



United States Department of Agriculture  
Office of Inspector General





United States Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: November 9, 2012

AUDIT  
NUMBER: 08401-0002-11

TO: Thomas Tidwell  
Chief  
Forest Service

ATTN: Thelma Strong  
Chief Financial Officer

Jennifer McGuire  
Director, Audit and Assurance

Sandy Coleman  
Agency Liaison Officer

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2012 and 2011

This report presents the results of the audit of Forest Service's (FS) financial statements for the fiscal years ending September 30, 2012 and 2011. The report contains an unqualified opinion on the financial statements, as well as an assessment of FS' internal controls over financial reporting and compliance with laws and regulations.

Kearney & Company, P.C. (Kearney), an independent certified public accounting firm, was engaged to conduct the audit. In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with government auditing standards (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FS' financial statements, internal control, or on whether FS' financial management systems substantially complied with the Federal Financial Management Improvement Act (FFMIA); or conclusions on compliance with laws and regulations. Kearney is responsible for the attached auditor's report, dated November 6, 2012, and the conclusions expressed in the report. However,

our review disclosed no instances where Kearney did not comply, in all material respects, with government auditing standards, and the Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

It is the opinion of Kearney, that the financial statements present fairly, in all material aspects, FS' financial position as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, FS reclassified certain amounts in the prior year's combined Statement of Budgetary Resources (SBR), to conform to the current year's re-aligned presentation of the new Standard Form 133, *Report on Budget Execution and Budgetary Resources*. These reclassifications had no effect on the previously reported SBR balances.

The Kearney report identified two significant deficiencies. Specifically, Kearney identified weaknesses in FS's internal controls over:

- information technology, and
- property, plant and equipment.

Kearney did not consider either of the above significant deficiencies to be material weaknesses. Kearney reported that FS substantially complied with FFMIA, and did not report any noncompliance with laws and regulations. The results of the Forest Service's tests of compliance disclosed two instances of noncompliance or other matters concerning grants management that are required to be reported upon under Government Auditing Standards and OMB Bulletin No. 07-04, as amended.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action 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 Office of Chief Financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

**United States Department of Agriculture**  
**United States Forest Service**  
**Audit Report**  
**For the Years Ended September 30, 2012 and 2011**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Chief of the United States Forest Service and the Inspector General of the United States Department of Agriculture

We have audited the accompanying consolidated balance sheets of the United States Forest Service (Forest Service), an agency of the United States Department of Agriculture (USDA), as of September 30, 2012 and 2011, and the related consolidated statements of net cost, changes in net position, and combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the Forest Service's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Forest Service as of September 30, 2012 and 2011, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Forest Service reclassified certain amounts in the prior year's combined Statement of Budgetary Resources to conform to the current year's re-aligned presentation of the new Standard Form 133, *Report on Budget Execution and Budgetary Resources*. These reclassifications had no effect on the previously reported Statement of Budgetary Resources balances.

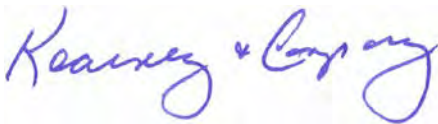
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical



context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Other Accompanying Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports, dated November 6, 2012, on our consideration of the Forest Service's internal control over financial reporting and on our tests of the Forest Service's compliance with certain provisions of laws, regulations, and other matters for the year ended September 30, 2012. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance as well as the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Keaney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 6, 2012

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**

To the Chief of the United States Forest Service and the Inspector General of the United States Department of Agriculture

We have audited the financial statements of the United States Forest Service (Forest Service) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The management of the Forest Service is responsible for establishing, maintaining, and assessing internal control related to financial reporting and compliance, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) are met.

In planning and performing our work, we considered the Forest Service's internal control over financial reporting and compliance by obtaining an understanding of the design effectiveness of the Forest Service's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the Forest Service's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of the Forest Service's internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis.

We limited our internal control testing to those controls necessary to achieve the OMB Bulletin No. 07-04, as amended, control objectives that provide reasonable, but not absolute assurance, that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in compliance with laws governing the use of budget authority, Government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04, as amended, and other laws and regulations that could have a direct and material effect on the financial statements. We did not test all internal controls relevant to operating objectives, as broadly defined by FMFIA, such as those controls relevant to ensuring efficient operations.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies in internal control over financial reporting. 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. We consider the following deficiencies in the Forest Service's internal control to be significant deficiencies.

### **Significant Deficiencies**

#### **I. Information Technology (Repeat Condition)**

The Forest Service's information technology (IT) internal control structure, both for the general support systems and critical financial reporting applications, did not include a comprehensive risk analysis, effective monitoring of design and performance, and an ability to identify and respond to changing risk profiles. The National Institute of Standards and Technology (NIST) and Government Accountability Office (GAO) (in its Federal Information System Controls Audit Manual [FISCAM]) provide control objectives and evaluation techniques for IT internal control structures, which we utilized during the course of our audit.

The Forest Service's IT control environment included design and operation weaknesses that, when combined, are considered to be a significant deficiency, as summarized below.

- The Forest Service's control structure contains four weaknesses related to segregation of duties and principles of least privilege, as follows:
  - The Forest Service did not adequately review the access of Automated Timber Sale Accounting (ATSA) users. Kearney's audit procedures indicated that two users retained access to ATSA although they had expired security access requests (issue was remediated on August 16, 2012), one inactive user's access ID was not removed, and one user's access ID was not reviewed on the quarterly report
  - The ATSA System Manager did not review and approve the ATSA Segregation of Duties Matrix timely. The review and approval occurred in May 2012, six months after the Matrix was updated
  - The Forest Service assigned conflicting roles to the Natural Resource Manager (NRM) applications. There were 16 Grants and Agreements (G&A) conflicts of permissions granted to users based on the Segregation of Duties Matrix provided by the Forest Service. This issue was remediated in September 2012 after Kearney's audit procedures identified it



- Similarly, there were 27 NRM Infrastructure (INFRA) and over 500 NRM Special Uses (SUDES) and NRM Timber Information Manager (TIM) users identified with violations to the principles of least privilege due to having more privileges assigned to their accounts than necessary for their job functions. These violations of least privilege do not pose a risk of segregation of duties per the agency role definitions; however, they are a violation of Forest Service information systems security policy and introduce unnecessary risk to data access and integrity.

Recommendation Number 1: Kearney recommends that the Forest Service implement a process to ensure that no individual has complete control over incompatible functions.

- The Forest Service's control structure contains five weaknesses related to system security and assurance of system applications, as follows:
  - The Forest Service did not review and approve the ATSA Contingency Plan timely. Management did not approve the plan until May 2012, six months after it was updated
  - The Forest Service failed to update the NRM Configuration Management Plan, dated July 2010, on an annual basis
  - The Forest Service had inconsistent classification for the audit log events. NRM Audit Logs classified "privileged user" as a "major" event, but "super user" as a "minor" event. According to the *Forest Service Manual*, "super user" is a component of the "privileged user," which indicates that their classifications should be consistent
  - The Forest Service did not identify the Application Hosting Environment (AHE) as a financial system. The Forest Service remediated this exception in August 2012 after it was identified by Kearney's audit procedures
  - The Forest Service failed to provide the requested test plan and supporting documentation for one of 45 NRM configuration management samples.

Recommendation Number 2: Kearney recommends that the Forest Service take the following actions to remediate this issue:

- Ensure all required system security planning and management documents are reviewed in a timely manner and located in the repository Cyber Security Assessment and Management System (CSAM), where stakeholders can expect to retrieve the most current, approved version
- Ensure events are being flagged in security logs consistent with the magnitude of the potential harm the event may cause.
- The Forest Service's control structure contains four weaknesses related to the user access administration process, as follows:
  - The Forest Service did not deactivate 15 Incident Business System (IBS) and 16 e-Collections accounts within one business day subsequent to separation, in accordance with the *Forest Service Manual*
  - The Forest Service did not properly review the access for IBS users. The Albuquerque Service Center (ASC) Security Group did not review access for four of

- 45 users, and an incorrect supervisor signed six of 45 Financial Information Security Request Forms
- Kearney's review of NRM user account access requests indicated that it was not possible to determine who approved access for two users
  - The Forest Service failed to identify and remove six duplicate user accounts timely. The Forest Service remediated the NRM users with more than one login credential in July 2012 after it was identified by Kearney's audit procedures.

Recommendation Number 3: Kearney recommends that the Forest Service perform the following corrective actions to address this issue:

- Implement a process to ensure that accounts for separated employees are disabled or removed from Forest Service information systems in a timely manner
- Reengineer, enhance, or otherwise better enforce the existing processes to ensure notifications of separated employee actions from Human Resources (HR) are closely and effectively coupled with timely deactivation of user accounts in all systems
- Ensure, through review and communications, that established procedures for the completion and accuracy of Financial Information Security Request Forms are followed before establishing new or modified information system accounts
- Routinely confirm, through investigation or review, that users have a single login credential for financial systems.
- In fiscal year (FY) 2011, the Forest Service was not able to provide documentation supporting the status of background re-investigations, as required by Office of Personnel Management (OPM) and United States Department of Agriculture (USDA) policy. The Forest Service did not provide documentation required by policy to support the status of three out of 45 initial background investigations. Employees and contractors who have not been screened by the background investigation process prior to gaining access to Forest Service information system(s) and/or have not been re-investigated according to OPM guidance may have access to Forest Service information systems that exceeds their need-to-know. This may lead to users compromising sensitive financial data or introducing unauthorized transactions. For the current FY, Kearney noted that the Forest Service's management began corrective actions; however, the original forecasted date of completion, August 15, 2012, was not met.

Recommendation Number 4: Kearney recommends that the Forest Service's management unify the background investigations and re-investigations process to integrate all stakeholders and applicable policies, and define roles and responsibilities across the agency to ensure that all required investigations and re-investigations are performed.

- The Forest Service's control structure contains one weakness related to remote access. The Forest Service uses single factor authentication for remote access (i.e., user name and password), which is insufficient for a moderate to high sensitivity system according to Federal Information Processing Standard (FIPS) Publication (PUB) 199. The Forest Service has a plan of action in place to remediate this condition; however, mitigating controls have not yet been implemented in FY 2012.

Recommendation Number 5: Kearney recommends that the Forest Service implement a process to ensure that authentication methods are appropriate, based on risk. Kearney also recommends that the Forest Service implement multi-factor authentication for remote access. Since the Forest Service network can be accessed remotely, it is imperative that multi-factor authentication, rather than single-factor authentication, be used to protect sensitive financial data. Furthermore, Kearney recommends that the Forest Service implement an effective mitigating control to address the risks identified.

## **II. Property, Plant, and Equipment (Repeat Condition)**

The Forest Service reported approximately \$1.4 billion in net property, plant, and equipment (PP&E) on its FY 2012 balance sheet, which is about 26% of its total assets. Kearney's audit procedures identified several internal control deficiencies that negatively impact the Forest Service's ability to record real and personal property transactions in a complete, accurate, and timely manner. These deficiencies are discussed below.

- The Forest Service's control structure does not identify Work in Progress (WIP) projects that are substantially complete. Kearney identified 88 WIP projects that had no financial activity in the last four months. Kearney's procedures revealed that six out of 25 projects, a 24% error rate, were substantially complete and should have been placed into service, totaling approximately \$7.3 million of projects costs. Delays in the WIP transfer caused an understatement of depreciation of approximately \$600,000. In addition, Kearney identified a \$1.1 million WIP project that was placed into service on August 17, 2012, but was completed in July 2010.

Recommendation Number 6: Kearney recommends that the Forest Service ASC, Budget and Finance (B&F) institute quarterly reviews with senior management on high dollar WIP projects that may cross over FYs, and record an accrual if deemed material at any FY end.

- The Forest Service reported approximately \$45 million of repairs and maintenance expenses. Kearney evaluated 50 repairs and maintenance expenses and identified four transactions that should have been capitalized rather than expensed. These transactions were for improvements of assets, including remodels, renovations, upgrades, or replacements. These improvements either improved the assets' capacities or extended the assets' useful lives. The four errors account for approximately \$259,000 of the total \$5 million in costs tested.

Kearney identified two transactions, totaling approximately \$612,000, that should have been capitalized as property additions. These two errors also produced an understatement of depreciation expense of \$54,000. Kearney identified four additional transactions, which, while they were properly classified as expenses, were improperly charged to repairs and maintenance Budget Object Codes (BOC).

Recommendation Number 7: Kearney recommends that the Forest Service Acquisition Management (AQM) community issue a reminder to the Field Budget Approvers of the appropriate requisition process for the acquisition of capitalized, accountable, and/or sensitive personal property through the Integrated Acquisition System (IAS) by properly classifying the acquisition of property through correct BOCs.

- The Forest Service’s control structure contains two weaknesses related to operating lease disclosure, as follows:
  - The Forest Service does not accurately update future minimum payment amounts resulting from lease modifications and amendments. Kearney’s audit procedures identified 10 errors over the evaluated 25 operating leases, consisting of a 40% error rate, and extrapolated the error results to the annual disclosure amounts. The total non-statistically projected overstatement was \$49 million over the cumulative five-year disclosure period; the largest annual overstatement was approximately \$15.9 million in Year 5 and later
  - The Forest Service included all lease option periods in the disclosure instead of just fixed, non-cancelable lease payments. Kearney evaluated the overstatement by year and projected the results to the annual disclosure amount. The total non-statistically projected overstatement was approximately \$17 million over the cumulative five-year disclosure period; the largest annual overstatement was approximately \$11.8 million in Year 5 and later. The Forest Service corrected the disclosure overstatement related to incorrectly including cancelable option periods in the future minimum payment disclosure. After the correction, Kearney identified an additional three leases, with total future payments of \$126,000, that incorrectly included option years in the future minimum payment disclosure.

Recommendation Number 8: Kearney recommends that the Forest Service review the current process for updating lease payment information to reflect the most recent lease modifications and amendments. Kearney also recommends that the Forest Service increase the frequency of updating the lease payment information.

During the audit, we noted certain other matters that we will report to the Forest Service’s management in a separate letter.

The Forest Service’s management has provided its response to our findings in a separate memorandum attached to this report. We did not audit management’s response and, accordingly, we do not express an opinion on it.

\* \* \* \* \*



This report is intended solely for the information and use of the Forest Service's management, those charged with governance and others within the Forest Service, USDA Office of the Inspector General, GAO, OMB, the Department of the Treasury, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Kearney &amp; Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia  
November 6, 2012



## APPENDIX A: Status of Prior Year Deficiencies

In the Independent Auditor's Report on Internal Control included in the United States Forest Service's (Forest Service) fiscal year (FY) 2011 financial statements,<sup>1</sup> several issues were noted related to internal control over financial reporting. The table below presents a summary of the current year status of these issues.

### Prior Year Internal Control Significant Deficiencies

Control Deficiency	2011 Status	2012 Status
Information Technology Internal Control Environment	Significant Deficiency	Significant Deficiency
Property, Plant, and Equipment	Significant Deficiency	Significant Deficiency

\* \* \* \* \*

This report is intended solely for the information and use of the Forest Service's management, those charged with governance and others within the Forest Service, the United States Department of Agriculture's Office of the Inspector General, the Government Accountability Office, the Office of Management and Budget, the Department of the Treasury, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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<sup>1</sup> *Independent Auditor's Report on the U.S. Forest Service 2011 and 2010 Financial Statements.*

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS**

To the Chief of the United States Forest Service and the Inspector General of the United States Department of Agriculture

We have audited the financial statements of the United States Forest Service (Forest Service) as of and for the year ended September 30, 2012, and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. The management of the Forest Service is responsible for compliance with laws and regulations.

As part of obtaining reasonable assurance about whether the Forest Service's financial statements are free of material misstatement, we performed tests of the Forest Service's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended, that we determined were applicable. As part of our work, we performed tests of compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA), Section 803(a) requirements. We limited our tests of compliance to these provisions; we did not test compliance with all laws and regulations applicable to the Forest Service. 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 of compliance described in the preceding paragraph disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended. The results of the Forest Service's tests of compliance described in the preceding paragraph disclosed two instances of noncompliance or other matters that are required to be reported upon under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, and are summarized in the following paragraph.

- The Forest Service was not in compliance with grants management pre-award requirements of 2 Code of Federal Regulations (CFR) 225.35, which states: "Agencies responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units shall issue regulations to implement the provisions of this part and its appendices"
- The Forest Service was not in compliance with grants management pre-award requirements of 7 CFR 3016.20 (b), which states: "The financial management systems of other grantees and subgrantees must meet the following standards: (1) Financial

reporting; (2) Accounting records; (3) Internal control; (4) Budget control; (5) Allowable cost; (6) Source documentation; and (7) Cash management.”

Under FFMIA, we are required to report whether the Forest Service’s financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. Our audit procedures indicated that the Forest Service substantially complies with FFMIA; however, we noted a certain instance, described below, in which the Forest Service’s financial management systems and related controls did not substantially comply with certain Federal systems requirements.

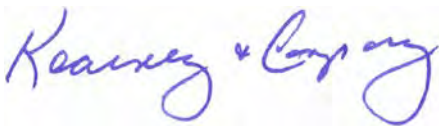
#### Federal Financial Management Systems Requirements

- User access and authorization controls were not in compliance with Forest Service policy and Federal Financial Management Systems Requirements in some cases. Adequate segregation of duties was not maintained in one financial system.

The Forest Service’s management provided its response to our findings in a separate memorandum attached to this report. We did not audit management’s response and, accordingly, we do not express an opinion on it.

\* \* \* \* \*

This report is intended solely for the information and use of the Forest Service’s management, those charged with governance and others within the Forest Service, the United States Department of Agriculture’s Office of the Inspector General, the Government Accountability Office, OMB, the Department of the Treasury, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Alexandria, Virginia  
November 6, 2012



**File Code:** 1430

**Date:** November 6, 2012

Mr. Bill Kubistal  
Partner  
Kearney & Company  
1701 Duke Street, Suite 500  
Alexandria, Virginia 22314

Dear Mr. Kubistal,

We have reviewed Kearney & Company Independent Auditors Report dated the day of this letter, and generally agree with its contents. The U.S. Forest Service will develop an implementation plan to address the findings and recommendations identified during the audit. As we consider the required corrective actions, we will continue to work with the Office of the Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

If you have questions or require additional information, please contact me at (202) 205-1321.

Sincerely,

*/s/ Thelma Strong*  
THELMA STRONG  
Chief Financial Officer

cc: Kandice Cotner, Dianna Capshaw, Jennifer McGuire, Erica Y Banegas, Thelma Strong



# MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

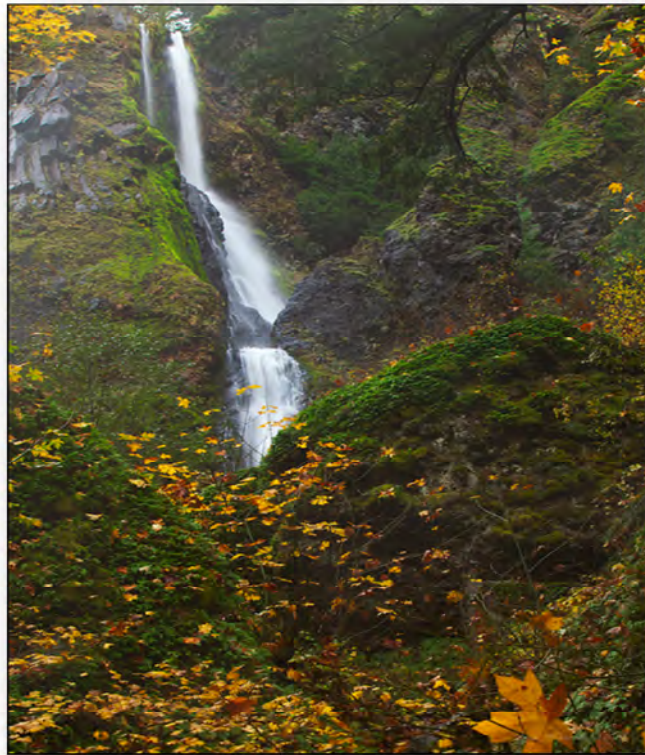
## ABOUT THIS REPORT

The Forest Service, an agency of the U.S. Department of Agriculture (USDA), has chosen to produce a separate Agency Financial Report (AFR) and Annual Performance Report (APR) in accordance with the Office of Management and Budget (OMB) Circulars A-136 and A-11, Section 200.4.

The AFR provides an overview of the agency's financial performance and results to help Congress, the President, and the public assess the Forest Service's stewardship over the financial resources entrusted to it. The Forest Service's APR will be published with the fiscal year (FY) 2014 Congressional Budget Justification in February 2013 at <http://www.fs.fed.us>.

The Forest Service anticipates that this approach will improve its performance reporting in the following ways:

- Eliminating redundancy, especially where actual data can be used in lieu of estimates due to the timing of the report.
- Making the information more meaningful and transparent to the public.
- Providing a more succinct and easily understood analysis of the Forest Service's accountability over its resources.



The FY 2012 Management's Discussion and Analysis (MD&A) serves as a high-level overview of the Forest Service's financial reporting, programmatic performance, and compliance with legal and regulatory requirements. The content of the MD&A is the responsibility of management.



**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**ABOUT THE AGENCY**

**MISSION**

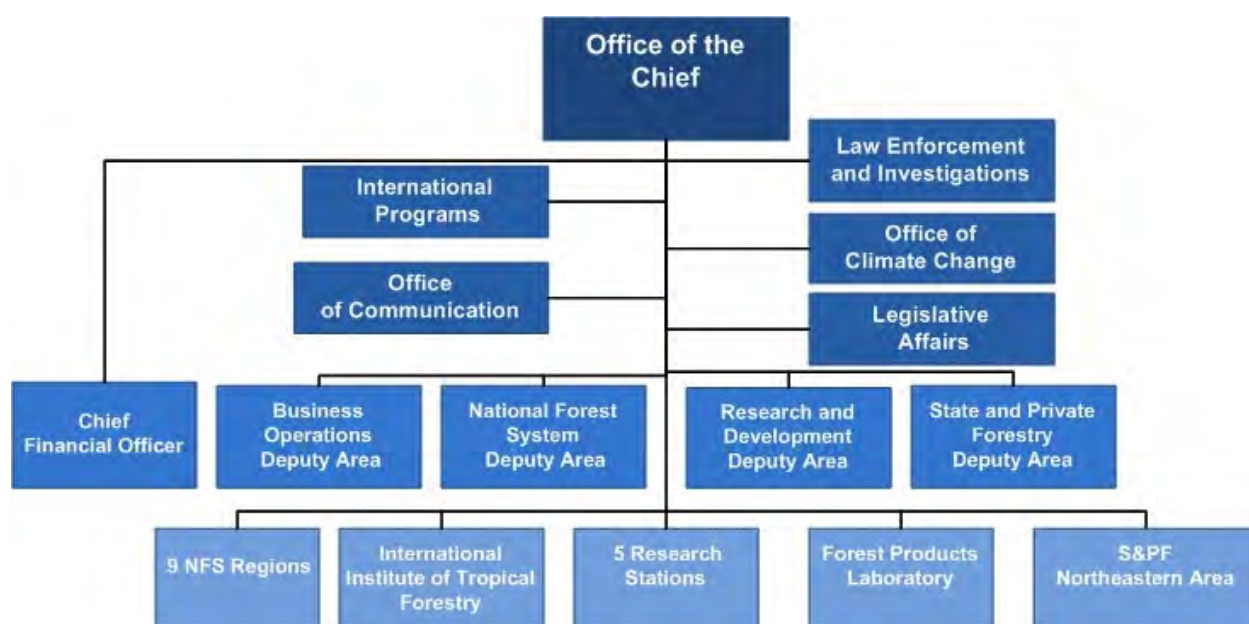
*Sustain the health, diversity, and productivity of the  
Nation's forests and grasslands to  
meet the needs of present and future generations.*

**ORGANIZATION**

The Forest Service fulfills its mission through the following organizational structure.

