update of facility condition information later in FY 2025. 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 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, 2024 and 2023.

Change in Deferred Maintenance from the Last Financial Statement
September 30, 2024

Asset Class	Overall Condition	Cost to Return to Acceptable Condition: Beginning Balance (October 1, 2023)	Cost to Return to Acceptable Condition: Ending Balance (September 30, 2024)	Change in Costs from Beginning to Ending Balance (dollars)
Office Buildings	Critical-Good	$ 250,017	$ 254,941	$ 4,924
Greenhouses	Critical-Good	173,159	181,175	8,016
Service Buildings	Critical-Good	274,126	294,269	20,143
Warehouse/Storage Buildings	Critical-Good	412,597	444,643	32,046
Other Buildings	Critical-Good	155,304	161,651	6,347
Irrigation Systems	Poor-Good	21,173	18,302	(2,871)
Other Constructed Structures and Features	Critical-Good	166,426	173,645	7,219
	Total	$ 1,452,802	$ 1,528,626	$ 75,824

September 30, 2023

Asset Class	Overall Condition	Cost to Return to Acceptable Condition: Beginning Balance (October 1, 2022)	Cost to Return to Acceptable Condition: Ending Balance (September 30, 2023)	Change in Costs from Beginning to Ending Balance (dollars)
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

NRCS has maintained a consistent level of deferred maintenance through FY 2024 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, 2024 and 2023.

USDA Natural Resource Conservation Service - Condition Index

September 30, 2024

Condition Index	Condition Rating	Number of Assets
Greater than 95.00	Good	355
Between 90.00 and 94.99	Satisfactory	23
Between 70.00 and 89.99	Poor	31
Less than 70.00	Critical	20
	Total	429

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

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 2024. 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 2025.

Combined Statement of Budgetary Resources by Major Budget Account

Natural Resources Conservation Service
Combined Statements of Budetary Resources by Major Budget Account
For the Periods Ended September 30, 2024 and 2023
(in Millions)

FY 2024	**Farm Bill**	**Conservation Operations**	**Watershed & Flood Prevention**	**Watershed Rehabilitation**	**Emergency Watershed Protection**	**Other**	**Total**
Budgetary Resources:							
Unobligated balance from prior year budget authority, net	$ 5,796	$ 1,921	$ 1,493	$ 68	$ 107	$ 25	$ 9,410
Appropriations (discretionary and mandatory)	6,809	886	80	1	-	1	7,777
Spending authority from offsetting collections (discretionary and mandatory)	31	68	4	1	-	-	104
Total Budgetary Resources	12,636	2,875	1,577	70	107	26	17,291
Status of Budgetary Resources:							
New obligations and upward adjustments (total)	6,604	1,697	672	23	64	8	9,068
Unobligated balance, end of year:							
Apportioned, unexpired accounts	3,414	1,154	877	47	43	18	5,553
Unapportioned, unexpired accounts	30	-	26	-	-	-	56
Unexpired unobligated balance, end of year	3,444	1,154	903	47	43	18	5,609
Expired unobligated balance, end of year	2,588	24	2	-	-	-	2,614
Total unobigated balance, end of year	6,032	1,178	905	47	43	18	8,223
Total Budgetary Resources	12,636	2,875	1,577	70	107	26	17,291
Outlays, Net:							
Outlays, net (discretionary and mandatory)	3,911	1,141	359	40	27	41	5,519
Distributed offsetting receipts	-	-	-	-	-	(4)	(4)
Agency Outlays, net (discretionary and mandatory)	$ 3,911	$ 1,141	$ 359	$ 40	$ 27	$ 37	$ 5,515

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 unobigated 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

Land

PP&E Land

NRCS owns PP&E 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 the table below accurately reflects the number of acres under USDA stewardship land easement as of September 30, 2024. 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 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 2024. Of the Stewardship Land, 3.2 million acres are of a permanent duration. The remaining approximately 477 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.

Estimated Acreage by Predominant Use	**Conservation and Preservation**	**Operational**	**Commercial Use**	**Total Estimated Acreage**
Start of Prior Year (October 1, 2022)	3,649,692	1,900	-	3,651,592
End of Prior Year/Start of Current Year (October 1, 2023)	3,689,002	1,900	-	3,690,902
End of Current year (September 30, 2024)	3,735,656	1,900	-	3,737,556
Held for Disposal or Exchange				
Start of Prior Year (October 1, 2022)	-	-	-	-
End of Prior Year/Start of Current Year (October 1, 2023)	-	-	-	-
End of Current year (September 30, 2024)	-	-	-	-

SECTION IV: 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 2024 Management Challenges Report:

Management Challenge 2: Providing Benefits

Audit Number 10702-0001-23, Hurricane Disaster Assistance - Emergency Watershed Protection Program

NRCS completed the corrective actions to address all nine of the recommendations made by the Office of Inspector General in its audit of NRCS's Emergency Watershed Protection (EWP) Program. 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

Audit Number 10403-0005-11, Natural Resources Conservation Service's Financial Statements for Fiscal Years 2022 and 2021

NRCS completed the corrective actions to address all six of the recommendations made by OIG in its audit of NRCS's financial statements for fiscal years 2022 and 2021. 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 of 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.

Audit Number 10403-0004-11, Natural Resources Conservation Service's Financial Statements for Fiscal Years 2021 and 2020

NRCS completed the corrective actions to address all thirteen of the recommendations made by OIG in its audit of NRCS's financial statements for fiscal years 2021 and 2020. 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 process to identify and monitor single audit submissions related to agency agreements. A process on the resolution of entity audit findings was also developed.

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 2024.

Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Unconsolidated**	**Ending Balance**
No Issues					

Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)

Statement of Assurance	Unmodified				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Unconsolidated**	**Ending Balance**
No Issues					

Effectiveness of Internal Control Over Operations (FMFIA Section 2)

Statement of Assurance	Unmodified				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Unconsolidated**	**Ending Balance**
No Issues					

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

Statement of Assurance	Unmodified				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Unconsolidated**	**Ending Balance**
No Issues					

Compliance with Section 803(a) of FFMIA

	Agency	**Auditor**
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Applicable Federal Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

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. OMB has worked with agencies to increase the number of Federal payments to the right person, amount, and date 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 2024, USDA's Office of the Chief Financial Officer (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 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

Due to historically low improper payment rates, none of NRCS's programs were deemed high-risk for FY 2023 and FY 2024. Therefore, no improper payment testing was performed in either year.

Grants Programs

For FY 2024, 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, 2024.

FY 2024 Grants Program Summary

Category	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	-	-	-
Number of Grants/Cooperative Agreements with Undispersed Balances	28	4	29
Total Amount of Undispersed Balances (in dollars)	$1,317,771	$ 676,412	$ 1,646,795

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