The Chief of the Forest Service is a career Federal employee of the Forest Service who reports to the Under Secretary for Natural Resources and Environment.

The Chief Financial Officer (CFO) and four deputy chiefs report to the Chief. The deputy areas are Business Operations, National Forest System (NFS), Research and Development (R&D), and State and Private Forestry (S&PF).



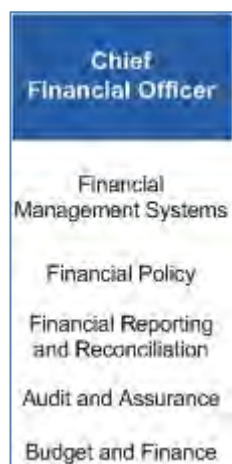
**FOREST SERVICE CHIEF FINANCIAL OFFICER AND DEPUTY AREAS**

The CFO and deputy areas enable the Forest Service to accomplish its mission. The next several pages highlight the programs from the CFO and each deputy area. Several FY 2012 accomplishments are included.

## MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

### *Chief Financial Officer*

The CFO supports the agency's mission by providing timely, accurate, and reliable financial and program performance information in compliance with the Chief Financial Officers Act of 1990.



### **FY 2012 Chief Financial Officer Accomplishments**

- Received no notices of significant findings to warrant a new material weakness from the independent auditor and received an 11th consecutive “clean” audit opinion on the FY 2012 financial statements.
- Broadened and improved CFO outreach efforts, resulting in hiring 50 percent of new hires from veterans and a diverse pool of recruits.
- Provided revenue to rural communities. Approximately \$308 million in payments were provided to States for roads and schools, and an additional \$6.1 billion was provided in contracts, grants, agreements, and salaries and to purchase materials, supplies, and services.
- Implemented the Point-of-Sale System (POSS), allowing walk-in customers to use credit cards for over-the-counter purchases, eliminating the need for the agency to prepare bills for collection. This year’s implementation at 30 sites increased the total implementation to 44 national forests<sup>1</sup>. The POSS resulted in expeditiously collecting \$17.7 million in revenue for the agency.
- Provided customers with the ability to pay their bills online, collecting \$6.2 million more efficiently.
- Prepared the agency for migration to the Financial Management Modernization Initiative (FMMI). FMMI deployed November 1, 2012.

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<sup>1</sup> The 44 national forests represent 230 ranger districts, visitor centers, and supervisor’s offices.

## MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

### *Business Operations*

The Business Operations Deputy Area provides the tools that Forest Service employees rely on to accomplish the agency's mission. From modernizing an outdated radio system to hiring tomorrow's workforce, Business Operations staff provides critical services to the agency and its employees.

### **FY 2012 Business Operations Accomplishments**

- Implemented a new recruiting and hiring system, eRecruit, to ease the process of recruiting and hiring.
- Exceeded USDA goals for hiring veterans, persons with disabilities, and minority students with an increase of 18.7 percent total minority representation in the permanent workforce.
- Completed 8-hour safety training for 100 percent of Forest Service personnel and developed a second round of training for all employees to be completed by calendar yearend 2012.
- Significantly reduced energy costs by replacing 210 network devices (goal was 50), 7,060 personal computers (goal was 500), and 721 aging printers or plotters (goal was 600) with new Energy Star-compliant devices, saving a total of 755,160 kilowatts a year.
- Saved over \$10 million through innovative procurement practices and negotiations, including combining requirements or separating requirements, negotiating claims, transitioning from sole source to competed awards, and transitioning from labor hours to firm fixed-price contracts.
- Procured and deployed 6,000 one-way satellite emergency notification devices (SEND) to help ensure the safety of field-going employees across the agency.

Business Operations
Chief Information Office
Enterprise Program
Strategic Planning, Budget, and Accountability
Human Resource Management
Job Corps Civilian Conservation Centers
Office of Regulatory and Management Services
Office of Safety and Occupations Health
Acquisition Management

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
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***National Forest System***

The NFS provides stewardship and management of the 193 million acres of national forests and grasslands. Following Agriculture Secretary Tom Vilsack's vision, the Forest Service has placed a focus on improving the health of its watersheds, restoring ecosystem functions, increasing forest resilience to climate change, and contributing to vibrant local economies.

**FY 2012 National Forest System Accomplishments**

- Treated 2,570,800 acres to sustain or restore watershed function and resilience. These acres represent accomplishments achieved through Integrated Resource Restoration (IRR)-type activities that sustain or restore watershed function and resilience and include treatments that contribute significantly to improvement of watershed conditions.
- Accomplished 310,000 acres of high-impact targeted (HIT) practices within the USDA Landscapes of National Importance. These HIT practices are actions that contribute to the USDA Priority Goal, formerly identified as the High-Priority Performance Goal (HPPG) for water. These HIT actions are implemented in priority landscapes that accelerate the protection of clean, abundant water.
- Restored 3,700 miles of stream habitat for native fishes with commercial and non-commercial value, as well as for desired non-native species important to recreational fishing. A portion of the restoration was to remove invasive species.
- Prepared and sold 5.08 billion CCF (hundred cubic feet) or 2.6 billion board feet (MMBF). This timber harvest is an important tool to achieve the agency wide goal of increasing watershed health and improving resilience at the landscape level.

National Forest System
Engineering
Lands
Wilderness and Wild and Scenic Rivers
Rangeland Management
Recreation, Heritage, and Volunteer Resources
Forest Management
Watershed, Fish, Wildlife, Air, and Rare Plants
Minerals and Geology Management
Ecosystem Management Coordination
National Partnership Office

## MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

### *Research and Development*

The R&D Deputy Area is comprised of five research stations, the Forest Products Laboratory, and the International Institute of Tropical Forestry. Directors, like regional foresters, report to the Chief of the Forest Service. The R&D Deputy Area has integrated Washington Office programs that support achievement of the agency's strategic goals with an emphasis in seven strategic program areas.



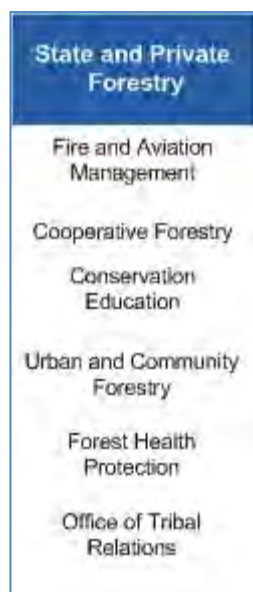
### **FY 2012 Research and Development Accomplishments**

- Developed a free software application that helps people identify and control destructive invasive plants in southern forests and grasslands. The software provides photos and information that allows users to identify the 56 nonnative plants and plant groups currently invading the forests of the 13 Southern States and recommendations for their control.
- Installed smoke chemistry measurement instruments on a Forest Service aircraft, measuring fresh emissions and smoke dispersion from 25 wildfires in the Western United States. This research improves wildfire emission inventories and the air quality models used by land managers and air quality regulators, enhancing their ability to minimize and mitigate the impacts of wildfire emissions on human health, economic activity, and scenic integrity.
- Developed ForWarn, a forest monitoring Web-based tool that uses satellite imagery to produce weekly snapshots of vegetation conditions across the lower 48 States. Forest and natural resource managers can use ForWarn to rapidly detect, identify, and respond to unexpected changes in the Nation's forests impacted by insects, diseases, wildfires, severe weather, or other natural or human-caused events. ForWarn is the first national-scale system of its kind developed specifically for forest disturbances.
- Developed technology where cellulose fibers can be formed into structural and three-dimensional engineered fiberboard panels. Noble Environmental Technologies, Inc., of San Diego, CA, has signed an exclusive license agreement with USDA to use jointly patent-pending technology and structures for office furniture and packaging applications.



**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
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***State and Private Forestry***



America's forests, grasslands, and other open spaces are integral to the social, ecological, and economic well-being of the Nation. More than 50 percent of our Nation's forests are privately owned and supply almost 30 percent of the surface drinking water to cities and rural communities. S&PF programs help protect these forests, providing support to keep them intact. Partnerships—so critical in implementing and delivering S&PF programs—help facilitate sound stewardship of lands across all ownerships on a landscape scale, while maintaining flexibility for individual forest landowners to pursue their objectives.

**FY 2012 State and Private Forestry Accomplishments**

- Assisted forest landowners in sustainably managing more than 20 million acres under forest stewardship plans that address multiple resource concerns, including wildlife, recreation, forest health, water quality, and the threat of wildfire. The forest stewardship plans help protect the fresh water that flows from and is filtered by private forest lands.
- Treated 1,867,202 or 156 percent of targeted acres of hazardous fuels in the wildland-urban interface (WUI) to reduce fuel accumulation, decrease fire behavior, and increase community protection.
- Treated 106,920 acres for invasive species on federal lands and 578,083 acres on cooperative lands. These efforts will provide for public safety and help ensure resilient forests today and for the future.
- Developed agreements with 29 States to help private forest landowners' market ecosystem services (2006-2012). These efforts will generate new sources of revenue to conserve, restore, and maintain private forest lands by developing tools to quantify ecosystem services and their values, developing environmental markets or payment systems, and creating partnerships around ecosystem services.
- Played a critical role in the management, protection, and wise use of the nearly 100 million acres of the Nation's urban and community forests by assisting 7,441 communities in which 194 million people enjoy improved water quality, cleaner air, and effective energy conservation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

### RESPONSIBILITY SEGMENTS

The Forest Service's mission is dedicated to the principle of multiple-use management of the Nation's forest resources for sustained yields of wood, water, forage, wildlife, and recreation. Through management of the national forests and grasslands; research; and cooperation with States, tribes, and private forest owners, the agency strives to meet the needs of the Nation. Some of the responsibility segment names are the same as those used for deputy areas, but the terms are not necessarily synonymous for financial management reporting purposes. The mission is divided into four major responsibility segments.

National Forests and Grasslands: This responsibility segment includes protection and management of an estimated 193 million acres of NFS land, which includes 36.6 million acres of designated wilderness areas. In addition, the Forest Service partners with other agencies, nations, and organizations to foster global natural resource conservation and sustainable development of the world's forest resources.

Forest and Rangeland Research: This responsibility segment is accountable for research and development of forestry and rangeland management practices to develop and deliver scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.3 billion acres of forests and associated rangelands in the United States.

State and Private Forestry: This responsibility segment reaches across the boundaries of national forests and uses cooperative agreements with State and local governments, tribal governments, forest industries, and private landowners to provide technical and financial assistance that helps protect and manage non-Federal forests and associated rangeland and watershed areas.

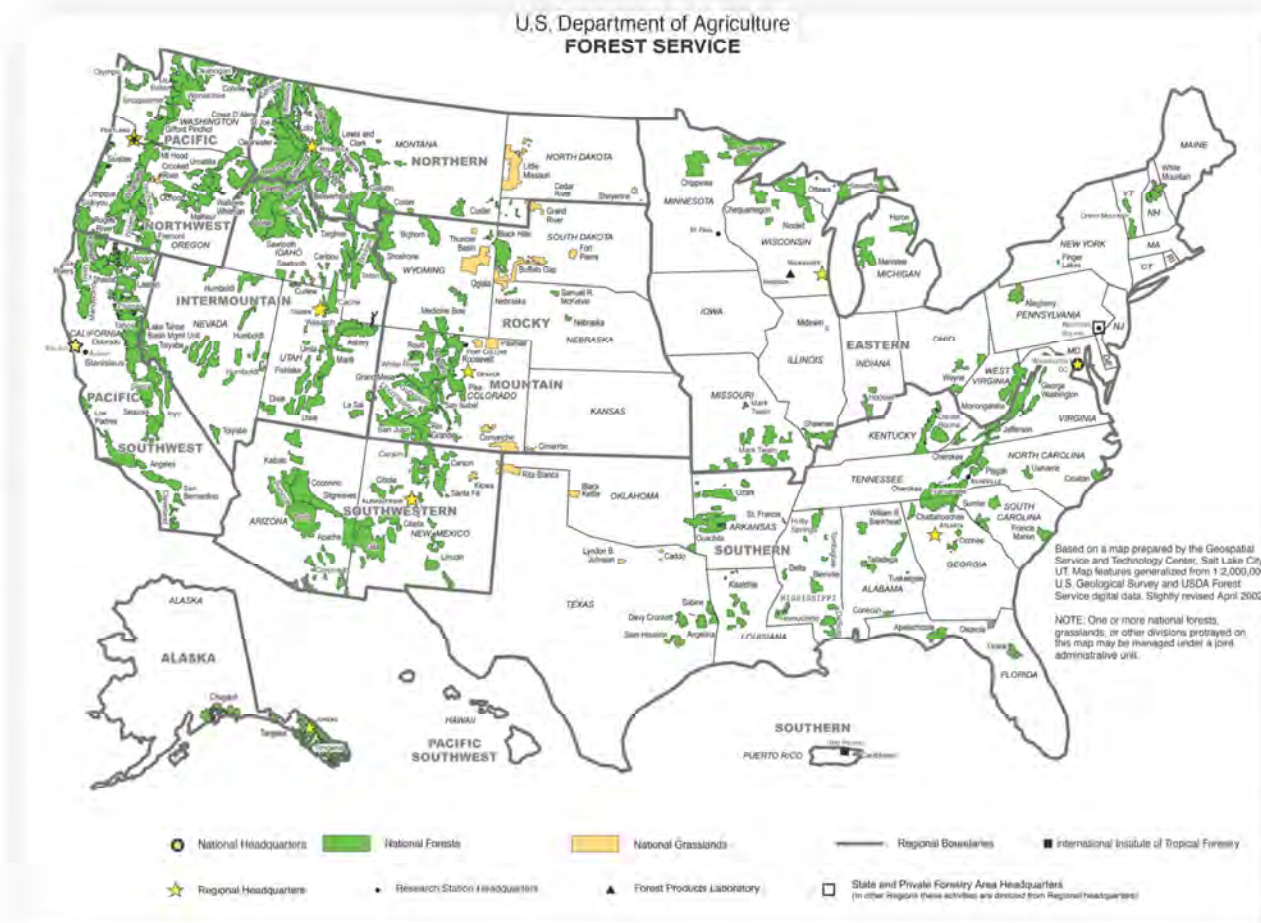
Wildland Fire Management: This responsibility segment is responsible for protection of life, property, and natural resources on an estimated 193 million acres of NFS lands and the estimated 20 million acres of adjacent State and private lands.



# MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

## *Locations of Forest Service Administrative Units*

The map illustrates the 154 national forests and 20 national grasslands that collectively make up the NFS of the Forest Service.



**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**DEMANDS, RISKS, CONDITIONS, AND TRENDS**

The mission of the Forest Service has always revolved around delivering the benefits that people want from their forests and grasslands. Through the years, the focus has broadened and shifted to include a full range of goods and services, benefits, and values that people derive from their forests and grasslands. Today, the agency's focus is on sustaining the ability of America's forests and grasslands, both public and private, to deliver a full range of benefits—the full range of multiple uses—for generations to come. That ability is now at risk. Drought, invasive species, loss of open space, uncharacteristically severe wildfires, severe outbreaks of insects and disease—all of these stresses and disturbances are affecting America's forests and grasslands on an unprecedented scale. Partly, they are driven by the overarching challenge of climate change.

***Safety***

As the Forest Service prepares for these events, safety must continue to be the first priority. Over the last 20 years, the number of fatalities in the Federal fire community has fluctuated, but averages about 17 fatalities per year. The agency has increased its emphasis on safety with a goal to become a zero-fatality organization. For several years, employees of the agency have been making a learning journey to become a safer organization. Forest Service leadership has been exploring its culture and history, comparing the agency to high-reliability organizations that also work in high-risk environments and working to change the safety culture by designing and building a learning-based safety system.

***Restoration***

Healthy, resilient forests and grasslands provide a whole range of benefits to Americans—clean air and water, carbon sequestration, habitat for native fish and wildlife, erosion control and soil renewal, opportunities for outdoor recreation, and more.

The Forest Service is striving to sustain and restore ecosystems that can deliver the services that Americans want and need in this era of change and challenges. The agency estimates that up to 42 percent of the NFS is in need of restoration. The Forest Service is taking a series of steps and developing strategies to accelerate restoration efforts, even with flat or declining budgets. The series of management actions the Forest Service is taking include expanding collaborative partnerships, restoration of degraded watersheds, and expanding markets for the byproducts of restoration treatments.



The Forest Service is working with partners across boundaries and ownerships to address ecosystem issues on a landscape scale. Under the *Collaborative Forest Landscape Restoration Program*, for



## MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

example, the agency selects large-scale projects for long-term funding, mostly on national forest land, but also on adjacent private and other lands. These projects are public and private partnerships for high-priority ecological restoration on a landscape scale. Forest Service funding leverages funding from its partners, who help design and implement each project.

More than half of the water Americans consume originates on forested landscapes; almost a fifth comes from the national forests alone. To protect this resource, the Forest Service implemented a watershed condition framework that tracks the condition of 15,000 watersheds on NFS lands, accelerating watershed restoration efforts. Working with partners, Forest Service staff are developing watershed action plans for each of these watersheds, along with a schedule of actions.

Struggling markets for timber are an obstacle to restoration. The Forest Service is taking steps to develop new markets for wood and is promoting the use of wood as a green building material. Lumber for construction is less fossil-fuel-intensive than cement or steel. Agency leadership has directed its units to increase the use of domestically harvested wood in new Forest Service buildings and facilities.

Restoration delivers benefits that people want and need, such as clean water, fire protection, habitat for wildlife, recreational opportunities, and jobs.

### ***Wildfire Management***

The Forest Service is challenged with balancing the goals to improve forest health and reduce costs. Given the danger to public safety, Forest Service spends significant funds to protect people and property from wildfires, drawing resources away from efforts to manage the forests. Although the Forest Service 2012 budget dedicated more than \$300 million to reducing hazardous fuels in forests, these fuels are still accumulating faster than the agency can reduce them.



Wildland fire management remains one of the agency's biggest challenges. Although the Forest Service suppresses roughly 98 percent of the fires during initial attack, the remaining 2 percent of fires escape initial attack and become record-breaking fires. The WUI is expanding with substantial increases in housing density expected on 57 million acres of private forest land nationwide in the next 15 years. Almost 70,000 communities are now at risk from wildfire, and less than 6,000 have a community wildfire protection plan. To tackle these challenges, the Forest Service, in partnership with the Department of the Interior, has developed three goals in its *National Cohesive Wildland Fire Management Strategy*.



## MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

The first goal is to create *fire-adapted natural communities*. The key is ecological restoration—restoring healthy, resilient ecosystems capable of withstanding stresses and disturbances, including those associated with climate change. An equally important goal is to create *fire-adapted human communities* by treating fuels in the WUI and by helping people adopt planning and building practices that keep communities safer from wildfire. The third goal is to make *safe, effective, risk-based wildfire management decisions*. Many of America's landscapes evolved with fire; sooner or later, they will burn. Fire protection requires an appropriate response to wildfire—not only suppression, but also, where safe and beneficial, the use of fire for management purposes.

### ***Inclusiveness***

The national forests are based on a notion that the Nation's resources belong to everyone, that everyone should benefit and everyone should participate in their management. Part of agency's job is to reach out and give more people opportunities to get outdoors and up close and personal with nature. The Forest Service accomplished this through its Conservation Education programs. Last year, these programs reached more than 4 million people, mostly children.

The culture of the Forest Service is deliberately transforming to become an employer of choice for all Americans. The agency wants to broaden the circle of conservation—to build a workforce that truly reflects the face of America.

Inclusiveness is key to any successful organization. Inclusiveness comes from hiring people from different backgrounds: rural and urban, male and female, and with ethnicities, professions, and perspectives of all kinds. Today, more than 35 percent of top leadership comes from ethnic minorities, and almost 60 percent of top leadership represents either racial or gender diversity. There are still areas of underrepresentation, so the agency is broadening the connection to underserved communities, especially in urban areas. The Forest Service is committed to building a workforce that truly reflects the face of America, and is tailoring recruitment and retention policies to the needs of young Americans from every background.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**PERFORMANCE GOALS, OBJECTIVES, AND RESULTS**

The Forest Service is committed to using performance management to ensure effective policy outcomes and promote greater accountability. Performance management is used to develop strategic goals, monitor program activities, measure progress toward goals, and to influence program and resource allocation decisionmaking.

Performance accountability is integral to Forest Service operating standards. Senior management assigns accomplishment targets to Washington Office staff, regions, stations, and the Northeastern Area based on Forest Service strategic goals and objectives and input from executive leaders as to on-the-ground capability. Each unit within the agency develops a program of work consisting of specific projects to achieve objectives based on congressional direction, the departmental and agency strategic plans, resource management plans, and budget allocations. Project plans are reviewed and updated throughout the fiscal year to reflect changed conditions.

**FOREST SERVICE STRATEGIC GOALS AND PROGRAM PERFORMANCE**

The *USDA Forest Service Strategic Plan 2007–2012* has seven strategic goals to which the agency aligns its efforts in support of the mission:

Goal 1: Restore, Sustain, and Enhance the Nation's Forests and Grasslands.

Goal 2: Provide and Sustain Benefits to the American People.

Goal 3: Conserve Open Space.

Goal 4: Sustain and Enhance Outdoor Recreation Opportunities.

Goal 5: Maintain Basic Management Capabilities of the Forest Service.

Goal 6: Engage Urban America With Forest Service Programs.

Goal 7: Provide Science-Based Applications and Tools for Sustainable Natural Resources Management.

Forest Service performance results reported in the MD&A are FY 2012 year-to-date (YTD) actual performance reported as of November 1, 2012. Final performance accomplishments for these strategic measures will be published in the FY 2012 APR in February 2013. Final resources<sup>2</sup> by strategic goal—identified as “Estimated”—will also be available in the APR. To provide a consistent link between annual appropriated dollars and accomplishments, the Forest Service records accomplishments performed under contract at the time the contract is issued. Other accomplishments are recorded at the time the work is completed.

***Strategic Goal 1: Restore, Sustain, and Enhance the Nation's Forests and Grasslands***

Goal 1 Resources by Fiscal Year (in millions)		
2010	2011	Estimated 2012
\$4,240	\$4,218	\$3,932

This strategic goal focuses on sustaining the health and diversity of the Nation's forests and grasslands to “meet the needs of present and future generations.”

Our Nation depends on the vitality of our forests and grasslands. These natural resources contribute a variety of essential elements to our well-being, including clean air and water. Stewardship of this land involves a complex integration of programs that foster recreation, energy, forest products, and resource sustainability.

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<sup>2</sup> “Resources” encompasses appropriated and mandatory accounts.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

Following Secretary Vilsack’s vision, the Forest Service is focusing on improving the health of forest and grassland watersheds, restoring ecosystem function, and increasing forest resilience. Along with internal and external partners, the Forest Service has demonstrated many accomplishments in this area, including the improvement of millions of acres of terrestrial habitat and thousands of miles of streams and acres of lake habitats for imperiled, common, and economically significant aquatic species throughout the Nation.

The threats that face forests and grasslands can sometimes be a natural part of the ecosystem cycle. Fire, for instance, when strategically managed, can help forests grow stronger and more resilient in the long run. However, natural threats may also include invasive and native pests, including certain insects, pathogens, plants, and aquatic pests, that pose a long-term risk to forest and rangeland health.

Trend information indicates that over-crowded forest stands and drought conditions have increased the extent and frequency of insect and disease outbreaks. In response, the Forest Service programs prevent, detect, monitor, evaluate, and suppress insects and disease to restore and protect Federal forest lands and lands owned by States, local governments, private organizations, and individual land owners.

Forest Service efforts to restore and enhance ecosystem health also address the quantity and quality of water produced from public and private forests and rangelands and improves terrestrial and aquatic habitat for wildlife and fish. The agency manages national forests and grasslands and support State and private management of non-Federal and tribal lands in order to make the Nation’s wildland ecosystems better able to respond to future threats and risks.

***Reduce the risk to communities and natural resources from wildfire***

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Moved toward desired conditions (acres and percentage)	991,000 39%	693,957 24%	787,478 35%	640,000 40%	475,265 31%	74% 78%	540,000 40%
Maintained in desired conditions (acres and percentage)	830,000 33%	1,231,800 42%	1,028,611 45%	800,000 50%	776,473 39%	97% 78%	675,000 50%
Brought into stewardship contracts (acres)	57,500	152,834	100,577	300,000	134,258	45%	300,000

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

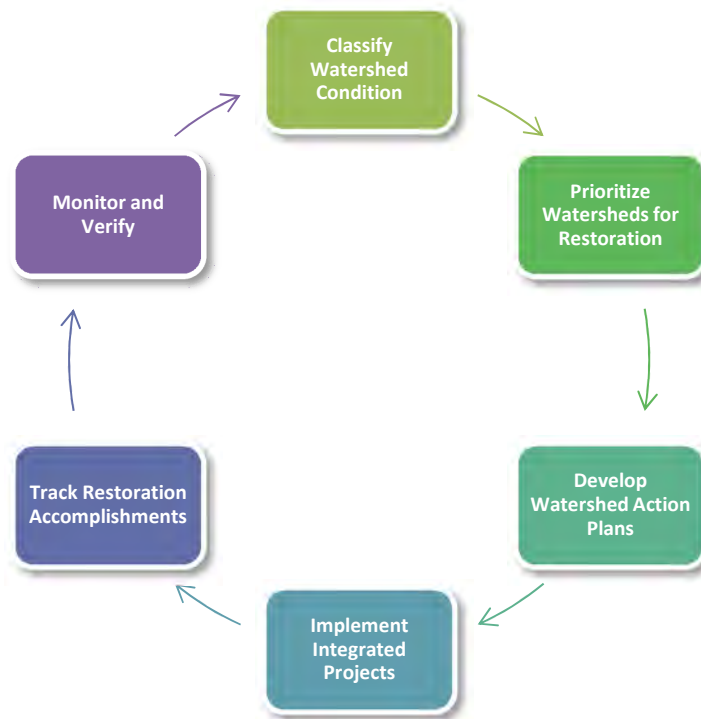
*Build community capacity to suppress and reduce losses from wildfires*

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Treated in the WUI that have been identified in CWPPs or equivalent plans (percentage of acres)	17%	45%	61%	75%	89% <sup>3</sup>	119%	75%

***The Watershed Condition Framework***

The USDA Strategic Plan for FY 2010–2015 targets the restoration of watersheds and forest health as a core management objective of the Forest Service national forests and grasslands. To achieve this goal, the Forest Service restored degraded watersheds with the [Watershed Condition Framework](#) (below) to guide the improvement of watershed health on national forests and grasslands.

The framework is a comprehensive approach that evaluates the condition of watersheds, prioritizes work in areas important to the public and results in noticeable differences in overall watershed condition, strategically integrates restoration, and tracks and monitors outcomes. For more information on the Forest Service’s efforts to support stewardship to promote healthy, sustainable watersheds fundamental to ecosystems and people, see the [Watershed Restoration Program](#).



<sup>3</sup> This accomplishment is based on treatments in the western regions of the United States.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
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Based on the FY 2011 classification of 15,000 subwatersheds and the identification of more than 200 priority watersheds, the Forest Service completed the development of the watershed action plans to move priority watersheds to an improved condition class<sup>4</sup> in FY 2012. These watershed condition assessments identified that the proposed IRR performance measures “Number of Watersheds in Condition Class 1, in Class 2, and in Class 3” would not adequately address declines in watershed condition due to natural disturbances such as large fires, floods, or other landscape-altering events.

In FY 2012, the Forest Service proposed a more valid performance measure for FY 2013 that identifies watersheds that moved to an “improved condition class” from active watershed management. This measure is part of the foundation measures for the Watershed Condition Framework, a critical component to validate the success of the IRR approach.

For FY 2012, however, the watershed performance measure reported in the AFR remained “Watersheds in condition class 1.”

***Restore and maintain healthy watersheds and diverse habitats***

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Watersheds in condition class 1 (percentage of all)	30%	26%	52%	52%	52%	100%	52%
Terrestrial habitat restored (acres, in thousands)	642	2,037	2,629	1,980	2,718	137%	1,960
Stream habitat restored (miles)	4,600	3,577	3,878	2,670	3,703	139%	2,750
Lake habitat restored (acres)	18,000	27,779	26,832	24,000	32,069	134%	24,000
Acres needing reforestation or timber stand improvement that were treated (percentage)	13%	23%	16%	16%	14%	88%	16%

<sup>4</sup> Watershed condition classification is the process of describing watershed condition in terms of discrete categories (or classes) that reflect the level of watershed health or integrity. The Forest Service Manual uses three classes to describe watershed condition relative to their natural potential condition in terms of geomorphic, hydrologic, and biotic integrity: Class 1 watersheds exhibit high integrity; Class 2 watersheds exhibit moderate integrity; and Class 3 watersheds exhibit low integrity relative to their natural potential condition.

# MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

## *Strategic Goal 2: Provide and Sustain Benefits to the American People*

Goal 2 Resources by Fiscal Year (in millions)		
2010	2011	Estimated 2012
\$394	\$234	\$335

This strategic goal focuses on sustaining the productivity of the Nation's forests and grasslands to "meet the needs of present and future generations."

The Forest Service manages 193 million acres of NFS lands, providing essential goods and services that help meet the American people's need for wood fiber, protein, energy, water, and other benefits. Sustainable management of these resources ensures that the availability of goods and services and land productivity is maintained for both current and future generations.

The Forest Service actively manages forest vegetation through the IRR program, providing renewable energy through the Woody Biomass Utilization Strategy. Other renewable energy activities include hydropower licensing, wind energy development, and geothermal operations on NFS lands.

Rangeland resources are managed through the Grazing Management Program, maintaining habitat connectivity by linking NFS grazing authorizations to privately owned lands that are managed for agricultural production and by helping sustain the rural-based ranching and farming lifestyle.



Within NFS, the Minerals and Geology program supports socioeconomic benefits by ensuring that minerals operations provide adequate protection of surface resources and meet objectives of the Energy Policy Act of 2005.

***Provide a reliable supply of forest products over time that (1) is consistent with achieving desired conditions on NFS lands and (2) helps maintain or create processing capacity and infrastructure in local communities***

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Wood fiber provided to meet demand <sup>5</sup> (CCF <sup>6</sup> )	5,400,000	5,020,841	4,854,059	5,232,000	5,084,308	97%	5,600,000

<sup>5</sup> Actual measure is "Wood fiber provided to meet the Nation's demand for forest products in an environmentally sustainable manner."

<sup>6</sup> CCF=Hundred cubic feet



**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
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PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Green tons and/or volume of woody biomass available through permits, contracts, grants, agreements, or the equivalent <sup>7</sup> (number)	N/A	3,306,138	2,954,842	2,700,000	2,813,403	104%	3,000,000

*Provide a reliable supply of rangeland products over time that (1) is consistent with achieving desired conditions on NFS lands and (2) helps support ranching in local communities*

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
National forests and grasslands under grazing permit that are sustainably managed for all rangeland products (acres, in thousands)	81,560	76,154	75,387	73,820	75,067	102%	72,284

*Help meet energy resource needs*

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Land Special Use Permit applications for energy-related facilities that are completed within prescribed timeframes (percentage)	50%	100%	100%	100%	100%	100%	100%
Energy-mineral applications that are processed within prescribed timeframes (percentage)	45%	5%	44%	43%	32%	74%	40%

<sup>7</sup> Actual measure is "Number of green tons and/or volume of woody biomass from hazardous fuel reduction and restoration treatments on Federal land that are made available through permits, contracts, grants, agreements, or the equivalent."

# MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

## Strategic Goal 3: Conserve Open Space

Goal 3 Resources by Fiscal Year (in millions)		
2010	2011	Estimated 2012
\$210	\$293	\$168

Undeveloped forests and grasslands, including working farms, ranches, and timber lands, help protect water quality; conserve native wildlife; and provide renewable timber and nontimber products, recreation opportunities, and scenic beauty.

Conservation of these open spaces is essential to maintain the multitude of public benefits, ecosystem services, and products we all need and enjoy. Cooperation across boundaries, including Federal, State, private, and Tribal lands, is essential to address large-scale conservation issues such as conservation of water resources and drinking water supply, reduction of wildfire risk, and protection of at-risk species while providing for jobs creation. Under this goal, the Forest Service works with its partners to conserve environmentally important forests and grasslands, ensuring their value and use for “current and future generations.”

## Protect forests and grasslands from conversion to other uses.

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Environmentally important forests and grasslands protected from conversion (acres, cumulative)	1,360,000	2,056,107	2,210,563	2,392,278	2,265,716	95%	2,479,278

## Strategic Goal 4: Sustain and Enhance Outdoor Recreation Opportunities

Goal 4 Resources by Fiscal Year (in millions)		
2010	2011	Estimated 2012
\$677	\$527	\$614

The Forest Service is challenged with sustaining adequate high-quality outdoor recreational experiences to meet the Nation’s needs while maintaining the ecological integrity of national forests and grasslands. The Nation’s population is projected to increase by nearly 50 percent by the middle of this century, placing increased demands and extensive pressure on public lands to provide recreational opportunities.

The Forest Service explores and implements scientifically verified management solutions that support recreation needs without incurring adverse resource impacts. Researchers examine anticipated future recreation management problems, opportunities, and needs, applying social science research to analyze the American public’s perceptions of the value and importance of outdoor recreation opportunities. With this understanding of public opinion and need, the Forest Service can best inform and develop policies and decisions on national forest and grasslands.



Preserving high-quality recreation opportunities

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
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requires maintaining lands, recreation facilities, roads, and trails. This infrastructure enables the Forest Service to provide opportunities to interact with wildlife, explore wilderness and heritage resources, engage in educational activities, and access off-highway vehicle trails. Forest Service partners also contribute significant resources supporting tourism, interpretive services, recreation special uses, congressionally designated areas, and national forest scenic by-ways.

*Improve the quality and availability of outdoor recreation experiences*

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Recreation sites maintained to standard (percentage)	65%	68%	71%	70%	73%	104%	70%
Total recreation capacity at developed recreation sites that meets accessibility standards (percentage)	10%	19%	23%	25%	24%	96%	25%
Trails that meet national quality standards (percentage)	60%	41%	25%	30%	26%	87%	30%
Customers who are satisfied with recreation facilities, services, and settings (percentage)	80%	94%	94%	90%	94%	104%	85%
Road system intended for passenger-car use that is suitable for passenger-car use (percentage)	29%	90%	90%	90%	90%	100%	88%

*Secure legal entry to national forest lands and waters*

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
High-priority access rights-of-way acquired (percentage)	90%	106%	15%	85%	90%	106%	85%

*Improve the management of off-highway vehicle use*

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
NFS lands covered by new motor vehicle use maps reflecting a designated-use system of roads, trails, and areas (percentage)	0%	67%	77%	100%	79%	79%	100%

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
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***Strategic Goal 5: Maintain Basic Management Capabilities of the Forest Service***

Goal 5 Resources by Fiscal Year (in millions)		
2010	2011	Estimated 2012
\$440	\$410	\$391

Natural resources are affected by a wide range of forces, including natural events, overuse, and various management and law enforcement activities. The Forest Service maintains a workforce with the skills and capabilities to deal with the impacts of these events and assist other countries in managing their natural resources.

Effectively managing its natural resources and ensuring the safety of the land and its users requires:

- Land management plans, required of each unit in the NFS, to facilitate the implementation of governing laws and regulations
- Collaboration with the public to ensure that Forest Service units continually address changing conditions and public needs
- Inventory and monitoring activities to provide verifiable data and spatial resource information to support land management planning, assessments, and other program management needs
- International forestry to maintain its expertise to promote sustainable forestry management and address climate change issues globally

The Forest Service also maintains and manages dams, fire and administrative facilities, and supporting infrastructure critical to achieving resource management goals and objectives.

***Improve the administration of national forest lands and facilities in support of the agency's mission***

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Selected data in information systems that is current to standard (percentage)	44%	77%	77%	80%	85%	106%	80%
Administrative facilities that are being maintained to standard (percentage)	64%	64%	63%	60%	58%	97%	63%

***Strategic Goal 6: Engage Urban America With Forest Service Programs***

Goal 6 Resources by Fiscal Year (in millions)		
2010	2011	Estimated 2012
\$37	\$59	\$132

One of the goals of the America's Great Outdoors (AGO) Initiative is to empower citizens, community groups, and local governments to share the responsibility for protecting natural areas and leaving a healthy, vibrant outdoor legacy for future generations.

In support of the AGO, the Forest Service's NFS, S&PF, and R&D deputy areas promote understanding and professional management of the Nation's forests, including its urban forests. The Forest Service uses its institutional capacity, expertise, and extensive partnerships to engage and benefit urban America by:

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
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- Providing all Americans broader access to the benefits trees and forests provide, such as clean air, clean and abundant water, reduced energy costs, reduced greenhouse gas emissions, recreation, improved human health, and jobs
- Providing conservation education and meaningful outdoor experiences
- Developing future natural resource leaders and providing outdoor recreational opportunities
- Providing urban residents increased opportunities to participate in natural resources stewardship and management—including green jobs—and enhancing sustainable management of urban natural resources for the benefit and well-being of all

***Improve the management of urban and community forests to provide a wide range of public benefits***

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Communities with developing or established urban and community forestry programs resulting from Forest Service assistance (number)	6,564	7,102	7,172	7,200	7,441	103%	7,200

***Strategic Goal 7: Provide Science-Based Applications and Tools for Sustainable Natural Resources Management***

Goal 7 Resources by Fiscal Year (in millions)		
2010	2011	Estimated 2012
\$127	\$117	\$112

The Forest Service provides science and technology solutions for clients and partners to sustainably manage forests and grasslands.

Science-based applications and tools inform policy and resource management decisions to help achieve desired outcomes.

To accomplish this goal, Forest Service R&D and Technology and Development Centers focus on organizational effectiveness as applied to natural resources management by public and private organizations. This includes applications of social sciences, organizational behavior, decision science and implementing effective fire management, response to global climate change, inventory and monitoring activities; landscape alteration, watershed management, energy demand, technology management, and policy analysis.

Important components of this work include developing and testing innovative methods of synthesizing available science, transforming science and technology into usable technologies and tools, and creating and disseminating science applications to users. Partnerships with educational institutions and others are critical to program success and effectiveness.

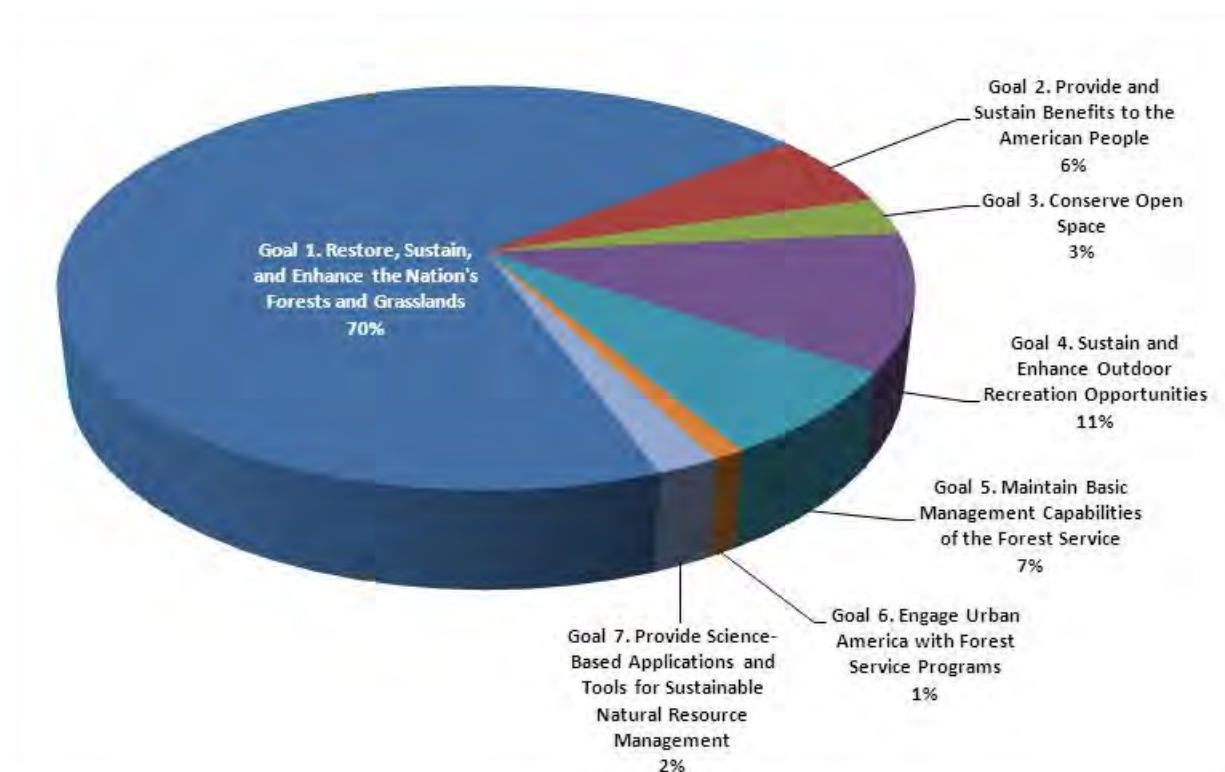
**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

*Increase the use of applications and tools developed by Forest Service R&D and Technology and Development Centers*

PERFORMANCE MEASURE	BASELINE	FY 2010	FY 2011	FY 2012			2013 TARGET
				TARGET	YTD	YTD %	
Customer satisfaction with R&D products and services (ACSI score)	72	72	75	75	79	105%	75
Patent applications filed (number)	10	6	13	8	8	100%	8

***Funding by Strategic Goal***

The following pie chart reports the estimated amount and percentage of funding by strategic goal. Final data will be available in the FY 2014 Budget Justification, available in February 2013 at <http://www.fs.fed.us>.





**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**FOREST SERVICE CONTRIBUTIONS TO THE USDA STRATEGIC PLAN**

The Forest Service contributes to USDA's accomplishments for the following strategic and high-priority performance measures.

USDA PERFORMANCE MEASURE	FY 2010 ACTUAL	FY 2011 ACTUAL	FY 2012		FY 2013 TARGET	FY 2015 TARGET
			TARGET	YEAR-END PROJECTION		
Acres on which HIT practices are implemented on NFS and private lands in priority landscapes to accelerate the protection of clean, abundant water (millions of acres)	.410	.305	.300	.310	103%	N/A
Annual economic contribution of recreation on national forests and grasslands	238,000	237,800	237,800	237,800	100%	247,000
Percentage of acres treated in WUI that have been identified in CWPP	45%	61%	75%	89% <sup>8</sup>	119%	55%
Cumulative acres in NFS that are in a desired condition relative to fire regime (millions of acres)	59	59	60	59	98%	62

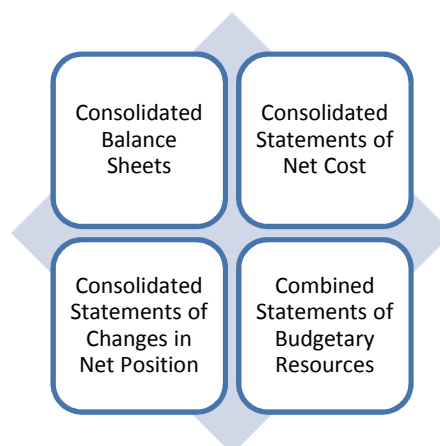


<sup>8</sup> This accomplishment is based on treatments in the western regions of the United States.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**SUMMARY ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION**

The Forest Service produces a series of financial statements on a quarterly basis to summarize the activity and associated financial position of the agency. In producing these statements, the agency seeks to provide relevant, reliable, and accurate financial information related to Forest Service activities. An analysis of the agency's September 30, 2012, financial statements provides the following highlights and exhibits, reflecting the comparative amounts for FY 2012 and FY 2011.



### CONSOLIDATED BALANCE SHEETS

The Balance Sheet is a presentation of the Forest Service's financial condition at the end of the fiscal year. It shows the resources Forest Service holds to meet its statutory requirements (Assets), the amounts it owes that will require payment from these resources (Liabilities), and the difference between them (Net Position).

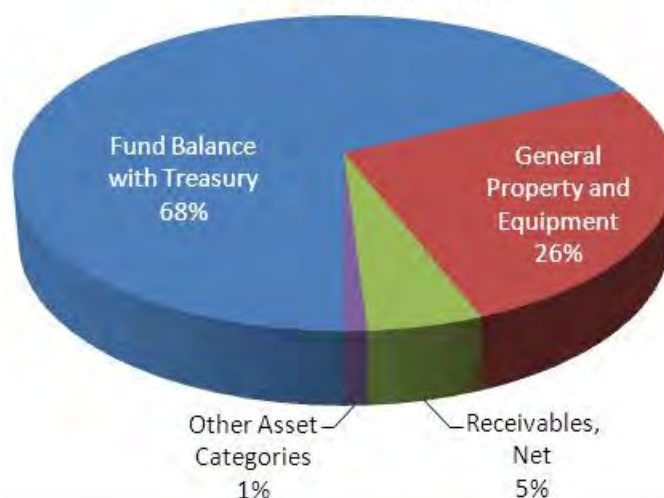
#### Assets

As of September 30, 2012, Forest Service reports \$5.4 billion in assets, representing a decrease of 11 percent from FY 2011 amounts.

ASSETS (in millions)				
ASSET	FY 2012	FY 2011	DIFFERENCES	
			DOLLARS	PERCENTAGES
Fund Balance with Treasury	\$3,684	\$4,379	(\$695)	(16%)
General Property and Equipment	1,392	1,400	(8)	(1%)
Receivables, Net	296	276	20	7%
Total of Major Categories	\$5,372	\$6,055	(\$683)	(11%)
Other Asset Categories	26	24	2	8%
<b>Grand Total Assets</b>	<b>\$5,398</b>	<b>\$6,079</b>	<b>(\$681)</b>	<b>(11%)</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**FY 2012 Assets**



*Fund Balance With Treasury*

The Fund Balance With Treasury (68 percent of assets) decreased \$695 million (16 percent) from FY 2011, primarily due to decreases in appropriations.

*General Property, Plant, and Equipment*

General Property, Plant, and Equipment (PP&E) (26 percent of assets) consists primarily of forest road-surface improvements, bridges, campgrounds, administrative buildings, other structures, and equipment. General PP&E also includes assets acquired by the Forest Service for conducting business activities, such as providing goods or services. General PP&E does not include the value of heritage assets or stewardship assets, which are categorized as Stewardship PP&E.

*Stewardship PP&E*

Stewardship PP&E assets—both heritage and stewardship assets—do not have a readily identifiable financial value as do the general PP&E assets, so are not recorded within the Forest Service financial statements.

Heritage assets are assets that are historical or significant for their natural, cultural, aesthetic, or other important attributes and that are expected to be preserved indefinitely. Stewardship assets are primarily land, held by the Forest Service as part of the NFS, and not acquired for, or in connection with, other general PP&E.

For an in-depth discussion of heritage and stewardship assets, see the Financial Statement Note 5—Stewardship PP&E and the Required Supplementary Information section.

*Receivables, Net*

Accounts Receivable, Net (5 percent of assets) increased \$20 million (7 percent) from FY 2011, primarily due to fire billings in FY 2012 to the State of Texas, for the FY 2011 fire season, with associated reimbursable revenue to be paid by the State.

*Other Assets*

Other Assets (1 percent of assets) represents advances and prepayments for goods and services provided to the Forest Service.

# MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

## Liabilities

As of September 30, 2012, the Forest Service reports \$2.4 billion in liabilities, representing an increase of 6 percent from FY 2011 amounts.

LIABILITIES (in millions)				
LIABILITY	FY 2012	FY 2011	DIFFERENCES	
			DOLLARS	PERCENTAGES
Federal Employee Benefits	\$470	\$454	\$16	4%
Other Liabilities (non-Federal)				
Accrued Liabilities	906	782	124	16%
Payments to States	346	357	(11)	(3%)
Other Categories	673	669	4	1%
<b>Grand Total Liabilities</b>	<b>\$2,395</b>	<b>\$2,262</b>	<b>\$133</b>	<b>6%</b>



## Federal Employee Benefits

Federal Employee Benefits (20 percent of liabilities) had an increase of \$16 million (4 percent) from FY 2011. The Federal Employees' Compensation Act (FECA) liability is accrued workers' compensation benefits, not yet paid by the Forest Service. FECA benefits include the current and expected future liability for death, disability, medical, and other approved workers' compensation costs. By law, Federal agencies cannot make these payments until Congress appropriates and OMB apportions the funds, and they are liabilities on the balance sheet.

## Accrued Liabilities

Accrued Liabilities (38 percent of liabilities) had an increase of \$124 million (16 percent) from FY 2011. Accrued Liabilities consist primarily of accruals for payroll and for receipt of goods and services. Accrued liabilities for occupancy agreements between U.S. General Services Administration (GSA) and the Forest Service are also included. A portion of the accrued liabilities total is calculated by a mathematical model based on a regression between open obligation balances and subsequent payments.

## MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

### *Payments to States*

The liability for Payments to States (14 percent of liabilities) decreased \$11 million (3 percent) from FY 2011 primarily due to legislative mandates calling for a declining scale in payment calculation of approximately 90 percent of the full funding amount for the preceding fiscal year.

The Payments to States legislation authorizes annual revenue-sharing payments to States in which national forests are located. The intent of the program is to offset the property taxes not collected on Federal lands by providing funding to counties for their public schools and roads. A portion of funding comes from agency receipts; the balance is an unfunded liability on the Forest Service's balance sheet.

The Secure Rural School and Community Self Determination Act of 2000, reauthorized on July 6, 2012, also provides for roads and schools, Forest Service projects, and emergency services.

In addition, the Payments to Counties<sup>9</sup> requires that 25 percent of the net revenues from each national grassland or land utilization project be paid to the counties in which such lands are located.

The Payments to States legislation authorizes annual revenue-sharing payments to States in which national forests are located. The intent of the program is to offset the property taxes not collected on Federal lands by providing funding to counties for their public schools and roads. A portion of funding comes from agency receipts; the balance is an unfunded liability on the Forest Service's balance sheet.

### *Other Categories*

Other Categories (28 percent of liabilities) increased \$4 million (1 percent) from FY 2011. Other categories of liabilities include deposit liabilities and annual leave liabilities. Deposit liabilities consist of collections deposited in clearing accounts awaiting disposition or reclassification.

### *Net Position*

As reported in the Consolidated Statements of Changes in Net Position section, the Forest Service reported \$1.5 billion for both unexpended appropriations and cumulative results of operations. The total net position decreased by \$814 million (21 percent) from FY 2011. See the Consolidated Statements of Changes in Net Position section for further information on the changes in net position.

## **CONSOLIDATED STATEMENTS OF NET COST**

The Consolidated Statements of Net Cost report the difference of two amounts: total gross costs minus total gross revenue for the year. The Forest Service's net cost of operations was \$6.1 billion, representing a decrease of 4 percent from FY 2011 amounts.

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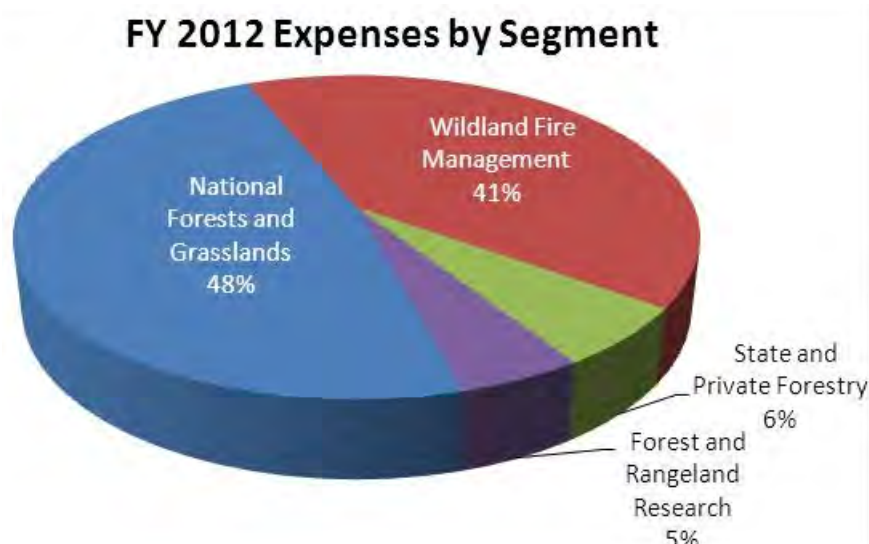
<sup>9</sup> Payments to Counties was authorized with the Bankhead-Jones Farm Tenant Act of 1937.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

NET COST OF OPERATIONS (in millions)				
DESCRIPTION	FY 2012	FY 2011	DIFFERENCES	
			DOLLARS	PERCENTAGES
Program Cost by Segment:				
National Forests and Grasslands	\$3,377	\$3,603	(\$226)	(6%)
Wildland Fire Management	2,833	2,817	16	1%
State and Private Forestry	388	390	(2)	(<1%)
Forest and Rangeland Research	342	350	(8)	(2%)
Total Program Costs	6,940	7,160	(220)	(3%)
Less: Total Earned Revenue	839	833	6	1%
<b>Net Cost of Operations</b>	<b>\$6,101</b>	<b>\$6,327</b>	<b>(\$226)</b>	<b>(4%)</b>

### Expenses

Forest Service program costs are \$6.9 billion for FY 2012, representing a decrease of 3 percent from FY 2011.



### Revenue

The Forest Service's earned revenue—from both the public and intragovernmental—is \$839 million for FY 2012 and \$833 million for FY 2011, resulting in an increase of \$6 million.

Earned revenue from the public includes such items as the sale of forest products (timber and firewood); recreational opportunities (campgrounds); mineral resources; livestock grazing; and special land use fees for power generation, resorts, and other business activities conducted on NFS lands.

The Forest Service also performs reimbursable activities for fire and other activities completed for other Federal agencies, in accordance with the Economy Act and other authorities.



**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**

The Statements of Changes in Net Position report the change in net position during the reporting period. Net position is affected by changes to its two components: Unexpended Appropriations and Cumulative Results of Operations.

NET POSITION (in millions)				
NET POSITION	FY 2012	FY 2011	DIFFERENCES	
			DOLLARS	PERCENTAGES
Unexpended Appropriations	\$1,510	\$2,056	(\$546)	(27%)
Cumulative Results of Operations	1,493	1,761	(268)	(15%)
<b>Total Net Position</b>	<b>\$3,003</b>	<b>\$3,817</b>	<b>(\$814)</b>	<b>(21%)</b>

*Unexpended Appropriations*

The Unexpended Appropriations balance is \$1.5 billion for FY 2012, representing a decrease of 27 percent from FY 2011. The decrease is primarily due to reductions in appropriations, and accompanying decreases in appropriations used in FY 2012, which caused the unexpended appropriations balance to decrease. Unexpended Appropriations reflect the spending authority made available by congressional appropriation, but not used.

*Cumulative Results of Operations*

The Cumulative Results of Operations amount reflects the cumulative effect of financing in excess of expenditures and includes earmarked funds. It is the earmarked funds that predominately finance the enhancement and maintenance of NFS lands, including reforestation. Earmarked funds are presented separately on the Statements of Changes in Net Position, in accordance with the Statement of Federal Financial Accounting Standard 27—Identifying and Reporting Earmarked Funds. For a detailed description of each earmarked fund, see Note 11: Earmarked Funds in Part B. Financial Section of this AFR.

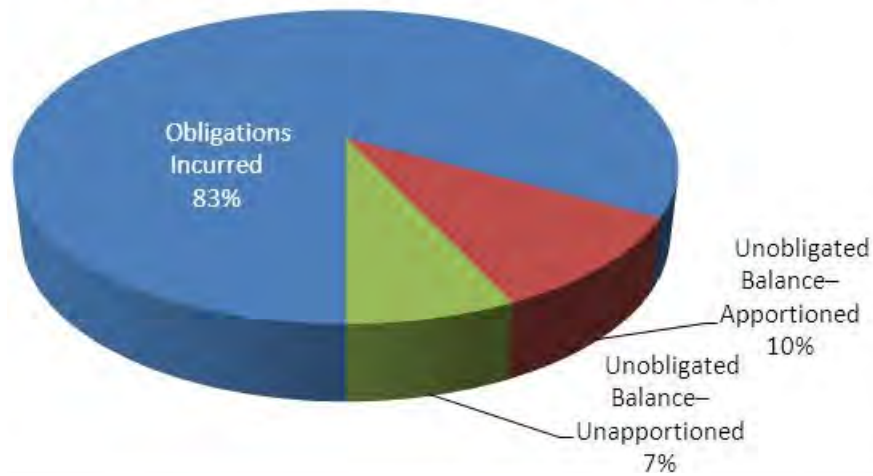
**COMBINED STATEMENTS OF BUDGETARY RESOURCES**

In accordance with Federal statutes and implementing guidance from OMB, the Forest Service may incur obligations and make payments to the extent it has budgetary resources to cover such items. The Combined Statements of Budgetary Resources presents the sources of these budgetary resources, the status of the funds at yearend, and the relationship between its budgetary resources and the outlays made against them. Forest Service's total budgetary resources were \$8.1 billion in FY 2012 and \$8.6 billion in FY 2011, representing a decrease of 6 percent from FY 2011.

STATEMENT OF BUDGETARY RESOURCES (in millions)				
STATEMENT OF BUDGETARY RESOURCES	FY 2012	FY 2011	DIFFERENCES	
			DOLLARS	PERCENTAGES
Total Budgetary Resources	\$8,090	\$8,585	(\$495)	(6%)
Status of Budgetary Resources				
Obligations Incurred	6,698	6,678	20	<1%
Unobligated Balance—Apportioned	800	1,194	(394)	(33%)
Unobligated Balance—Unapportioned	592	713	(121)	(17%)
<b>Total Status of Budgetary Resources</b>	<b>\$8,090</b>	<b>\$8,585</b>	<b>(\$495)</b>	<b>(6%)</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**FY 2012 Status of Budgetary Resources**



*Unobligated Balance—Appportioned*

The Unobligated Balance—Appportioned decreased \$394 million (33 percent) in FY 2012.

*Unobligated Balance—Unapportioned*

The Unobligated Balance—Unapportioned decreased \$121 million (17 percent) in FY 2012.

The decreases are primarily due to a decrease in appropriations in the past two fiscal years along with an increase in fire activity.

**MANAGEMENT’S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

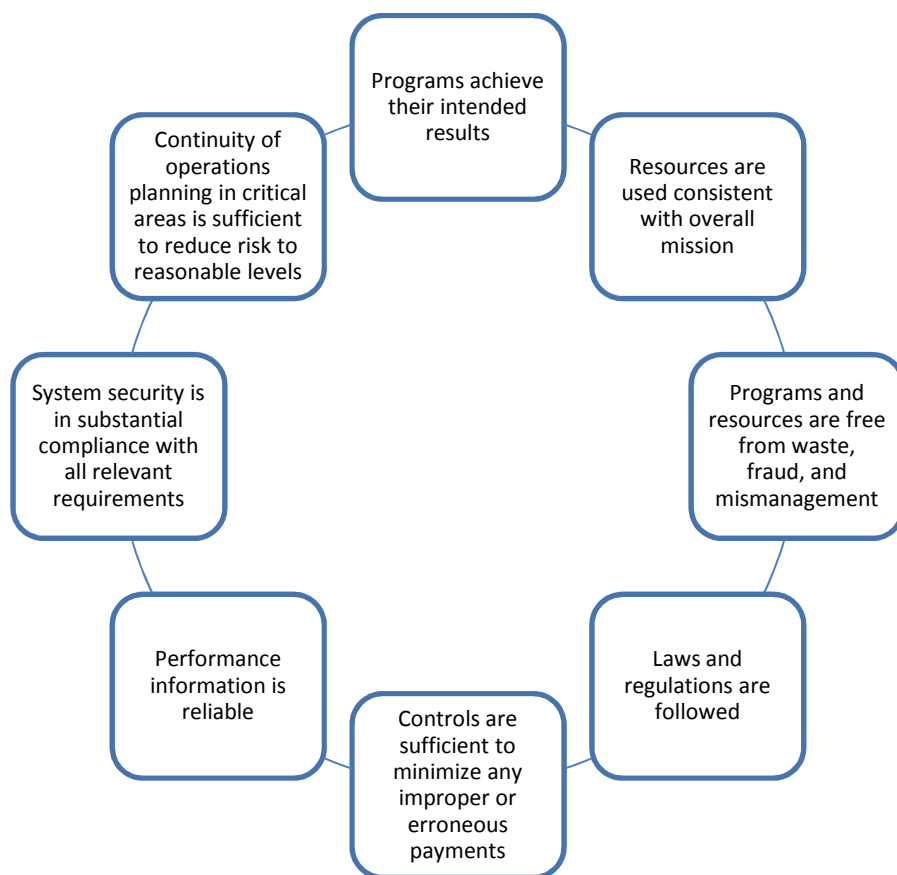
**ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE**

**MANAGEMENT ASSURANCES**

***Federal Managers’ Financial Integrity Act***

The Federal Managers’ Financial Integrity Act (FMFIA) management control objectives (below) identify those deficiencies that seriously affect an agency’s ability to meet these management control objectives as “material weaknesses.”

The FMFIA requires agency managers to reasonably assure Congress and the American public that all financial information meets the following control objectives:



***Federal Managers’ Financial Integrity Act Assertions***

Forest Service management conducted its annual evaluations of internal control (FMFIA, Section 2) and financial systems (FMFIA, Section 4), effective for the period ending September 30, 2012.

***Federal Financial Management Improvement Act***

The Federal Financial Management Improvement Act (FFMIA) mandates that agencies “...implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger

## **MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

at the transaction level.” FFMIA also requires any agency unable to report substantial compliance with these requirements to develop remediation plans.

### *FFMIA Assertions*

Forest Service management evaluated its financial management systems under FFMIA as referenced above for the period ending September 30, 2012.

### *FY 2012 Results*

Based on the results of its evaluation, the Forest Service is substantially compliant with the sections referenced above.

### *Federal Information Security Management Act*

The Federal Information Security Management Act (FISMA) provides the framework for securing the Federal Government's information technology (IT). Departments covered by the Paperwork Reduction Act must implement the requirements of FISMA, reporting annually to OMB and Congress on the effectiveness of the agency's security programs and independent OIG evaluations.

### *FY 2012 Results*

No IT material weaknesses were noted for Assurance Year 2012.

### *Internal Control Over Financial Reporting (Circular A-123, Appendix A)*

Forest Service management recognizes its responsibility for monitoring and correcting all internal control deficiencies.

To identify potential deficiencies, the agency conducted an assessment of the effectiveness of internal control over financial reporting for the 2012 Assurance Year (ending June 30, 2012), in accordance with USDA's Implementation Guide for OMB Circular A-123, Internal Control over Financial Reporting, Appendix A.

The Forest Service prepares risk assessments to evaluate program vulnerabilities for internal controls and then tests the controls to assess the level of internal control at the agency level. The agency uses the following procedures in this process:

- Process descriptions and flowcharts are used to evaluate workflow and internal control from beginning to end of program responsibility.
- Documentation and design of key controls are reviewed with management and key staff.
- The operating effectiveness of properly designed controls is tested by recalculating and verifying compliance with policy and procedures.
- Corrective action plans are developed for control and significant deficiencies.

Based on the results of the assessment, the Forest Service can provide qualified assurance that controls over the financial reporting area are operating effectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

*Other Management Initiatives*

*ARRA*

In FY 2012, Recovery Act funds enabled the Forest Service to continue to address natural resource priorities on the Nation's forests and grasslands while creating or retaining approximately 1,375 jobs each quarter in economically distressed areas. For more information, go to [http://usda.gov/wps/portal/arra?navid=USDA\\_ARRA\\_PLAN](http://usda.gov/wps/portal/arra?navid=USDA_ARRA_PLAN).

**LIMITATIONS OF FINANCIAL STATEMENTS**

The Forest Service's principal financial statements have been prepared to report the financial position and results of operations of the agency, pursuant to the requirements of Title 31 of the United States Code, Section 3515(b).

The Forest Service statements have been prepared from its books and records in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by OMB. The statements, however, are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.



**U.S. Department of Agriculture  
Forest Service  
CONSOLIDATED BALANCE SHEETS  
As of September 30, 2012 and 2011  
(in millions)**

	<u>2012</u>	<u>2011</u>
<b>Assets:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 3,684	\$ 4,379
Accounts Receivable, net (Note 3)	16	20
Total Intragovernmental	<u>3,700</u>	<u>4,399</u>
Cash and Other Monetary Assets	1	1
Accounts Receivable, net (Note 3)	280	256
General Property, Plant, and Equipment (PP&E), net (Note 4)	1,392	1,400
Other (Note 1D)	<u>25</u>	<u>23</u>
<b>Total Assets</b>	<u><u>\$ 5,398</u></u>	<u><u>\$ 6,079</u></u>
Stewardship PP&E (Note 5)		
<b>Liabilities:</b>		
Intragovernmental:		
Federal Employee Benefits (Notes 6 & 7)	\$ 71	\$ 73
Other (Note 9)	159	188
Total Intragovernmental	<u>230</u>	<u>261</u>
Accounts Payable	32	36
Federal Employee Benefits (Notes 6 & 7)	399	381
Environmental and Disposal Liabilities (Note 8)	2	1
Other (Note 9)	<u>1,732</u>	<u>1,583</u>
<b>Total Liabilities (Note 6)</b>	<u>2,395</u>	<u>2,262</u>
Commitments and Contingencies (Note 9)		
<b>Net Position:</b>		
Unexpended Appropriations - All Other funds	1,510	2,056
Cumulative Results of Operations - Earmarked Funds (Note 11)	803	1,002
Cumulative Results of Operations - All Other funds	<u>690</u>	<u>759</u>
<b>Total Net Position</b>	<u>3,003</u>	<u>3,817</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 5,398</u></u>	<u><u>\$ 6,079</u></u>

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture  
Forest Service  
CONSOLIDATED STATEMENTS OF NET COST  
For the years ended September 30, 2012 and 2011  
(in millions)**

	<u>2012</u>	<u>2011</u>
<b>Program Costs (Note 12):</b>		
Total Gross Costs	\$ 6,940	\$ 7,160
Less: Total Earned Revenue	<u>839</u>	<u>833</u>
<b>Net Cost of Operations</b>	<u><u>\$ 6,101</u></u>	<u><u>\$ 6,327</u></u>

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture**  
**Forest Service**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION**  
**For the years ended September 30, 2012 and 2011**  
**(in millions)**

	2012			2011		
	Earmarked Funds (Note 11)	All Other Funds	Consolidated Total	Earmarked Funds (Note 11)	All Other Funds	Consolidated Total
<b>Cumulative Results of Operations:</b>						
Beginning Balance	\$ 1,002	\$ 759	\$ 1,761	\$ 933	\$ 764	\$ 1,697
<b>Budgetary Financing Sources:</b>						
Appropriations Used	-	5,264	5,264	-	5,849	5,849
Non-Exchange Revenue	-	1	1	-	2	2
Donations and Forfeitures of Cash	1	-	1	1	-	1
Transfers - In/Out without Reimbursement	(219)	355	136	116	-	116
<b>Other Financing Sources (Non-Exchange):</b>						
Transfers without Reimbursement	(18)	18	-	(68)	68	-
Imputed Financing	-	372	372	-	425	425
Other	76	(17)	59	66	(68)	(2)
Total Financing Sources	(160)	5,993	5,833	115	6,276	6,391
Net Cost of Operations	(39)	(6,062)	(6,101)	(46)	(6,281)	(6,327)
Net Change	(199)	(69)	(268)	69	(5)	64
<b>Cumulative Results of Operations</b>	<b>803</b>	<b>690</b>	<b>1,493</b>	<b>1,002</b>	<b>759</b>	<b>1,761</b>
<b>Unexpended Appropriations:</b>						
Beginning Balance	-	2,056	2,056	-	2,991	2,991
<b>Budgetary Financing Sources:</b>						
Appropriations Received	-	4,728	4,728	-	5,327	5,327
Appropriation Transfers - In/Out	-	(1)	(1)	-	(3)	(3)
Other Adjustments	-	(9)	(9)	-	(410)	(410)
Appropriations Used	-	(5,264)	(5,264)	-	(5,849)	(5,849)
Total Budgetary Financing Sources	-	(546)	(546)	-	(935)	(935)
<b>Total Unexpended Appropriations</b>	<b>-</b>	<b>1,510</b>	<b>1,510</b>	<b>-</b>	<b>2,056</b>	<b>2,056</b>
<b>Net Position</b>	<b>\$ 803</b>	<b>\$ 2,200</b>	<b>\$ 3,003</b>	<b>\$ 1,002</b>	<b>\$ 2,815</b>	<b>\$ 3,817</b>

The accompanying notes are an integral part of these statements.

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**COMBINED STATEMENTS OF BUDGETARY RESOURCES**  
**For the years ended September 30, 2012 and 2011**  
**(in millions)**

	<u>2012</u>	<u>2011</u>
<b>Budgetary Resources:</b>		
Unobligated Balance, Brought Forward, October 1	\$ 1,907	\$ 2,359
Unobligated Balance Brought Forward, October 1, as Adjusted	1,907	2,359
Recoveries of Prior Year Unpaid Obligations	131	94
Other Changes in Unobligated Balance (+ or -)	(2)	-
Unobligated Balance from Prior Year Budget Authority, net	2,036	2,453
Appropriations (Discretionary & Mandatory)	5,296	5,412
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	758	720
<b>Total Budgetary Resources (Note 15)</b>	<u>\$ 8,090</u>	<u>\$ 8,585</u>
 <b>Status of Budgetary Resources:</b>		
Obligations Incurred (Note 14)	\$ 6,698	\$ 6,678
Unobligated Balance, End of Period:		
Apportioned (Note 2)	800	1,194
Unapportioned (Note 2)	592	713
Total Unobligated Balance, End of Period	1,392	1,907
<b>Total Status of Budgetary Resources (Note 15)</b>	<u>\$ 8,090</u>	<u>\$ 8,585</u>
 <b>Change in Obligated Balance:</b>		
Unpaid Obligations, Brought Forward, October 1 (Gross)	\$ 2,771	\$ 3,072
Uncollected Customer Payments from		
Federal Sources, Brought Forward, October 1 (-)	(485)	(310)
Obligated Balance, Start of the Year (net), Before Adjustments (+ or -)	2,286	2,762
Obligated Balance, Start of Year (net), as Adjusted	2,286	2,762
Obligations Incurred	6,698	6,678
Outlays (Gross) (-)	(6,781)	(6,885)
Change in Uncollected Customer Payments from Federal Sources (+ or -)	(46)	(175)
Recoveries of Prior Year Unpaid Obligations (-) Obligated Balance, End of Period	(131)	(94)
Unpaid Obligations, End of Period (Gross) (Note 16)	2,557	2,771
Uncollected Customer Payments from Federal Sources, End of Period	(531)	(485)
Obligated Balance, End of Period (net)	<u>\$ 2,026</u>	<u>\$ 2,286</u>
 <b>Budget Authority and Outlays, Net:</b>		
Budget Authority, Gross (Discretionary and Mandatory)	\$ 6,054	\$ 6,132
Actual Offsetting Collections (Discretionary and Mandatory)	(712)	(545)
Change in Uncollected Customer Payments from Federal sources		
(Discretionary and Mandatory) (+ or -)	(46)	(175)
Budget Authority, net (Discretionary and Mandatory)	<u>\$ 5,296</u>	<u>\$ 5,412</u>
 Outlays, Gross (Discretionary and Mandatory)	\$ 6,781	\$ 6,885
Actual Offsetting Collections (Discretionary and Mandatory)	(712)	(545)
Outlays, net (Discretionary and Mandatory)	6,069	6,340
Distributed Offsetting Receipts (-)	(530)	(467)
Agency Outlays, net (Discretionary and Mandatory)	<u>\$ 5,539</u>	<u>\$ 5,873</u>

The accompanying notes are an integral part of these statements.

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For the years ended September 30, 2012 and 2011**

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**NOTE 1:     SIGNIFICANT ACCOUNTING POLICIES**

**A: REPORTING ENTITY**

The U.S. Department of Agriculture (USDA) Forest Service (Forest Service) was established on February 1, 1905, as an agency of the United States Federal Government within the USDA, for the purpose of maintaining and managing the Nation's forest reserves. It operates under the guidance of the Under Secretary for Natural Resources and Environment. Forest Service policy is implemented through nine regional National Forest System (NFS) offices, one State and Private Forestry (S&PF) area office, five Research and Development (R&D) stations, the Forest Products Laboratory (FPL) and the International Institute of Tropical Forestry (IITF), functioning in nearly all States, Puerto Rico, and the U.S. Virgin Islands.

The Forest Service's mission includes the following four major segments:

**National Forests and Grasslands** – Protection and management of an estimated 193 million acres (unaudited) of NFS land that includes 36.6 million acres (unaudited) of designated wilderness areas. In addition, the Forest Service partners with other nations and organizations to foster global natural resource conservation and sustainable development of the world's forest resources.

**Forest and Rangeland Research** – Research and development of forest and rangeland management practices to provide scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the 1.3 billion acres (unaudited) of forests and associated rangelands in the United States.

**State and Private Forestry** – Cooperation with and assistance to State and Local governments, Tribal governments, forest industries, and private landowners to help protect and manage non-Federal forests and associated rangeland and watershed areas.

**Wildland Fire Management** – Protection of life, property, and natural resources on NFS lands, extending to an estimated additional 20 million acres (unaudited) of adjacent State and private lands.

The accompanying consolidated and combined financial statements of the Forest Service account for all funds under the Forest Service's control. Substantially all assets are considered "entity assets" and are available for use in the Forest Service's operations.

**B: BASIS OF PRESENTATION AND ACCOUNTING**

The Consolidated Balance Sheets (BS), Consolidated Statements of Net Cost (SNC), Consolidated Statements of Changes in Net Position (SCNP), and the Combined Statements of Budgetary Resources (SBR) (hereinafter referred to as the "financial statements") were prepared to report the financial position, net costs, changes in net position, and budgetary resources of the Forest Service. The financial statements have been prepared from the books and records of the Forest Service in accordance with accounting principles generally accepted in the United States of America as promulgated by the Federal Accounting Standards Advisory Board (U.S. GAAP) and in accordance with the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, revised August 3, 2012. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the SBR is presented on a combined basis in accordance with OMB Circular A-136.

These financial statements present 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 without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an

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accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

The Forest Service recognizes budgetary resources as assets when cash funds held by U.S. Department of Treasury (Treasury) is made available through the Treasury General Fund warrants and other transfers. In addition to appropriated funds, the Forest Service is authorized by law to retain specific earned revenues primarily from sales of forest products and services and to spend these monies on resource management activities identified in the governing legislation. Some examples of the Forest Service's earned revenues are monies collected from timber sales or recreation fees.

**C: FUND BALANCE WITH TREASURY**

Treasury processes cash receipts and disbursements on behalf of the Forest Service. Funds on deposit with Treasury are primarily appropriated, trust and other fund types such as special funds that are available to pay current liabilities and finance authorized purchase commitments.

**D: OTHER ASSETS**

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

**E: GENERAL PROPERTY, PLANT, AND EQUIPMENT**

General property, plant, and equipment (PP&E) includes real and personal property used in normal business operations. Real and personal property is recorded at cost or estimated fair value and must have an estimated useful life of 2 years or more. The Forest Service capitalization threshold for real and personal property is \$25,000 or more. Internal use software is capitalized in accordance with U.S. GAAP if the fair value meets or exceeds \$100,000. The Forest Service recognizes liabilities for capital leases in accordance with U.S. GAAP. Under U.S. GAAP the cost of general PP&E acquired under a capital lease is equal to the amount recognized as a liability for the capital lease at its inception (net present value of the lease payments) unless the net present value exceeds the fair value of the asset. There are no restrictions on the use or convertibility of general PP&E.

See Note 5 for specific disclosures related to multi-use Heritage Assets.

**F: STEWARDSHIP PP&E**

Stewardship PP&E includes assets such as heritage assets and stewardship land, which due to their unique nature would be difficult to value. In accordance with U.S. GAAP, all heritage assets and stewardship land information has been reclassified as basic, except for condition information, which is reclassified as required supplementary information (RSI).

See Note 5 for specific disclosures related to Stewardship PP&E.

**G: LIABILITIES**

Liabilities represent the amount of monies or other resources that are likely to be paid by the Forest Service as a result of a transaction or event that has occurred. However, the Forest Service cannot satisfy a liability without an appropriation. Liabilities for which there is no appropriation and for which there is no certainty that an appropriation will be enacted, are classified as unfunded liabilities. The U.S. Government, acting in its sovereign capacity, can abrogate liabilities.



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**H: ENVIRONMENTAL AND DISPOSAL LIABILITIES**

The Forest Service's estimated Government-related and Government-acknowledged environmental liabilities are principally associated with the future remediation of certain landfills, buildings, and other related sites in accordance with all applicable Federal, State and local laws.

See Note 8 for specific disclosures related to cleanup costs for ongoing operations.

**I: COMMITMENTS AND CONTINGENCIES**

The Forest Service is a party in various administrative proceedings, legal actions, environmental lawsuits, and claims. In the opinion of the Forest Service management and its legal counsel, the ultimate resolution of most of these proceedings is remote. Where probable and reasonably estimable, the full value of amounts related to unsettled litigation and other claims against the Forest Service is recognized as a liability and expense. Expected amounts related to litigation and other claims include amounts to be paid by Treasury on behalf of the Forest Service from a permanent appropriation for judgments and from other appropriations.

**J: WORKERS' COMPENSATION LIABILITY**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to Federal civilian employees injured on the job, employees who have incurred a work related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Benefit claims incurred for the Forest Service's employees under FECA are administered by the U.S. Department of Labor (DOL). The USDA uses Forest Service funds to reimburse the DOL for FECA claims. Consequently, the Forest Service 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 Forest Service approved compensation cases to be paid beyond the current fiscal year.

**K: EMPLOYEE ANNUAL, SICK, AND OTHER LEAVE**

Annual and other vested leave such as compensatory, 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. Sick leave is generally non-vested. 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 used.

**L: PENSION AND OTHER RETIREMENT BENEFITS**

Forest Service employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of the Forest Service's matching contribution, equal to 7.0 percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987, pursuant to Public Law 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect to join FERS and Social Security, or choose to remain in CSRS. FERS offers a savings plan to which the Forest Service automatically contributes 1.0 percent of pay and matches any employee contribution up to an additional 4.0 percent of pay. For FERS participants, the Forest Service also contributes the employer's matching share for Social Security.

The Forest Service recognizes the imputed cost of pension and other health and life insurance retirement benefits during the employees' active years of service. Office of Personnel Management (OPM) actuaries determine

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pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors and information regarding the full cost of health and life insurance benefits to the Forest Service for current period expense reporting.

**M: REVENUES AND OTHER FINANCING SOURCES**

The Forest Service is funded principally through Congressional appropriations and other authorizations in the Budget of the United States. The Forest Service receives annual, multi-year, and no-year appropriations that are used, within statutory limits, for operating and capital expenditures. Other funding sources are derived through reimbursements for services performed for other Federal and non-Federal entities, sale of goods to the public, gifts from donors, cost-share contributions and interest on invested amounts.

Appropriations are used at the time the related program or administrative expenses are incurred or when the appropriations are expended for capital property and equipment. Other revenues are recognized as earned when goods have been delivered or services rendered.

In accordance with U.S. GAAP, the Forest Service classifies revenue as either "exchange revenue" or "non-exchange revenue." Exchange revenue arises from transactions that occur when each party to the transaction sacrifices value and receives value in return. An example of exchange revenue is the income from the sale of forest products. In some cases, the Forest Service is required to remit exchange revenue receipts to Treasury. In other instances, the Forest Service is authorized to use all, or a portion of its exchange revenues for specific purposes. Non-exchange revenue is revenue the Federal Government is able to demand or receive because of its sovereign powers. Penalties and cash donations received from private citizens and organizations are examples of non-exchange revenue.

The Forest Service reports the full cost of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service unless otherwise noted. In accordance with U.S. GAAP, the Forest Service's pricing policies are set to recover full cost except where mandated by law or for the public good, such as in the case of grazing fees. Also, costs and exchange revenue are disclosed in Note 12 as intragovernmental or with the public based on the related source or customer, respectively.

**N: IMPUTED FINANCING**

The Forest Service recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the Forest Service are also recognized as imputed financing. Imputed financing for the years ended September 30, 2012 and 2011 was \$372 million and \$425 million, respectively.

**O: PARENT/CHILD REPORTING REQUIREMENTS**

The Forest Service is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. In accordance with OMB Circular A-136, all financial activity related to these allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The Forest Service allocates funds as the parent to the Department of Interior (DOI), Department of the Army, Department of the Navy, Department of the Air Force, and the Corps of Engineers, Civil. The Forest Service receives allocation

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transfers, as the child, from the DOL, Department of Transportation (DOT), and DOI.

**P: USE OF ESTIMATES**

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

**Q: EARMARKED FUNDS**

The Forest Service reports the earmarked funds for which it has program management responsibility, using the following three criteria:

- A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits, or purposes.
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes.
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Federal Government's general revenues.

**R: INTER-ENTITY COST IMPLEMENTATION**

In accordance with U.S. GAAP, each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods and services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.

**S: RECLASSIFICATIONS**

Certain amounts in the prior year's SBR have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported SBR.

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**NOTE 2: FUND BALANCE WITH TREASURY**

Funds with Treasury are primarily appropriated (general and special funds), revolving (working capital fund), and trust funds that are available to pay current liabilities and finance authorized purchase commitments. The category of other fund types includes deposit and suspense accounts. It is the Forest Service's policy to ensure the Fund Balance with Treasury (FBWT) reported on the balance sheets is consistent with the records of the Treasury.

The Forest Service has a known discrepancy with Treasury in FBWT, suspense account 12F3885, as of September 30, 2012. Suspense account 12F3885 was discontinued effective July 31, 2008. USDA elected not to obtain a waiver, which would have permitted the Forest Service to continue to use the suspense account.

Treasury has reactivated suspense account 12F3885 for certain activities with an accomplished date of December 1, 2011 and beyond. The balance of activity with an accomplished date prior to December 1, 2011 is not reported by Treasury. The difference between the FBWT balance and Treasury as of September 30, 2012 is, \$13,120.

Fund Balance with Treasury as of September 30, 2012 and 2011 consisted of the following:

	<b>(in millions)</b>	
	<b>2012</b>	<b>2011</b>
A. Fund Balances:		
(1) Trust Funds	\$ 236	\$ 397
(2) Special Funds	909	964
(3) Revolving Funds	185	178
(4) General Funds	2,235	2,726
(5) Other Fund Types	119	114
Total	<u>\$ 3,684</u>	<u>\$ 4,379</u>
B. Status of Funds:		
(1) Unobligated Balance		
(a) Available	\$ 800	\$ 1,194
(b) Unavailable	592	713
(2) Obligated Balance not yet Disbursed	2,026	2,286
(3) Non-Budgetary FBWT Accounts	266	186
Total	<u>\$ 3,684</u>	<u>\$ 4,379</u>

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**NOTE 3: ACCOUNTS RECEIVABLE, NET**

Intragovernmental Accounts Receivable represent amounts due under reimbursable and cooperative agreements with Federal entities for services provided by the Forest Service. An Allowance for Uncollectible Accounts is not established for these amounts because monies due from other Federal entities are considered fully collectible. As of September 30, 2012 and 2011, the Intragovernmental Accounts Receivable balances were \$16 million and \$20 million, respectively.

Non-Intragovernmental Accounts Receivable is comprised primarily of timber harvest and reimbursements and refunds owed to the Forest Service for fire prevention and suppression activities. An Allowance for Uncollectible Accounts is established against outstanding non-Federal accounts receivable based on historical experience. The historical percentage is calculated by comparing the ending fiscal year balance in the write-off account against the previous ending fiscal year balance of open accounts receivable. The historical percentage is then applied to the ending balance of open accounts receivable. This approach is used to estimate the allowance for uncollectible accounts and recording receivables at net realizable value.

Non-Intragovernmental Accounts Receivable as of September 30, 2012 and 2011 consisted of the following:

	<b>(in millions)</b>	
	<b>2012</b>	<b>2011</b>
Accounts Receivable	\$ 300	\$ 264
Allowance for Uncollectible Accounts	(20)	(8)
Accounts Receivable, Net	<u>\$ 280</u>	<u>\$ 256</u>

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**NOTE 4: GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET**

Depreciation of General PP&E for the Forest Service is recorded on the straight-line method based on the estimated useful lives listed below. Capitalization thresholds are provided in Note 1, Section E.

As of September 30, 2012 and 2011 the Forest Service's General PP&E consisted of the following:

**September 30, 2012  
(in millions)**

<b>Property Class</b>	<b>Estimated Useful Life (Years)</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
<b>Personal Property</b>				
Equipment	5 - 20	\$ 686	\$ (438)	\$ 248
Internal Use Software	5	107	(91)	16
Internal Use Software in Development	n/a	68	-	68
<b>Total Personal Property</b>		<b>861</b>	<b>(529)</b>	<b>332</b>
<b>Real Property</b>				
Land and Land Rights	n/a	52	-	52
Improvements to Land	10	745	(662)	83
Construction in Progress	n/a	138	-	138
Buildings, Improvements, and Renovations	15 - 30	1,058	(631)	427
Other Structures and Facilities	15 - 50	1,720	(1,382)	338
Assets Under Capital Lease	5 - 30	58	(39)	19
Leasehold Improvements	10	12	(9)	3
<b>Total Real Property</b>		<b>3,783</b>	<b>(2,723)</b>	<b>1,060</b>
<b>Total</b>		<b>\$ 4,644</b>	<b>\$ (3,252)</b>	<b>\$ 1,392</b>



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**September 30, 2011  
(in millions)**

<b>Property Class</b>	<b>Estimated Useful Life (Years)</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
<b>Personal Property</b>				
Equipment	5 - 20	\$ 702	\$ (462)	\$ 240
Internal Use Software	5	94	(84)	10
Internal Use Software in Development	n/a	73	-	73
<b>Total Personal Property</b>		<b>869</b>	<b>(546)</b>	<b>323</b>
<b>Real Property</b>				
Land and Land Rights	n/a	52	-	52
Improvements to Land	10	732	(644)	88
Construction in Progress	n/a	187	-	187
Buildings, Improvements, and Renovations	15 - 30	993	(615)	378
Other Structures and Facilities	15 - 50	1,692	(1,346)	346
Assets Under Capital Lease	5 - 30	61	(39)	22
Leasehold Improvements	10	11	(7)	4
<b>Total Real Property</b>		<b>3,728</b>	<b>(2,651)</b>	<b>1,077</b>
<b>Total</b>		<b>\$ 4,597</b>	<b>\$ (3,197)</b>	<b>\$ 1,400</b>

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**NOTE 5: STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT**

This note provides information on certain resources entrusted to and stewardship responsibilities assumed by the Forest Service. These resources and responsibilities are referenced in accordance with U.S. GAAP on the Forest Service's Balance Sheets.

*Stewardship PP&E*

Stewardship PP&E are assets whose physical properties resemble those of the General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets and stewardship land. The Forest Service reports Stewardship PP&E by site. Sites include National Forests, National Grasslands, other Forest Service-managed sites, and non Forest Service-managed sites such as museums and university laboratories. The protection of these lands and resources is a fundamental Forest Service responsibility.

The mission of the Forest Service is to sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations. The Forest Service strives to achieve quality land management under the sustainable multiple-use management concept to deliver the necessary products and services that are essential for enhancing natural resource stewardship and to meet the diverse needs of people.

The preservation and management of heritage assets is guided through the enactment of many laws and regulations including the Organic Administration Act of 1897 (16 U.S.C. 473-478, 479-482, 551), the Antiquities Act of 1906 (16 U.S.C. 431), the National Historic Preservation Act of 1966 (16 U.S.C. 470), the Archaeological Resources Protection Act of 1979 (16 U.S.C. 470aa *et seq.*), the Native American Graves Protection and Repatriation Act of 1990 (25 U.S.C. 3001), Executive Order 13287 – Preserve America, issued March 3, 2003, National Register of Historic Places (36 CFR, part 60), Protection of Archaeological Resources Uniform Regulations (36 CFR part 296), and the Curation of Federally-owned and Administered Archaeological Collections (36 CFR part 79), as well as many others.

The predominant laws governing the management of stewardship land are the Transfer Act of 1905 (16 U.S.C. 472, 478, 495, 551, 554a, 615b, 554, 524), the Multiple Use-Sustained Yield Act of 1960 (16 U.S.C. 528-531, 528 note), the Forest and Rangeland Renewable Resources Planning Act of 1974 (16 U.S.C. 1600 note, 1600-1614), and the National Forest Management Act of 1976 (16 U.S.C. 472a).

These laws and regulations are implemented through Forest Service policy and guidance. Program management evaluations and technical reviews are performed to ensure compliance.

*Heritage Assets*

Heritage assets, as defined by U.S. GAAP, are PP&E that are unique for one or more of the following reasons:

- Historical or natural significance
- Cultural, educational, or artistic (e.g. aesthetic) importance
- Significant architectural characteristics

Heritage assets can include non-collection type assets, such as historic or prehistoric sites, monuments, and buildings, or collection type assets, such as objects gathered and maintained for exhibition.

Some heritage assets may also be classified as multi-use heritage assets if they serve two purposes—a heritage function and a general government operations function, such as a forest guard station building. The building may be listed on the National Register of Historic Places, but it serves primarily as an administrative site, hence, it is considered a “multi-use” heritage asset. Multi-use heritage assets are capitalized as General PP&E. Multi-use

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heritage assets are reported as Stewardship PP&E.

Heritage Asset categories can include the following:

Priority Heritage Assets: Heritage assets of distinct public value that are, or should be, actively maintained, and meet one or more of the following criteria:

- The property is recognized through an official designation, such as a listing on the National Register of Historic Places, State register, etc.
- The property is recognized through prior investment in preservation, interpretation, and use. Any improvement to a PHA that meets real property designation criteria is considered real property.
- The property is recognized in an agency-approved management plan.
- The property exhibits critical deferred maintenance needs and those needs have been documented.

Other Heritage Assets: Assets that may have potential important historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance.

Assemblage Assets: Any grouping of artifacts or archival materials aggregated through donation, agency events, site-specific or other field collection, other acquisition method, or combination therein.

*Addition and Deletion of Heritage Assets*

The Forest Service generally does not construct heritage assets, although in some circumstances important site-structural components may be rehabilitated or reconstructed into viable historic properties to provide forest visitors with use and interpretation. Heritage assets may be added through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Deletion occurs through land exchange or natural disasters. Most additions occur through inventory activities where previously undocumented sites are discovered and added to the total.

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The Heritage Asset Sites reported by management area as of September 30, 2012, are as follows:

<b>HERITAGE ASSET SITES BY MANAGEMENT AREA</b>	<b>2011 Final Sites</b>	<b>Additions</b>	<b>Deletions</b>	<b>2012 Final Sites</b>
National Forests				
Region 1 - Northern Region	15	-	-	15
Region 2 - Rocky Mountain Region	17	-	-	17
Region 3 - Southw estern Region	12	-	-	12
Region 4 - Intermountain Region	18	-	-	18
Region 5 - Pacific Southw est Region	18	-	-	18
Region 6 - Pacific Northw est Region	21	-	-	21
Region 8 - Southern Region	35	-	(1) *	34
Region 9 - Eastern Region	17	-	-	17
Region 10 - Alaska Region	2	-	-	2
Subtotal	155		(1)	154
National Grasslands				
Region 1 - Northern Region	4	-	-	4
Region 2 - Rocky Mountain Region	7	-	-	7
Region 3 - Southw estern Region	4	-	-	4
Region 4 - Intermountain Region	1	-	-	1
Region 5 - Pacific Southw est Region	1	-	-	1
Region 6 - Pacific Northw est Region	1	-	-	1
Region 8 - Southern Region	2	-	-	2
Subtotal	20			20
Non Forest Service Sites	167	19	(18)	168
<b>TOTAL SITES</b>	<b>342</b>	<b>19</b>	<b>(19)</b>	<b>342</b>

Region 1 - Montana, North Dakota, Northern Idaho, and Northwestern South Dakota

Region 2 - Colorado, Kansas, Nebraska, South Dakota, and Wyoming

Region 3 - Arizona and New Mexico

Region 4 - Southern Idaho, Nevada, Utah, and Western Wyoming

Region 5 - California, Hawaii, Guam, and Trust Territories of the Pacific Islands

Region 6 - Oregon and Washington

Region 8 - Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virgin Islands, and Virginia

Region 9 - Delaware, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, West Virginia, and Wisconsin

Region 10 - Alaska

#### *Stewardship Land*

Stewardship land consists primarily of the national forests and grasslands owned by the Forest Service. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal Government, States, and counties.

#### National Forests

The national forests are formally established and permanently set aside and reserved for national forest purposes. The following categories of NFS lands have been set aside for specific purposes in designated areas:

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- **National Wilderness Areas** - Areas designated by Congress as part of the National Wilderness Preservation System.
- **National Primitive Areas** - Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.
- **National Wild and Scenic River Areas** - Areas designated by Congress as part of the National Wild and Scenic River System.
- **National Recreation Areas** - Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- **National Scenic Research Areas** - Areas established by Congress to provide use and enjoyment of certain ocean headlands and to ensure protection and encourage the study of the areas for research and scientific purposes.
- **National Game Refuges and Wildlife Preserve Areas** - Areas designated by Presidential proclamation or Congress for the protection of wildlife.
- **National Monument Areas** - Areas including historic landmarks, historic and prehistoric structures, and other objects for historic or scientific interest, declared by Presidential proclamation or Congress.

National Grasslands

National grasslands are designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Farm Tenant Act.

Research and Experimental Areas

Research and experimental areas are reserved and dedicated by the Secretary of Agriculture for forest and range research experimentation. Areas reported are located outside the exterior boundaries of a national forest or grassland.

National Preserves and Other Areas

National preserves is established to protect and preserve scientific, scenic, geologic, watershed, fish, wildlife, historic, cultural, and recreational values; and provide for multiple use and sustained yield of its renewable resources. Other areas include areas administered by the Forest Service that are not included in one of the above groups.

Addition and Deletion of Stewardship Lands

The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the Forest Service NFS. The program coordinates with a variety of partners, including State, local, and Tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

The Land Acquisition Program preserves, develops, and maintains access to NFS lands and waters for the public and provides permanent access to public lands for recreation, commodity production, resource management, public safety, and community economic viability.

The L&WCF statutory authority specifically defines the purpose to also include protecting the quality of scientific, scenic, historical, ecological, environmental, air and atmospheric, water resource, archeological values, as well as food and habitat for fish and wildlife, and managing the public lands for minerals, food, timber and fiber.

From these several allowable uses of program funding, the program concentrates on protecting habitat for priority species identified in the national forest and grassland's Land Management Plans and enhancing recreational opportunities for areas with high demand for recreation. The program focuses acquisitions on inholdings and areas adjacent to existing NFS lands.

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The NFS sites reported by major category as of September 30, 2012, are as follows:

<b>STEWARDSHIP LAND ASSET SITES</b>	<b>2011</b>			<b>2012</b>	
	<b>Final Sites</b>	<b>Additions</b>	<b>Deletions</b>	<b>*</b>	<b>Final Sites</b>
National Forests	155	-	(1)	*	154
National Grasslands	20	-	-		20
Research and Experiment Areas	3	-	-		3
National Preserves and Other Areas	3	-	-		3
<b>TOTAL SITES</b>	<b>181</b>	<b>-</b>	<b>(1)</b>		<b>180</b>

\*It has been determined that the Choctawhatchee National Forest no longer exists and should no longer be included when calculating the number of administrative areas under its jurisdiction. This Forest was not previously removed from our calculation because the Forest Service still managed a very small number of acres that were once part of the Choctawhatchee. An OGC decision has determined there is not a reversionary clause and the Forest Service cannot regain title to these lands.



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**NOTE 6: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. Liabilities not covered by budgetary resources as of September 30, 2012 and 2011 consisted of the following:

	(in millions)	
	2012	2011
Intragovernmental:		
Treasury Judgment Fund	\$ 21	\$ 20
Other Unfunded Employment Related Liability	22	21
Federal Employee Benefits (Note 7)	71	73
Total Intragovernmental Not Covered by Budgetary Resources	114	114
 Federal Employee Benefits (Note 7)	399	381
Annual Leave Liability (Note 9)	209	214
Contingent Liabilities (Note 9)	43	12
Accrued Liability for Payments to States (Note 9)	346	357
Total Liabilities Not Covered by Budgetary Resources	1,111	1,078
Total Liabilities Covered by Budgetary Resources	1,284	1,184
Total Liabilities	<u>\$ 2,395</u>	<u>\$ 2,262</u>

Other Unfunded Employment Related Liability consists of the Forest Service portion of the unemployment compensation unfunded liability as established in § 909 of the Social Security Act, approved, August 14, 1935. The significant change in accrued liability for Payments to States is due to a change in legislation effective for FY 2012.

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**NOTE 7: FEDERAL EMPLOYEE BENEFITS**

Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of accrued workers' compensation benefits not yet paid by the Forest Service.

Workers' compensation benefits include the current and expected future liability for death, disability, medical, and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the expected future liability for the USDA as a whole, including the Forest Service. The Forest Service is billed annually as its claims are paid by the DOL. Payments to the DOL are deferred for two years so that the bills may be funded through the budget. The amounts of unpaid FECA billings constitute the accrued FECA payable.

The total components of accrued FECA payable as of September 30, 2012 and 2011 consisted of the following:

	(in millions)	
	2012	2011
Intragovernmental Federal E mployee B enefits (Note 6)	\$ 71	\$ 73
Federal E mployee B enefits (Note 6)	399	381
Total	<u>\$ 470</u>	<u>\$ 454</u>

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**NOTE 8: ENVIRONMENTAL AND DISPOSAL LIABILITIES**

Forest Service discloses information related to cleanup costs for environmental hazards, in accordance with U.S. GAAP, which addresses liabilities associated with Government-related events and Government-acknowledged events.

Government-related events are non-transaction based events that involve interaction between the Forest Service and the environment; damages caused by such factors as ongoing operations or natural forces. The resulting liability is considered probable based on Forest Service's responsibility for cleanup of Government-related events and is recognized in the period the event occurs or as soon as it becomes measurable.

Government-acknowledged events are non-transaction events that are of financial consequence to the Forest Service because it chooses to respond to the event, and the primary responsible party cannot be located. Cleanup costs associated with events such as toxic waste damage caused by non-Federal entities or natural disasters, may ultimately become the responsibility of the Forest Service. However these costs do not meet the definition of a "liability" until, and to the extent that financial responsibility is acknowledged by the Forest Service, Congress has appropriated resources, and an exchange or non-exchange transaction has occurred.

The Forest Service is subject to environmental laws and regulations regarding air, water, and land use, the storage and disposal of hazardous materials, and the operation and closure of facilities at which environmental contamination may be present. Forest Service project managers confer with the appropriate States, the Office of General Counsel (OGC), and occasionally, Environmental Protection Agency (EPA) and local governments. The agency follows cleanup requirements from the legislative sources in Appendix I of Federal Financial Accounting and Auditing, Technical Release No. 2, including the Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA), the Resource Conservation and Recovery Act (RCRA), other Federal or State regulations and USDA or Forest Service policy, as necessary. Estimated environmental and disposal liabilities include expected future cleanup costs, and the cost of studies necessary to evaluate response requirements for those sites where future liability is unknown.

PP&E cleanup cost estimates—usually immaterial to the total project cost for the majority of demolitions, deconstructions, or renovations—are included in PP&E operations and maintenance costs (O&M). When contamination occurs that is not addressed under regular O&M, the agency develops a cost estimate for the total cleanup and, to the extent it is probable and reasonable to estimate, records the cost to cleanup any contaminated PP&E. Professional judgment and prior experience is often the basis for cost estimates. If the agency has no previous similar experience, the staff performs other comparable technical reviews or derives estimates using standard cost estimating guides.

Exceptions occur when a *previous* activity results in release or potential release of a hazardous substance, and if contamination migrates offsite from a *current* operation. In these instances, the total reasonably estimable costs are recognized when the exception is discovered.

Forest Service cleanup cost estimates are based on the current total cost for a contaminated site according to laws, technology, and inflation/deflation. Forest Service updates cost estimates, including changes relating to prior period operations, for Government-related liabilities at least annually, to reflect changes in laws or regulations, technology, and inflation or deflation.

The Forest Service estimated liability for government related events as of September 30, 2012 and 2011 was \$2 and \$1 million respectively.

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**NOTE 9: OTHER LIABILITIES**

	(in millions)					
	2012			2011		
	Non-Current	Current	Total	Non-Current	Current	Total
<b>Intragovernmental</b>						
Employer Contributions & Payroll Tax	\$ -	37	\$ 37	\$ -	36	\$ 36
Accrued Liabilities	21	34	55	20	67	87
Advances from Others	-	44	44	-	42	42
Deposit Liabilities	-	1	1	-	2	2
Other (Note 6)	-	22	22	-	21	21
<b>Total Intragovernmental</b>	<b>\$ 21</b>	<b>138</b>	<b>\$ 159</b>	<b>\$ 20</b>	<b>168</b>	<b>\$ 188</b>
<b>Other</b>						
Accrued Liabilities	-	906	906	-	782	782
Advances from Others	-	86	86	-	83	83
Deposit Liabilities	-	119	119	-	108	108
Purchaser Road Credits	-	1	1	-	1	1
Accrued Liability for Payments to States & Counties (Note 6)	-	346	346	-	357	357
Annual Leave Liability (Note 6)	-	209	209	-	214	214
Contingent Liabilities (Note 6)	-	43	43	-	12	12
Custodial Liabilities	-	1	1	-	1	1
Capital Leases (Note 10)	16	3	19	19	3	22
Other	-	2	2	-	3	3
<b>Total Other</b>	<b>\$ 16</b>	<b>1,716</b>	<b>\$ 1,732</b>	<b>\$ 19</b>	<b>1,564</b>	<b>\$ 1,583</b>
<b>Total Other and Intragovernmental Liabilities</b>	<b>\$ 37</b>	<b>1,854</b>	<b>\$ 1,891</b>	<b>\$ 39</b>	<b>1,732</b>	<b>\$ 1,771</b>

As of September 30, 2012 and 2011, the Forest Service's major components of other liabilities are as follows:

**Accrued Liabilities:** Accrued liabilities consist primarily of accruals for payroll and for receipt of goods and services. Accrued liabilities for occupancy agreements between U.S. General Services Administration (GSA) and the Forest Service are also included. A portion of the accrued liabilities total is calculated by a mathematical model based on a regression between open obligation balances and subsequent payments.

**Deposit Liabilities:** Deposit liabilities consist of collections deposited in deposit funds or clearing accounts awaiting disposition or reclassification.

**Accrued Liability for Payments to States and Counties:** The Twenty-Five Percent Fund Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States Program. This program requires revenue generated by the sale of goods and services on the national forests to be shared with the States for public schools and public roads in the county or counties in which the national forests are located. The Secure Rural School and Community Self Determination Act of 2000, reauthorized on July 6, 2012, for FY 2012 as part of Public Law 112-141, also provides for roads and schools, Forest Service projects and emergency services. In addition, the Payments to Counties, Bankhead-Jones Farm Tenant Act of 1937 requires 25 percent of the net revenues from each national grassland or land utilization project to be paid to the counties in which such lands are located.

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**Annual Leave Liability:** Annual and other vested leave such as compensatory, 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.

**Contingent Liabilities and Commitments:** As of September 30, 2012 the Forest Service contingent liabilities and commitments increased by \$31 million from cases that are now reported as probable (Refer to Note 11) from OGC. Based on information provided by legal counsel, management accrues liabilities for some adverse actions determined to be probable in occurrence and reasonably estimable. The Forest Service discloses potential liabilities related to claims where the probability of occurrence is at least reasonably possible. There are no estimated obligations related to cancelled appropriations for which there is a contractual commitment for payment. In addition, there are no contractual arrangements which may require future financial obligations.

These liabilities typically relate to Federal Tort Claims Act administrative and judicial claims, contract-related actions, personnel and employment-related matters, and various land and resource related claims and adjudications. Most of the cash settlements are expected to be paid out of the Judgment Fund, which is maintained by Treasury, rather than the operating resources of the Forest Service.

The accrued and potential contingent liabilities as of September 30, 2012 and 2011 are summarized as follows:

(in millions)			
2012		Estimated Range of Loss	
(in millions)	Accrued Liabilities	Lower End	Upper End
Contingent Liabilities			
Probable	\$ 43	\$ 43	\$ 567
Reasonably Possible		\$ 41	\$ 185
2011		Estimated Range of Loss	
(in millions)	Accrued Liabilities	Lower End	Upper End
Contingent Liabilities			
Probable	\$ 12	\$ 12	\$ 199
Reasonably Possible		\$ 33	\$ 125

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**NOTE 10: LEASE LIABILITIES**

The Forest Service enters into leasing agreements through leasing authority delegated by GSA for general facilities (buildings and office space), equipment, and land. Leases may include renewal options for periods of one or more years. Most leases are subject to cancellation upon certain funding conditions. The Forest Service's assets under capital leases as of September 30, 2012 and 2011 and future capital and operating lease agreement payments as of September 30, 2012 consisted of the following:

		(in millions)	
Capital Leases:		2012	2011
Summary of Assets Under Capital Leases			
Land, Buildings, Machinery, and Equipment		\$ 58	\$ 61
Accumulated Amortization		(39)	(39)
Total		<u>\$ 19</u>	<u>\$ 22</u>
Future Payments Due:			
	Land & Buildings, Machinery, and Equipment		
Year 1 (2013)	9		
Year 2 (2014)	9		
Year 3 (2015)	8		
Year 4 (2016)	7		
Year 5 (2017)	5		
After 5 Years	20		
Total Future Lease Payments	\$ 58		
Less: Imputed Interest	(29)		
Less: Executory Costs	(10)		
Subtotal	19		
Lease Liabilities Covered by Budgetary Resources	\$ 19		
		(in millions)	
Operating Leases:			
Future Payments Due:			
	Land & Buildings, Machinery, and Equipment		
Fiscal Year			
Year 1 (2013)	\$ 51		
Year 2 (2014)	44		
Year 3 (2015)	38		
Year 4 (2016)	33		
Year 5 (2017)	29		
After 5 Years	160		
Total Future Lease Payments	\$ 355		

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**NOTE 11: EARMARKED FUNDS**

In accordance with U.S. GAAP, the Forest Service administers certain earmarked funds, which are specifically identified revenues, often supplemented by other financing sources that remain available over time. These funds predominately finance the enhancement and maintenance of NFS lands, including reforestation. Donations are handled on a cash basis and all other collections are accounted for on an accrual basis. The following is a list of earmarked funds and their base Treasury symbols for which the Forest Service has program management responsibility. Those with an asterisk are authorized by specific legislative acts as permanent indefinite appropriations.

**Treasury Account Symbols and Titles**

- 5004 Land Acquisition
- 5008 National Forest Fund Receipts
- 5010 Recreation Fees for Collection Costs
- 5072 Fees, Operation and Maintenance of Recreation Facilities
- 5201 Payments to States, National Forest Fund
- \*5202 Timber Roads Purchaser Election
- \*5203 Roads and Trails for States, National Forest Funds
- \*5204 Timber Salvage Sales
- \*5206 Expenses, Brush Disposal
- 5207 Range Betterment Fund
- 5208 Acquisition of Lands for National Forests, Special Acts
- 5212 Construction of Facilities or Land Acquisition
- \*5213 Payments to Minnesota (Cook, Lake and St. Louis Counties), National Forest Funds
- \*5214 Licensee Program
- \*5215 Restoration of Forest Lands and Improvements
- 5216 Acquisition of Lands to Complete Land Exchanges (Funds EXSL and EXSC)
- 5217 Tongass Timber Supply Fund
- \*5219 Operation and Maintenance of Quarters
- \*5220 Resource Management Timber Receipts
- \*5223 Quinalt Special Management Area
- \*5264 Timber Sales Pipeline Restoration Fund
- \*5268 Recreation Fee Demonstration Program
- \*5277 MNP Rental Fee Account
- \*5278 Midewin National Tallgrass Prairie Restoration Fund
- \*5360 Land Between the Lakes Management Fund
- \*5361 Administration of Rights-of-Way and Other Land Uses Fund
- \*5363 Valles Caldera Fund
- 5367 State, Private and International Forestry Land and Water Conservation Fund
- \*5462 Hardwood Technology Transfer and Applied Research Fund
- \*5540 Stewardship Contracting Product Sales, Funds Retained
- \*5896 Payments to Counties, National Grasslands
- \*8028 Cooperative Work, Forest Service
- 8029 Mount Saint Helens Highway
- 8034 Gifts, Donations, and Bequests for Forest and Rangeland Research
- 8039 Land Between the Lakes Trust Fund
- 8046 Reforestation Trust Fund
- \*8203 Gifts and Bequests, Department of Agriculture



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Financial information for all earmarked funds is included. Significant funds are specifically identified as shown below:

**Earmarked Funds**

As of and for the year ended September 30, 2012

(in millions)

	Cooperative Work *	Payments to States National Forests Fund*	Payments to Counties, National Grasslands*	Restoration of Forest Lands and Improvements*	State, Private, & International Forestry Land & Water Conservation Fund*	Other Funds	Total
<b>ASSETS</b>							
Fund Balance with Treasury	\$ 213	\$ 186	\$ 138	\$ 135	\$ 131	\$ 343	\$ 1,146
Accounts Receivable, Net	2	-	-	2	-	12	16
Advances To Others	-	1	-	-	-	-	1
General Property, Plant & Equipment, Net	17	2	-	-	-	109	128
<b>TOTAL ASSETS</b>	<b>\$ 232</b>	<b>\$ 189</b>	<b>\$ 138</b>	<b>\$ 137</b>	<b>\$ 131</b>	<b>\$ 464</b>	<b>\$ 1,291</b>
<b>LIABILITIES</b>							
Accounts Payable	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 3	\$ 4
Other Liabilities	84	318	-	1	31	50	484
<b>TOTAL LIABILITIES</b>	<b>85</b>	<b>318</b>	<b>-</b>	<b>1</b>	<b>31</b>	<b>53</b>	<b>488</b>
Total Net Position	147	(129)	138	136	100	411	803
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 232</b>	<b>\$ 189</b>	<b>\$ 138</b>	<b>\$ 137</b>	<b>\$ 131</b>	<b>\$ 464</b>	<b>\$ 1,291</b>
<b>CHANGE IN NET POSITION</b>							
Beginning Balances, as adjusted	\$ 313	\$ (123)	\$ 62	\$ 170	\$ 94	\$ 486	\$ 1,002
<b>Budgetary Financing Sources:</b>							
Donations and Forfeitures of Cash	-	-	-	-	-	1	1
Transfers -in/out without Reimbursement	(160)	-	-	(80)	53	(32)	(219)
<b>Other Financing Sources:</b>							
Transfers-in/out without Reimbursement	-	-	-	-	-	(18)	(18)
Other	-	-	77	-	-	(1)	76
<b>Total Financing Sources</b>	<b>(160)</b>	<b>-</b>	<b>77</b>	<b>(80)</b>	<b>53</b>	<b>(50)</b>	<b>(160)</b>
Revenue	92	107	(1)	64	-	248	510
Expenses	(98)	(113)	-	(18)	(47)	(273)	(549)
Net Cost of Operations	(6)	(6)	(1)	46	(47)	(25)	(39)
<b>END NG BALANCES</b>	<b>\$ 147</b>	<b>\$ (129)</b>	<b>\$ 138</b>	<b>\$ 136</b>	<b>\$ 100</b>	<b>\$ 411</b>	<b>\$ 803</b>

\* Treasury symbols with total asset values greater than or equal to \$100M are reported individually.

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**Earmarked Funds**

**As of and for the year ended September 30, 2011**

**(in millions)**

	Cooperative Work*	Payments to States National Forests Fund*	Restoration of Forest Lands and Improvements*	State, Private, & International Forestry Land & Water Conservation Fund*	Other Funds	Total
<b>ASSETS</b>						
Fund Balance with Treasury	\$ 376	\$ 206	\$ 170	\$ 123	\$ 487	\$ 1,362
Accounts Receivable, Net	2	-	2	-	13	17
Advances To Others	-	1	-	-	-	1
General Property, Plant & Equipment, Net	16	3	-	-	99	118
<b>TOTAL ASSETS</b>	<b>\$ 394</b>	<b>\$ 210</b>	<b>\$ 172</b>	<b>\$ 123</b>	<b>\$ 599</b>	<b>\$ 1,498</b>
<b>LIABILITIES</b>						
Accounts Payable	\$ 1	\$ 1	\$ -	\$ -	\$ 2	\$ 4
Other Liabilities	80	332	2	29	49	492
<b>TOTAL LIABILITIES</b>	<b>81</b>	<b>333</b>	<b>2</b>	<b>29</b>	<b>51</b>	<b>496</b>
Total Net Position	313	(123)	170	94	548	1,002
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 394</b>	<b>\$ 210</b>	<b>\$ 172</b>	<b>\$ 123</b>	<b>\$ 599</b>	<b>\$ 1,498</b>
<b>CHANGE IN NET POSITION</b>						
Beginning Balances, as adjusted	\$ 326	\$ (191)	\$ 170	\$ 83	\$ 545	\$ 933
<b>Budgetary Financing Sources:</b>						
Donations and Forfeitures of Cash	-	-	-	-	1	1
Transfers -in/out without Reimbursement	-	-	-	53	63	116
<b>Other Financing Sources:</b>						
Transfers-in/out without Reimbursement	-	-	-	-	(68)	(68)
Other	-	-	-	-	66	66
<b>Total Financing Sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53</b>	<b>62</b>	<b>115</b>
Revenue	88	116	19	-	212	435
Expenses	(101)	(48)	(19)	(42)	(271)	(481)
Net Cost of Operations	(13)	68	-	(42)	(59)	(46)
<b>ENDING BALANCES</b>	<b>\$ 313</b>	<b>\$ (123)</b>	<b>\$ 170</b>	<b>\$ 94</b>	<b>\$ 548</b>	<b>\$ 1,002</b>

\* Treasury symbols with total asset values greater than or equal to \$100M are reported individually.

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Descriptions of the significant earmarked funds are as follows:

**Cooperative Work**

Cooperative contributions are deposited into Treasury account 12X8028 for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Cooperative Funds Act of June 30, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

**Payments to States, National Forests Fund**

The Act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as "Payments to States", requires with a few exceptions, that 25 percent of all monies received from the national forests and deposited into the National Forest Fund (Treasury Symbol 125008) during a fiscal year from timber, grazing, special-use permits, power and mineral leases, and admission and user fees be paid to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated.

**Payments to Counties, National Grasslands**

Credit receipts from Title III, Bankhead-Jones Farm Tenant Act lands designated as either national grasslands or land utilization projects to a special account (sec.60.1, para.3). When the status of such lands is changed to that of a national forest, credit such receipts to the National Forest Fund (125008). At the end of each calendar year, 25 percent of the net revenues from each national grassland or land utilization project are paid to the counties in which such lands are located. The Albuquerque Service Center, Budget and Finance, processes these payments (sec.60.1, para.3). These payments are not payments in lieu of taxes (PILT); instead, they are national grassland or land utilization project receipts to be shared through grants with local governments for the purposes stated in the Act.

**Restoration of Forest Lands and Improvements**

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579c) states any monies received by the United States with respect to lands under the administration of the Forest Service (a) as a result of the forfeiture of a bond or deposit by a permittee or timber purchaser for failure to complete performance of improvement, protection, or rehabilitation work required under the permit or timber sale contract or (b) as a result of a judgment, compromise, or settlement of any claim, involving present or potential damage to lands or improvements, shall be deposited into the Restoration of Forest Lands and Improvements Account – 12X5215 and made available until expended to cover the cost of any improvement, protection, or rehabilitation work on lands under the administration of the Forest Service rendered necessary by the action which led to the forfeiture, judgment, compromise, or settlement, provided that any portion of the monies so received in excess of the amount expended in performing the work necessitated by the action which led to their receipt shall be transferred to miscellaneous receipts.

**State, Private, and International Forestry, Land and Water Conservation Fund**

The Fiscal Year 2004 Department of Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from Department of Interior's Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation, 12X1105. To accommodate the new financing arrangement and at OMB's request, the Department of Treasury established a new special fund, 12X5367, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase but no real property will be procured or constructed.

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**NOTE 12: SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT**

The Forest Service reflects costs through four primary responsibility segments: National Forests and Grasslands, Forest and Rangeland Research, State and Private Forestry, and Wildland Fire Management. National Forests and Grasslands is a principle contributor to accomplishing Forest Service Strategic Goals 2, 4, and 5; Forest and Rangeland Research is a principle contributor to accomplishing Goal 7; State and Private Forestry is a principle contributor to accomplishing Goals 3 and 6; and Wildland Fire Management is a principle contributor to accomplishing Goal 1.

The following tables illustrate program costs by segment for the years ended September 30, 2012 and 2011.

**Program Costs by Segment  
For the year ended September 30, 2012  
(in millions)**

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	\$ 350	\$ 42	\$ 15	\$ 240	\$ 647
Imputed Costs	372	-	-	-	372
Reimbursable Costs	175	23	13	180	391
Total Intragovernmental Gross Costs	897	65	28	420	1,410
Less: Intragovernmental Earned Revenue	47	19	56	10	132
Intragovernmental Net Costs	850	46	(28)	410	1,278
Gross Costs With the Public:					
Grants and Indemnities	368	6	231	90	695
Stewardship Land Acquisition (Note 13)	51	-	-	-	51
Other:					
Operating Costs	1,798	246	97	2,105	4,246
Depreciation Expense	117	2	-	27	146
Reimbursable Costs	146	23	32	191	392
Total Other	2,061	271	129	2,323	4,784
Total Gross Costs with the Public	2,480	277	360	2,413	5,530
Less: Earned Revenues from the Public	559	4	-	144	707
Net Costs with the Public	1,921	273	360	2,269	4,823
<b>Net Cost of Operations</b>	<b>\$ 2,771</b>	<b>\$ 319</b>	<b>\$ 332</b>	<b>\$ 2,679</b>	<b>\$ 6,101</b>

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**Program Costs by Segment  
For the year ended September 30, 2011  
(in millions)**

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	\$ 345	\$ 43	\$ 15	\$ 240	\$ 643
Imputed Costs	425	-	-	-	425
Reimbursable Costs	146	19	13	194	372
Total Intragovernmental Gross Costs	916	62	28	434	1,440
Less: Intragovernmental Earned Revenue	53	19	42	9	123
Intragovernmental Net Costs	863	43	(14)	425	1,317
Gross Costs With the Public:					
Grants and Indemnities	381	10	233	162	786
Stewardship Land Acquisition (Note 13)	44	-	-	-	44
Other:					
Operating Costs	1,988	255	104	1,929	4,276
Depreciation Expense	119	2	-	24	145
Reimbursable Costs	155	21	25	268	469
Total Other	2,262	278	129	2,221	4,890
Total Gross Costs with the Public	2,687	288	362	2,383	5,720
Less: Earned Revenues from the Public	503	4	-	203	710
Net Costs with the Public	2,184	284	362	2,180	5,010
<b>Net Cost of Operations</b>	<b>\$ 3,047</b>	<b>\$ 327</b>	<b>\$ 348</b>	<b>\$ 2,605</b>	<b>\$ 6,327</b>

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**NOTE 13: COST OF STEWARDSHIP PP&E**

Stewardship PP&E acquired in FYs 2012 and 2011 amounted to \$51 and \$44 million, respectively. Cost of Stewardship PP&E includes purchases of lands, easements, and rights-of-way. Stewardship land is land and land rights owned by the Federal Government and are excluded from General PP&E. Examples of stewardship land includes land used for forests, grazing, and wildlife.

Costs for stewardship land include all costs to acquire and prepare the land for its intended use. The acquired land was adjacent to existing forest/grassland sites, thus the number of sites reported in Note 5 remains unchanged.

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**NOTE 14: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

The Office of Management and Budget (OMB) usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories by a process called apportionments. Apportionments by fiscal quarters are classified as category A and all other apportionments are classified as category B. The funds on quarterly apportionment are National Forest System (12X1106) and Wildland Fire Management (12X1115). Presented below are the amounts of direct and reimbursable obligations incurred by apportionment category for FY 2012 and 2011.

**For the year ended September 30, 2012  
(in millions)**

	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Total</b>
Obligations Incurred - Direct	\$ 4,233	\$ 1,914	\$ 6,147
Obligations Incurred - Reimbursable	175	376	551
<b>Total Obligations Incurred</b>	<b>\$ 4,408</b>	<b>\$ 2,290</b>	<b>\$ 6,698</b>

**For the year ended September 30, 2011  
(in millions)**

	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Total</b>
Obligations Incurred - Direct	\$ 4,014	\$ 2,050	\$ 6,064
Obligations Incurred - Reimbursable	260	354	614
<b>Total Obligations Incurred</b>	<b>\$ 4,274</b>	<b>\$ 2,404</b>	<b>\$ 6,678</b>



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**NOTE 15: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT**

The differences between the FY 2011 Statement of Budgetary Resources (SBR) and the FY 2011 actual numbers presented in the FY 2013 Budget of the United States Government (Budget) are summarized in the table below. The President's Budget with actual numbers for 2012 has not yet been published, and is expected to be published in February of 2013, and to be made available at <http://www.whitehouse.gov>. OMB Circular A-136 states that the note 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." The Department's threshold for explaining material variances is \$25 million and 10%. No variances meet this threshold.

SBR Line Description	(in millions)			
	SBR Amount	Budget Amount	Dollar Variance	Percentage Variance
Total Budgetary Resources/Status of Resources	8,585	8,562	23	0%
Total Status of Resources	8,585	8,562	23	0%
Unobligated Balance-Beginning of Year	2,359	2,354	5	0%
Recoveries of Prior Year Obligations	94	78	16	21%
New Budget Authority - Appropriations	5,824	5,824	-	0%
Spending Authority from Offsetting Collections	720	719	1	0%
Non Expenditure Transfers	(2)	(2)	-	0%
Permanently not Available	(410)	(411)	1	
Total New Obligations	6,678	6,667	11	0%
Unobligated Balance & Unobligated Balance not Available	1,907	1,895	12	1%
Obligated Balance - Beginning of Year	2,762	2,760	2	0%
Obligated Balance - End of Year	2,286	2,289	(3)	0%
Gross Outlays	6,885	6,883	2	0%
Less: Offsetting Collections	(545)	(544)	(1)	0%
Less: Distributed Offsetting Receipts	(467)	(467)	-	0%
Net Outlays	5,873	6,339	(466)	-7%

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**NOTE 16: UNDELIVERED ORDERS AT THE END OF THE PERIOD**

Unpaid obligations and undelivered orders as of September 30, 2012 and 2011 were as follows:

	(in millions)	
	<u>2012</u>	<u>2011</u>
<b>Unpaid Obligations</b>	\$ 2,557	\$ 2,771
<b>Undelivered Orders</b>	\$ 1,559	\$ 1,860

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**NOTE 17: SEIZED PROPERTY**

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property may consist of monetary instruments, real property, tangible personal property and evidence. Until judicially or administratively forfeited, the Forest Service does not legally own such property. Seized evidence includes cash, weapons, illegal drugs and non-monetary valuables.

Pursuant to Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property* (Release No. 4), property that is seized but not forfeited (e.g., weapons, chemicals, drug paraphernalia, gambling devices) is not included on the balance sheet.

The Forest Service has custody of illegal drugs and weapons seized as evidence for legal proceedings. Illegal drugs and weapons have no saleable value to the Federal Government and are destroyed upon resolution of legal proceedings. Marijuana represents the most significant seized drug for the Forest Service. As of September 30, 2012 and 2011, the amount of marijuana on hand was 31,807 (kg) and 28,205 (kg), respectively. Since the amount of seized property is deemed to be immaterial, a schedule of brought forward balances, additions, deletions and adjustments is not presented.

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**NOTE 18: RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)**

	(in millions)	
	2012	2011
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 6,698	\$ 6,678
Less: Spending Authority from Offsetting Collections and Recoveries	889	814
Obligations Net of Offsetting Collections and Recoveries	5,809	5,864
Less: Offsetting Receipts	530	467
Net Obligations	5,279	5,397
Other Resources:		
Imputed Financing from Costs Absorbed by Others	372	425
Other	59	(2)
Net Other Resources Used to Finance Activities	431	423
<b>Total resources used to finance activities</b>	<b>5,710</b>	<b>5,820</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But not Yet Provided	297	380
Resources that Fund Expenses Recognized in Prior Periods	(4)	(20)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Change in Unfilled Orders	23	89
Other	-	(1)
Resources that Finance the Acquisition of Assets	(133)	(184)
Other Resources or Adjustments to Net Obligated Resources that do not Affect the Net Cost of Operations	15	66
Total Resources Used to Finance Items not Part of the Net Cost of Operations	198	330
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>5,908</b>	<b>6,150</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Environmental and Disposal Liability	1	-
Increase in Exchange Revenue Receivable from the Public	(2)	(7)
Other	37	-
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	36	(7)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	146	145
Revaluation of Assets or Liabilities	2	34
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	13	6
Other	(4)	(1)
Total Components of Net Cost of Operations that will not Require or Generate Resources	157	184
<b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b>	<b>193</b>	<b>177</b>
<b>Net Cost of Operations</b>	<b>\$ 6,101</b>	<b>\$ 6,327</b>

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This note is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. This reconciliation first identifies total resources used by an entity during the period (budgetary and other) and then makes adjustments to the resources based upon how they were used to finance net obligations or cost. The budgetary information used to calculate net obligations (the first four lines) must be presented on a combined basis to enable a direct tie to the Statement of Budgetary Resources. The reconciliation then explains the difference between the budgetary net obligations and the proprietary net cost of operations by setting forth the items that reconcile the two amounts. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by non-budgetary resources; (2) the budgetary and non-budgetary resources used by an agency may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the period.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

The stewardship objective of Federal financial reporting includes accountability for Stewardship Investments.

**RESEARCH AND DEVELOPMENT—FOREST AND RANGELAND RESEARCH**

Fiscal year (FY) 2012 Net Cost of Operations: \$319 million. Of the \$319 million—

\$291 million was an investment of Research and Development (R&D) funding, and  
\$28 million was an investment of National Fire Plan funding and Joint Fire Science Program funding.

Forest Service R&D has an integrated portfolio that supports achievement of the agency's strategic goals. The Forest Service R&D structure has two components: Priority Research Areas and Strategic Program Areas (SPAs).

The Priority Research Areas address urgent needs in seven areas: Forest Disturbances, Forest Inventory and Analysis, Watershed Management and Restoration, Bioenergy and Biobased Products, Urban Natural Resources Stewardship, Nanotechnology, and Localized Needs Research.

The SPAs are the long-term programs from which Priority Research Areas are funded. The following are the SPAs.

***Wildland Fire and Fuels***

Wildland Fire and Fuels R&D provides managers with the knowledge and tools to reduce negative impacts, while enhancing the beneficial effects of wildland fire, as a natural process. This knowledge and these tools are critical to understanding the human process of fire and fuels management on society and the environment.

Research focuses on understanding and modeling fundamental fire processes; interactions of fire with ecosystems; and the environmental, social, and economic aspects of fire, as well as evaluating the integrated management strategies and disturbance interactions at multiple scales and the application of fire research to address management problems.

***Invasive Species***

Invasive Species R&D provides the scientific information, methods, and technology to reduce or eliminate the introduction, spread, and impact of invasive species and to restore or improve the functionality of ecosystems affected by invasives species.

Research focuses on nonnative plants, animals, fish, insects, diseases, invertebrates, and other species whose introduction is likely to cause economic or environmental harm to an ecosystem.

## **REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

### ***Water, Air, and Soil***

Water, Air, and Soil R&D enables the sustainable management of these essential resources by providing clear air and safe drinking water, by protecting lives and property from wildlife fire and smoke, and through adapting to climate variability and change.

The program features ecosystem services with a high level of integration between water, air, and soil research, such as the effects of climate variability and change on water budgets or carbon sequestration metrics from an ecosystem perspective.

### ***Wildlife and Fish***

Wildlife and Fish R&D relies upon interdisciplinary research to inform policy initiatives affecting wildlife and fish habitat on private and public lands and the recovery of threatened or endangered species.

Scientists investigate the complex interactions among species, ecosystem dynamics and processes, land use and management, and any emerging broadscale threats, including global climate change, loss of open space, invasive species, and disease.



### ***Resource Management and Use***

Resource Management and Use R&D provides the scientific and technology base to sustainably manage and use forest resources and forest fiber-based products.

Research focuses on the plant sciences, soil sciences, social sciences, silviculture, productivity, forest and range ecology management, harvesting and operations, forest and biomass products and utilization, economics, urban forestry, and climate change.

### ***Outdoor Recreation***

Outdoor Recreation R&D promotes human and ecological sustainability by researching environmental management, activities, and experiences that connect people with the natural world.

Research in outdoor recreation is interdisciplinary, focusing on nature-based recreation and the changing trends in American society; connections between recreation visitors, communities, and the environment; human benefits and consequences of recreation and nature contact; the effectiveness of recreation management and decisionmaking; and sustaining ecosystems affected by recreational use.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION—UNAUDITED  
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***Inventory and Monitoring***

Inventory and Monitoring R&D provides the resource data, analysis, and tools needed to monitor vulnerable forest ecosystems to rapid change due to threats from fire, insects, disease, natural processes, or management actions. From their research, scientists determine the status and trend of the health of the Nation's forests and grasslands and the potential impact from climate change.

Their research integrates the development and use of science, technology, and remotely sensed data to better understand the incidences of forest fragmentation over time from changes in land use or from insects, disease, fire, and extreme weather events.

***Research Categories***

Each of the seven SPAs has stewardship investments in the following three categories: basic research, applied research, and development.

Basic research is the systematic study directed toward new or improved knowledge and understanding. Applied research is the systematic study intended to gain knowledge or understanding necessary to meet a specific need. Development is the systematic application of knowledge or understanding, directed toward the production of useful materials, devices, systems, or methods. The following exhibit reports net cost of R&D operations by these categories and by the FY 2012 stewardship investment.

<b>R&amp;D Stewardship Investments</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net Cost of Operations (in millions)	<b>\$319</b>	<b>\$327</b>	<b>\$338</b>	<b>\$323</b>	<b>\$304</b>
Basic Research	80	91	94	87	82
Applied Research	207	220	227	220	207
Development	32	16	17	16	15
New interagency agreements and contracts	32	32	38	57	40
Continued interagency agreements and contracts	12	12	12	12	12
Articles published in journals	3,049	3,083	1,790	2,294	1,903
Articles published in all other publications	650	1,178	1,481	886	1,487
Patent(s) granted	8	3	2	3	6



**REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED  
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**REQUIRED SUPPLEMENTARY INFORMATION**

**DEFERRED MAINTENANCE AND REPAIRS**

Deferred maintenance is maintenance that was scheduled to be performed, but was delayed until a future period. 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.

Maintenance is defined to include 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 otherwise upgrading it to service needs different from, or significantly greater than, those originally intended.

Deferred maintenance is reported for general Property, Plant, and Equipment (PP&E); heritage assets; and stewardship assets. It is also reported separately for critical and noncritical amounts of maintenance needed to return each class of assets to its acceptable operating condition.

*Critical maintenance* is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization.

*Noncritical maintenance* is defined as a potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations) and potential adverse consequences to natural resources or mission accomplishment.

The Forest Service uses condition surveys to estimate deferred maintenance on all major classes of its PP&E. Over the past decade, the Forest Service has implemented a national effort to collect detailed data on infrastructure condition and maintenance and improvement needs. No deferred maintenance exists for fleet vehicles as they are managed through the agency's working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

The agency is committed to sustaining a manageable level of infrastructure—disinvesting in infrastructure that can no longer be managed to appropriate standards, rightsizing its asset portfolio, and eliminating the substantial backlog of deferred maintenance.

***Estimated Deferred Maintenance and Repairs***

Deferred maintenance estimates for most assets—except bridges—are based on condition surveys performed on a 5-year maximum revolving schedule. The bridge class is on a 2-year maximum revolving schedule. To date, surveys of all administrative buildings, dams, bridges, roads open to passenger cars, and recreation sites have been accomplished. The agency's deferred maintenance for National Forest System (NFS) roads is determined annually from random sample surveys, providing an 80-percent level of confidence.

**REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED  
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The dollar amounts in Exhibit 1, Deferred Maintenance Totals by Asset Class, include:

- A Forest Service standard factor that includes design, contracting, and overhead costs
- A remoteness factor that includes the estimated travel time to the asset
- A heritage factor

**Exhibit 1: Deferred Maintenance and Repairs Totals by Asset Class as of September 30, 2012 (in millions)**

Asset Class	Overall Condition	Critical Maintenance	Noncritical Maintenance	Cost To Return to Acceptable Condition
Bridge	Varies	\$35	\$155	\$190
Building	Varies	84	1,090	1,174
Dam	Varies	8	14	22
Fence	Varies	268	0	268
Handling Facility	Varies	22	0	22
Heritage	Varies	3	17	20
Minor Constructed Features	Varies	0	103	103
Roads <sup>1</sup>	Varies	376	3,385	3,761
Trail	Varies	6	308	314
Trail Bridge	Varies	3	6	9
Wastewater System	Varies	16	17	33
Water System	Varies	56	46	102
Wildlife, Fish, and TES	Varies	5	2	7
<b>Grand Total</b>		<b>\$882</b>	<b>\$5,143</b>	<b>\$6,025</b>

The overall condition of major asset classes range from poor to good depending on the location, age, and type of property. The standards for acceptable operating condition for various classes of general PP&E, stewardship, and heritage assets are as follows.

Conditions of roads and bridges within the NFS road system are measured by various standards:

1. Federal Highway Administration regulations for the Federal Highway Safety Act.
2. Best management practices for the nonpoint source provisions of the Clean Water Act from U.S. Environmental Protection Agency and States.
3. Road management objectives developed through the National Forest Management Act forest planning process.
4. Forest Service directives—Forest Service Manual (FSM) 7730, Operation and Maintenance (August 25, 2005, amendment was superseded with October 1, 2008, revision); Forest Service Handbook (FSH) 7709.56a, Road Preconstruction, and FSH 7709.56b, Transportation Structures Handbook.

Dams shall be managed according to FSM 7500, Water Storage and Transmission, and FSH 7509.11, Dams Management Handbook. The condition of a dam is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public.

<sup>1</sup> Deferred maintenance amount for Roads is for passenger-car roads (maintenance levels 3-5) only.

## **REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

For dams to be rated in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

Buildings shall comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. These requirements are found in FSM 7310, Buildings and Related Facilities, revised November 19, 2004. The condition of administrative facilities ranges from poor to good, with approximately 35 percent needing major repairs or renovations, approximately 14 percent in fair condition, and 51 percent of the facilities in good condition.

The agency is currently developing an integrated strategy to realign its administrative facility infrastructure to meet current organizational structure and to reduce the maintenance liability for unneeded buildings, free up land for use by local communities and private enterprise, and provide added funds for infrastructure maintenance and development. Forest Service anticipates maximum benefits from a combination of appropriations, facility conveyance receipts, and decommissioning of unneeded facilities.

Recreation facilities include developed recreation sites, general forest areas, campgrounds, trailheads, trails, water and wastewater systems, interpretive facilities, and visitor centers. These components are included in several asset classes of the deferred maintenance exhibit. Developed sites are managed in accordance with Federal laws and regulations (Code of Federal Regulations (CFR) 36).



Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and forest- and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

The condition assessment for range structures (fences and stock handling facilities) is based on (1) a determination by knowledgeable range specialists or other district personnel of whether the structure would perform the originally intended function and (2) a determination through the use of a protocol system to assess conditions based on age. A long-standing range methodology is used to gather this data.

Heritage assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function in the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

Trails and trail bridges are managed according to Federal law and regulations (CFR 36). More specific direction is contained in FSM 2350, Trail, River, and Similar Recreation Opportunities, and the FSH 2309.18, Trails Management Handbook.

## **REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

Deferred maintenance of structures for wildlife, fish, and threatened and endangered species is determined by field biologists using their professional judgment. The deferred maintenance is considered critical if resource damage or species endangerment would likely occur if maintenance were deferred much longer.

### **CONDITION OF HERITAGE ASSETS AND STEWARDSHIP LANDS**

#### ***Heritage Assets***

Heritage professionals are responsible for documenting and maintaining cultural resource condition assessments to standard. Periodic monitoring and condition assessments are the basis for applying protective measures and treatments to vulnerable, deteriorating, or threatened cultural resources. The condition of heritage assets depends on the type of asset and varies from poor to fair.

#### ***Stewardship Land***

The condition of NFS lands varies by purpose and location. The Forest Service monitors the condition of its stewardship lands based on information compiled by two national inventory and monitoring programs—Forest Inventory and Analysis and Forest Health Monitoring.

Although most of the estimated 193 million acres of stewardship lands continue to produce valuable benefits—clean air and water, habitat for wildlife, and products for human use—significant portions are at risk to pest outbreaks or catastrophic fires.

There are 25 million acres of NFS lands at risk to future mortality from insects and diseases, based on the publication of Mapping Risk From Forest Insects and Diseases. Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation.

The FY 2012 year-to-date<sup>2</sup> accomplishments on NFS and State and Private Forestry lands include treatment of 925,475 acres for invasives and 282,071 acres for native pests. These numbers should be considered preliminary, with final amounts of acres treated for invasives and native pests on NFS lands available in February 2013 at <http://www.fs.fed.us>.

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<sup>2</sup> Actual accomplishments for FY 2012 will be published in the FY 2014 Budget Justification in February 2013 at <http://www.fs.fed.us>.

# REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED

## FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

### Combined Statement of Budgetary Resources by Major Budget Account For the year ended September 30, 2012 (in millions)

	National Forest and Grasslands	Forest and Rangeland Research	State and Private Forestry	Capital Improvemen and Maintenance	Wildland Fire Management	Permanent and Trust Funds	Working Capital Fund	Total
<b>Budgetary Resources:</b>								
Unobligated Balance Brought Forward, October 1	\$ 207	\$ 42	\$ 91	\$ 102	\$ 377	\$ 955	\$ 133	\$ 1,907
Unobligated Balance Brought Forward, October 1, as Adjusted	207	42	91	102	377	955	133	1,907
Recoveries of Prior Year Unpaid Obligations	7	2	7	11	100	3	1	131
Other Changes in Unobligated Balance (+ or -)	-	-	(2)	-	175	(175)	-	(2)
Unobligated Balance from Prior Year Budget Authority, net	214	44	96	113	652	783	134	2,036
Appropriations (Discretionary)	1,588	321	334	353	2,023	677	-	5,296
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	57	21	78	28	300	29	245	758
<b>Total Budgetary Resources</b>	<b>\$ 1,859</b>	<b>\$ 386</b>	<b>\$ 508</b>	<b>\$ 494</b>	<b>\$ 2,975</b>	<b>\$ 1,489</b>	<b>\$ 379</b>	<b>\$ 8,090</b>
<b>Status of Budgetary Resources:</b>								
Obligations Incurred	\$ 1,679	\$ 342	\$ 404	\$ 432	\$ 2,793	\$ 812	\$ 236	\$ 6,698
Unobligated Balance, End of Year:								
Apportioned (Note 2)	160	34	96	55	115	309	31	800
Unapportioned (Note 2)	20	10	8	7	67	368	112	592
Total Unobligated Balance, End of Year	180	44	104	62	182	677	143	1,392
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,859</b>	<b>\$ 386</b>	<b>\$ 508</b>	<b>\$ 494</b>	<b>\$ 2,975</b>	<b>\$ 1,489</b>	<b>\$ 379</b>	<b>\$ 8,090</b>
<b>Change in Obligated Balance:</b>								
Unpaid Obligations, Brought Forward, October 1 (Gross)	\$ 467	\$ 157	\$ 610	\$ 383	\$ 984	\$ 124	\$ 46	\$ 2,771
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 (-)	(102)	(40)	(52)	(61)	(229)	-	(1)	(485)
Obligated Balance, Start of the Year (net), Before Adjustments (+ or -)	365	117	558	322	755	124	45	2,286
Obligated Balance, Start of Year (net), as Adjusted	365	117	558	322	755	124	45	2,286
Obligations Incurred	1,679	342	404	432	2,793	812	236	6,698
Outlays (Gross) (-)	(1,731)	(354)	(395)	(589)	(2,661)	(815)	(236)	(6,781)
Change in Uncollected Customer Payments from Federal Sources (+ or -)	10	(1)	(19)	(2)	(33)	-	(1)	(46)
Recoveries of Prior Year Unpaid Obligations (-) Obligated Balance, End of Year	(7)	(2)	(7)	(11)	(100)	(3)	(1)	(131)
Unpaid Obligations, End of Year (Gross)	408	143	612	215	1,016	118	45	2,557
Uncollected Customer Payments from Federal Sources, End of Year	(92)	(41)	(71)	(63)	(262)	-	(2)	(531)
Obligated Balance, End of Year (net)	\$ 316	\$ 102	\$ 541	\$ 152	\$ 754	\$ 118	\$ 43	\$ 2,026
<b>Budget Authority and Outlays, Net:</b>								
Budget Authority, Gross (Discretionary and Mandatory)	\$ 1,645	\$ 342	\$ 412	\$ 381	\$ 2,323	\$ 706	\$ 245	\$ 6,054
Actual Offsetting Collections (Discretionary and Mandatory)	(67)	(19)	(60)	(26)	(268)	(29)	(243)	(712)
Change in Uncollected Customer Payments from Federal sources (Discretionary and Mandatory) (+ or -)	10	(1)	(19)	(2)	(33)	-	(1)	(46)
Budget Authority, net (Discretionary and Mandatory)	\$ 1,588	\$ 322	\$ 333	\$ 353	\$ 2,022	\$ 677	\$ 1	\$ 5,296
Outlays, Gross (Discretionary and Mandatory)	\$ 1,731	\$ 354	\$ 395	\$ 589	\$ 2,661	\$ 815	\$ 236	\$ 6,781
Actual Offsetting Collections (Discretionary and Mandatory)	(67)	(19)	(60)	(26)	(268)	(29)	(243)	(712)
Outlays, net (Discretionary and Mandatory)	1,664	335	335	563	2,393	786	(7)	6,069
Distributed Offsetting Receipts (-)	(31)	-	-	-	-	(499)	-	(530)
Agency Outlays, net (Discretionary and Mandatory)	\$ 1,633	\$ 335	\$ 335	\$ 563	\$ 2,393	\$ 287	\$ (7)	\$ 5,539

# REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED

## FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

### Combined Statement of Budgetary Resources by Major Budget Account For the year ended September 30, 2011 (in millions)

	National Forest and Grasslands	Forest and Rangeland	State and Private Forestry	Capital Improvemen and Maintenance	Wildland Fire Management	Permanent and Trust Funds	Working Capital Fund	Total
<b>Budgetary Resources:</b>								
Unobligated Balance Brought Forward, October 1	\$ 221	\$ 47	\$ 65	\$ 106	\$ 862	\$ 934	\$ 124	\$ 2,359
Unobligated Balance Brought Forward, October 1, as Adjusted	221	47	65	106	862	934	124	2,359
Recoveries of Prior Year Unpaid Obligations	7	1	9	13	59	3	2	94
Unobligated Balance from Prior Year Budget Authority, net	228	48	74	119	921	937	126	2,453
Appropriations (Discretionary and Mandatory)	1,610	333	383	472	1,914	700	-	5,412
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	52	25	87	38	207	61	250	720
<b>Total Budgetary Resources</b>	<b>\$ 1,890</b>	<b>\$ 406</b>	<b>\$ 544</b>	<b>\$ 629</b>	<b>\$ 3,042</b>	<b>\$ 1,698</b>	<b>\$ 376</b>	<b>\$ 8,585</b>
<b>Status of Budgetary Resources:</b>								
Obligations Incurred	\$ 1,683	\$ 364	\$ 453	\$ 527	\$ 2,665	\$ 743	\$ 243	\$ 6,678
Unobligated Balance, End of Year:								
Apportioned (Note 2)	161	34	81	96	135	592	95	1,194
Unapportioned (Note 2)	46	8	10	6	242	363	38	713
Total Unobligated Balance, End of Year	207	42	91	102	377	955	133	1,907
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,890</b>	<b>\$ 406</b>	<b>\$ 544</b>	<b>\$ 629</b>	<b>\$ 3,042</b>	<b>\$ 1,698</b>	<b>\$ 376</b>	<b>\$ 8,585</b>
<b>Change in Obligated Balance:</b>								
Unpaid Obligations, Brought Forward, October 1 (Gross)	\$ 469	\$ 147	\$ 567	\$ 728	\$ 999	\$ 119	\$ 43	\$ 3,072
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 (-)	(124)	(40)	(22)	(43)	(81)	-	-	(310)
Obligated Balance, Start of the Year (net), Before Adjustments (+ or -)	345	107	545	685	918	119	43	2,762
Obligated Balance, Start of Year (net), as Adjusted	345	107	545	685	918	119	43	2,762
Obligations Incurred	1,683	364	453	527	2,665	743	243	6,678
Outlays (Gross) (-)	(1,678)	(353)	(401)	(859)	(2,620)	(735)	(239)	(6,885)
Change in Uncollected Customer Payments from Federal Sources (+ or -)	22	-	(30)	(18)	(149)	-	-	(175)
Recoveries of Prior Year Unpaid Obligations (-) Obligated Balance, End of Year	(7)	(1)	(9)	(13)	(59)	(3)	(2)	(94)
Unpaid Obligations, End of Year (Gross)	467	157	610	383	984	124	46	2,771
Uncollected Customer Payments from Federal Sources, End of Year	(102)	(40)	(52)	(61)	(229)	-	(1)	(485)
Obligated Balance, End of Year (net)	\$ 365	\$ 117	\$ 558	\$ 322	\$ 755	\$ 124	\$ 45	\$ 2,286
<b>Budget Authority and Outlays, Net:</b>								
Budget Authority, Gross (Discretionary and Mandatory)	\$ 1,662	\$ 358	\$ 470	\$ 510	\$ 2,121	\$ 761	\$ 250	\$ 6,132
Actual Offsetting Collections (Discretionary and Mandatory)	(74)	(25)	(57)	(21)	(58)	(60)	(250)	(545)
Change in Uncollected Customer Payments from Federal sources (Discretionary and Mandatory) (+ or -)	22	-	(30)	(18)	(149)	-	-	(175)
<b>Budget Authority, net (Discretionary and Mandatory)</b>	<b>\$ 1,610</b>	<b>\$ 333</b>	<b>\$ 383</b>	<b>\$ 471</b>	<b>\$ 1,914</b>	<b>\$ 701</b>	<b>\$ -</b>	<b>\$ 5,412</b>
Outlays, Gross (Discretionary and Mandatory)	\$ 1,678	\$ 353	\$ 401	\$ 859	\$ 2,620	\$ 735	\$ 239	\$ 6,885
Actual Offsetting Collections (Discretionary and Mandatory)	(74)	(25)	(57)	(21)	(58)	(60)	(250)	(545)
Outlays, net (Discretionary and Mandatory)	1,604	328	344	838	2,562	675	(11)	6,340
Distributed Offsetting Receipts (-)	(86)	-	-	-	-	(381)	-	(467)
Agency Outlays, net (Discretionary and Mandatory)	\$ 1,518	\$ 328	\$ 344	\$ 838	\$ 2,562	\$ 294	\$ (11)	\$ 5,873

**OTHER ACCOMPANYING INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**OTHER ACCOMPANYING INFORMATION**

**SCHEDULE OF SPENDING**

The Schedule of Spending (SOS) presents an overview of how and where the Forest Service is spending money. The data used to populate this schedule are the same underlying data used to populate the Statement of Budgetary Resources (SBR). The following SOS presents total budgetary resources, gross outlays, and total obligations incurred for the year ending September 30, 2012. The SOS is new for fiscal year (FY) 2012, so comparative schedules will begin in FY 2013.

**U.S. Department of Agriculture  
Forest Service  
Schedule of Spending  
For the year ended September 30, 2012  
(in millions)**

	<u>2012</u>
	<u>Budgetary</u>
<b>What Money Is Available To Spend?</b>	
Total Resources	\$ 8,090
Less Amount Available But Not Agreed To Be Spent	800
Less Amount Not Available To Be Spent	592
<b>Total Amounts Agreed To Be Spent</b>	<b><u>\$ 6,698</u></b>
 <b>How Was The Money Spent?</b>	
Ensure Our National Forests And Private Working Lands Are Conserved, Restored, And Made More Resilient To Climate Change, While Enhancing Our Water Resources:	
10 - Personnel Compensation And Benefits	\$ 2,943
20- Contractual Services And Supplies	2,754
30- Acquisitions Of Assets	187
40 - Grants And Fixed Charges	654
90 - Other	243
Total Spending	<b><u>\$ 6,781</u></b>
 Unpaid Obligations, End Of Year (gross)	\$ 2,557
Unpaid Obligations, Brought Forward, October 1 (gross)	2,771
Recoveries Of Prior Year Unpaid Obligations	131
Amounts Remaining To Be Spent	\$ (83)
 <b>Total Amounts Agreed To Be Spent</b>	<b><u>\$ 6,698</u></b>

**OTHER ACCOMPANYING INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**MANAGEMENT CHALLENGES**

The Reports Consolidation Act of 2000 requires the U.S. Department of Agriculture (USDA) Office of Inspector General (OIG) to identify and report annually on the most serious management challenges the Department faces. The following table lists the Forest Service responses to address the management challenges identified in August 2012.

**Forest Service Management and Community Action Needed To Improve Forest Health and Reduce Firefighting Costs (USDA Management Challenge 6)**

**Forest Service Administration of Special Use Program—OIG Audit Report No. 08601-55-SF**

***Completed FY 2012 Accomplishments/Action(s)***

To improve the Special Use Program, the Forest Service developed a legislative proposal for the FY 2014 budget that would allow Forest Service to retain a portion of special use fees to fund administration of the Special Uses Program. The agency recommended a joint revision of cost recovery rates with the U.S. Department of the Interior's Bureau of Land Management (BLM), a process that must be published for notice and comment. Additionally, the Forest Service regions evaluated staffing, recommended program efficiencies, assessed the funding gap for special use administrative costs, and developed action plans for resolving deficiencies.

The Forest Service issued a letter to regional foresters regarding annual adjustment of the minimum use fees for inflation and proposed a revision to the Forest Service Manual to clarify that the regional foresters must maintain minimum fees annually by applying IPD-GDP<sup>1</sup> and conduct market surveys to review the basis of minimum fees at least every 10 years. The agency awarded a multiyear contract for market surveys to establish the basis for minimum fees.

***Planned FY 2013 Actions***

To improve administration of the Forest Service Special Use Program, the agency will continue to work with the Department on inclusion of fee retention in the FY 2014 budget and continue to pursue a joint update of cost recovery rates with BLM.

The agency will administer Phase 1 of the contract for a market survey to establish minimum fees and seek funds for Phase 2.

The agency will establish automatic indexing of minimum fees in conjunction with implementation of the market surveys. The Forest Service will establish data entry controls within the Special Uses Data System (SUDS) and issue guidance to notify regions of the need to verify and validate all SUDS data. The agency plans to implement these actions by September 2013.

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<sup>1</sup> IPD is the Implicit Price Deflator. GDP stands for gross domestic product, the total value of all final goods and services produced within that economy during a specified period.



**OTHER ACCOMPANYING INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**Evaluation of Forest Service Processes To Obtain and Grant Rights-of-Way and Easements—OIG Audit Report No. 08601-1-CH<sup>2</sup>**

***Completed FY 2012 Accomplishments/Action(s)***

In April 2012, the Forest Service released the Planning Rule, “National Forest System Land Management Planning,” Title 36, Code of Federal Regulations, Part 219. The planning rule describes the process to assess existing conditions including ecological, economic, social conditions, trends, and sustainability, which would include the potential extent of changing land use impacting the NFS.

***Planned FY 2013 Actions***

To enhance the methods by which Forest Service obtains and grants rights-of-ways and easements, the Forest Service will establish or re-establish specific goals, strategies, and timeframes for addressing the impacts of changing land use.

The Forest Service plans to clarify the process for analyzing and addressing the issues of whether (1) the negotiations with timber cooperators for a Forest Roads and Trails Act of 1969 (FRTA) easement amendment should be a public process, and (2) whether an Environmental Impact Statement needs to be completed under the National Environmental Policy Act before an easement amendment can be finalized.

The Forest Service will develop a standard road use agreement specifically for use with homeowners associations and implement the standard agreement whenever circumstances warrant. The Forest Service will also develop consistent guidelines for field staffs to follow regarding residential successors to FRTA easements. The agency plans to implement these actions by March 2013.

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<sup>2</sup> Note this report does not address OIG Audit Report No. 08601-44-SF, “Forest Service Large Fire Suppression Costs,” that closed in its entirety on March 22, 2011. The Forest Service requested OIG remove reference to this audit in its final report.

**OTHER ACCOMPANYING INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**NET COST OF OPERATIONS BY STRATEGIC GOAL**

The *USDA Forest Service Strategic Plan FY 2007–2012* has seven strategic goals:

- Goal 1: Restore, Sustain, and Enhance the Nation’s Forests and Grasslands
- Goal 2: Provide and Sustain Benefits to the American People
- Goal 3: Conserve Open Space
- Goal 4: Sustain and Enhance Outdoor Recreation Opportunities
- Goal 5: Maintain Basic Management Capabilities of the Forest Service
- Goal 6: Engage Urban America With Forest Service Programs
- Goal 7: Provide Science-Based Applications and Tools for Sustainable Natural Resources Management

The Forest Service Strategic Goals align to Strategic Goal 2 (of four) from the USDA 2010–2015 Strategic Plan.

USDA STRATEGIC GOAL	FOREST SERVICE STRATEGIC GOAL
<b>Goal 2:</b> Ensure our national forests and private working lands are conserved, restored, and made more resilient to climate change, while enhancing our water resources	<b>Goal 1:</b> Restore, Sustain, and Enhance the Nation’s Forests and Grasslands
	<b>Goal 2:</b> Provide and Sustain Benefits to the American People
	<b>Goal 3:</b> Conserve Open Space
	<b>Goal 4:</b> Sustain and Enhance Outdoor Recreation Opportunities
	<b>Goal 5:</b> Maintain Basic Management Capabilities of the Forest Service
	<b>Goal 6:</b> Engage Urban America With Forest Service Programs
	<b>Goal 7:</b> Provide Science-Based Applications and Tools for Sustainable Natural Resources Management

The following schedule aligning net costs to strategic goals is an estimate and is presented for informational purposes. Allocation of actual gross costs and earned revenue is based on applying a percentage of the enacted budget for each of the respective strategic goals to the total enacted budget.

# OTHER ACCOMPANYING INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

## U.S. Department of Agriculture Forest Service CONSOLIDATED STATEMENTS OF NET COST For the years ended September 30, 2012 and 2011 (in millions)

Strategic Goals:	2012	2011
1. Restore, Sustain, and Enhance the Nation's Forests and Grasslands:		
1A. Gross Costs	\$ 4,997	\$ 4,897
1B. Less: Earned Revenue	604	570
1C. Net Goal Cost	4,393	4,327
2. Provide and Sustain Benefits to the American People:		
2A. Gross Costs	278	478
2B. Less: Earned Revenue	34	56
2C. Net Goal Cost	244	422
3. Conserve Open Space:		
3A. Gross Costs	347	235
3B. Less: Earned Revenue	42	28
3C. Net Goal Cost	305	207
4. Sustain and Enhance Outdoor Recreation Opportunities:		
4A. Gross Costs	624	816
4B. Less: Earned Revenue	75	95
4C. Net Goal Cost	549	721
5. Maintain Basic Management Capabilities of the Forest Service:		
5A. Gross Costs	486	543
5B. Less: Earned Revenue	59	63
5C. Net Goal Cost	427	480
6. Engage Urban America with Forest Service Programs:		
6A. Gross Costs	69	43
6B. Less: Earned Revenue	8	4
6C. Net Goal Cost	61	39
7. Provide Science-Based Applications and Tools for Sustainable Natural Resource Management:		
7A. Gross Costs	139	148
7B. Less: Earned Revenue	17	17
7C. Net Goal Cost	122	131
8A. Gross Costs not assigned to programs	-	-
8B. Less: Earned Revenue not attributed to programs	-	-
8C. Net Costs not assigned to programs	-	-
9A. Total Gross Costs	\$ 6,940	\$ 7,160
9B. Total Earned Revenue	839	833
9C. Net Cost of Operations	\$ 6,101	\$ 6,327

**OTHER ACCOMPANYING INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

**SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES**

Exhibit1. Definitions for terms used in this section

<b>Beginning Balance</b>	The FY 2012 beginning balance agrees with the FY 2011 ending balance of material weaknesses.
<b>New</b>	The total number of material weaknesses that have been identified during FY 2012.
<b>Resolved</b>	The total number of material weaknesses that dropped below the level of materiality in FY 2011.
<b>Consolidated</b>	The combining of two or more findings.
<b>Reassessed</b>	The removal of any finding not attributable to corrective actions. For example, management may have re-evaluated and determined a material weakness does not meet the criteria for materiality or is reclassified under another heading, such as the Federal Managers' Financial Integrity Act (FMFIA), <a href="#">Section 2 Effectiveness of Internal Control over Financial Reporting</a> to a FMFIA, <a href="#">Section 4 Conformance with Financial Management System Requirements</a> .
<b>Ending Balance</b>	The Forest Service's FY 2012 ending balance for material weaknesses at yearend.

**Summary of Financial Statement Audit**

Summary of Financial Statement Audit						
<i>Audit Opinion</i>	Unqualified, qualified, disclaimer, or adverse					
<i>Restatement</i>	Yes or No					
<i>Material Weaknesses</i>	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

**Summary of Management Assurances**

Effectiveness of Internal Control Over Financial Reporting ( FMFIA § 2)						
<i>Statement of Assurance</i>	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Material Weaknesses</i>	0	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

Effectiveness of Internal Control Over Operations ( FMFIA §2)						
<i>Statement of Assurance</i>	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Material Weaknesses</i>	0	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

Conformance With Financial Management System Requirements ( FMFIA §4)						
<i>Statement of Assurance</i>	Systems conform, conform except for the below nonconformance(s), or do not conform to financial management system requirements (Office of Management and Budget Circular A-136, Section 4 Other Accompanying Information)					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Nonconformances</i>	0	0	0	0	0	0
<i>Total Nonconformances</i>	0	0	0	0	0	0

**OTHER ACCOMPANYING INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

Conformance with Federal Financial Management Improvement Act ( FFMIA)		
	Agency	Auditor
Overall Substantial Compliance		
System Requirements	Yes	Yes
Accounting Standards	Yes	Yes
U.S. Standard General Ledger at the Transaction Level	Yes	Yes

**IMPROPER PAYMENTS IMPROVEMENT ACT REPORTING**

As required by the Improper Payments Information Act of 2002 (IPIA) and Office of Management and Budget Circular A-123, Appendix C, agencies are to measure high-risk programs annually, estimate the amount of improper payments, and report the estimate in the Performance and Accountability Report (PAR) or Agency Financial Report.

***The Criteria for the Risk Assessment***

USDA programs have been divided into two categories for the purpose of performing risk assessments: management certification and risk assessments.

Risk assessments are performed on all programs at least once every 3 years or more frequently if the USDA Office of the Chief Financial Officer (OCFO) deems necessary. In addition to risk assessments, agencies are required to provide a management certification that asserts among other things that:

1. The program is still determined to be at low risk of improper payments.
2. There have been no significant program changes since the last risk assessment.
3. There have been no significant internal control changes since the last risk assessment.
4. There have been no new audit reports describing significant improper payments or internal control issues.

The OCFO may ask that the agency perform a risk assessment on that program for the current fiscal year.

Wildland Fire Suppression Fund (WFSU) has been identified as a high-risk program for Forest Service since FY 2004. No new high-risk programs were identified for FY 2012.

***The Description of the Statistical Sampling Process***

The IPIA requires statistical sampling for high-risk programs only. The Forest Service used Monetary Unit Sampling (MUS) to systematically analyze and review WFSU transactions for FY 2012 (the period of 10/01/2010 through 9/30/2011).

***The Description of the Corrective Action Plan(s)***

The result of Forest Service sampling over the WFSU program resulted in a testing error rate of 0.0 percent for FY 2012. In addition, the enhanced analytics conducted over the WFSU program resulted in \$0 of improper payments or 0.0 percent of total outlays.

**OTHER ACCOMPANYING INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

Below is a table of the statistical sampling results of the WFSU assessment.

Fund	Population Outlays	Tested Outlay Amount	Population Insufficient Documentation		Population Improper Payment Error	
			Dollars	Rate	Dollars	Rate
WFSU	\$693,553,109.00	\$48,534,651.29	\$0.00	0.0%	\$0.00	0.0%

The Forest Service continues to improve internal controls with continuous internal monitoring and analytics of possible improper payments. The centralization of accounting functions has improved communication and follow-up prior to payment authorization, which has reduced the potential for errors.

In FY 2013, the Forest Service is continuing to enhance its risk assessment process and use monitoring and analytics to assess the root cause of improper payments and conduct additional corrective action to improve the effectiveness of internal controls. The Forest Service is also researching automated tools that will serve as effective preventative internal controls to reduce improper payments. In addition to the annual risk assessments, quarterly reviews will also be conducted to identify potential duplicate payments using automated statistical software. Statistical sampling will also be performed over all payments to identify the areas where erroneous payments are more prevalent.

***Improper Payment Reduction Outlook***

The following tables for the Improper Payment (IP) Reduction Outlook are limited to the WFSU.

Improper Payment Reduction Outlook (in thousands)									
IPIA REPORTING YEAR	FY 2011			FY 2012			FY 2013		
Actual Fiscal Year	FY 2010			FY 2011			FY 2012		
Program	Outlays	IP %	IP \$	Outlays	IP %	IP \$	Outlays	IP %	IP \$
WFSU <sup>3</sup>	\$491,100	0.00%	\$0.00	\$693,553	0.00%	\$0.00	\$885,500	0.00%	\$0.00

Improper Payment Reduction Outlook (in thousands)						
IPIA REPORTING YEAR	FY 2014			FY 2015		
Actual Fiscal Year	FY 2013			FY 2014		
Program	Estimated Outlays	IP %	IP \$	Estimated Outlays	IP %	IP \$
WFSU <sup>4</sup>	\$992,700	0.00%	\$0.00	\$1,015,563	0.00%	\$0.00

<sup>3</sup> Credit card transactions and salaries and expenses were excluded from the WFSU population and considered as separate funds.

<sup>4</sup> Credit card transactions and salaries and expenses were excluded from the WFSU population and considered as separate funds.

**OTHER ACCOMPANYING INFORMATION—UNAUDITED  
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

***Recovery of Improper Payment***

The Improper Payments Elimination and Recovery Act of 2010 requires Federal agencies to enhance their efforts in preventing, detecting, and recovering improper payments. The Forest Service conducted a retroactive review of FYs 2011 and 2012 billings to enhance its ability to identify and report recovery of improper payments. Internal reviews were also conducted periodically and reported to OCFO through the quarterly High Dollar Report for the high-risk WFSU fund.

Recovery of Improper Payments Actual Dollars Recovered				
FY 2008	FY 2009	FY 2010 <sup>5</sup>	FY 2011	FY 2012
\$99,361	\$1,720	\$1,700,000	\$2,115,003	\$7,309,194

***Risk Assessment and Oversight Benefits***

The benefits of enhanced risk assessments and oversight have enlightened Forest Service management with information regarding the payment processes that have higher inherent risk. This will allow management to identify the root causes and improve and enhance internal controls and dedicate additional resources to reduce the risk of improper payments.

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<sup>5</sup> The methodology for reporting improper payments changed for FY 2010. The Forest Service previously reported FY 2010 dollars recovered as \$584,994 in the FY 2010 Forest Service Agency Financial Report.



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