Part A

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

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. As a result of the pilots in fiscal years (FY) 2007 and 2008, OMB has concluded that there are advantages in separating the APR from the AFR and to producing a Summary of Performance and Financial Information.

The AFR provides an overview of the agency's financial performance and results to help Congress, the President, and the public assess our stewardship over the financial resources entrusted to us.

The Forest Service will include its FY 2009 annual performance report and FY 2011 performance plan with its Congressional Budget Justification and will post it on the Forest Service Web site at http://www.fs.fed.us in February 2010.

In addition, the Forest Service will produce a Summary of Performance and Financial Information and post it on the Forest Service Web site at http://www.fs.fed.us by February 15, 2010.

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 2009 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.

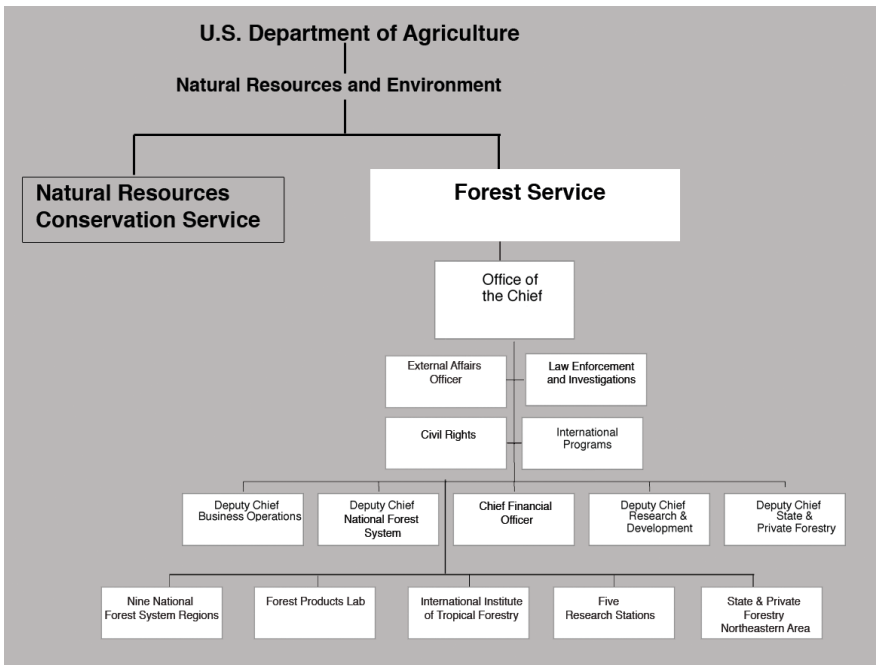
About the Agency

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 is organized into nine regions to fulfill its mission and manage the national forests. Seven research stations, including the International Institute of Tropical Forestry and Forest Products Laboratory, provide the latest science for sound stewardship decisions. The Forest Service also provides funding and technical assistance to fulfill its role on non-Federal forest lands. In addition, the Forest Service provides international assistance on land stewardship and has its own law enforcement and Investigations unit responsible for enforcement of Federal laws and regulations governing national forest lands and resources.



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 (NRE).

There are four deputy chiefs for the following areas: National Forest System (NFS); State and Private Forestry (S&PF); Research and Development (R&D); and Business Operations.

The Forest Service organization includes the NFS regions, national forests and grasslands, and ranger districts; R&D's research stations and strategic planning areas; and S&PF's Northeastern Area Office. Each level has responsibility for a variety of functions.

Region: The Forest Service has nine regions, each encompassing a broad geographic area and headed by a regional forester who reports directly to the Chief of the Forest Service. The regional forester has broad responsibility for coordinating activities among the various forests within the region, for providing overall leadership for regional natural resource and social programs, and for coordinating regional land use planning.

National Forest: The Forest Service oversees 155 national forests and 20 grasslands. Each administrative unit is typically comprised of several ranger districts, under the overall direction of a forest supervisor. Within the supervisor's office, the staff coordinates activities among districts, allocates the budget, and provides technical support to each district. Forest supervisors are line officers and report to regional foresters.

Ranger District: The Forest Service has more than 600 ranger districts, each with a staff of 10 to 100 people reporting to the district ranger. Districts vary in size from 50,000 acres to more than 1 million acres. Most on-the-ground activities occur on ranger districts, including trail construction and maintenance, operation of campgrounds, and management of vegetation and wildlife habitat.

Research: The Forest Service research organization is comprised of seven research stations—the Northern, Pacific Northwest, Pacific Southwest, Rocky Mountain, Southern, Forest Products Laboratory (FPL), and the International Institute of Tropical Forestry. Station directors, like regional foresters, report to the Chief of the Forest Service.

Northeastern Area: The S&PF Area Office includes three field offices and Grey Towers Historic Site. The area director, like regional foresters, reports directly to the Chief of the Forest Service. The area director leads and helps support sustainable forest management and use across the landscape to provide benefits to the people of the 20 Northeastern and Midwestern States and the District of Columbia.

Centralized Business Services: The Forest Service continues to implement centralization of administrative functions.

- Budget and Finance (B&F)
- Information Resource Management
- Human Resource Management (HRM)

The majority of employees in centralized business services are located at the Albuquerque Service Center (ASC) but some employees are sited in various other locations across the country.

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, as well as cooperation with States, tribes, and private forest owners, the agency strives to meet the needs of our Nation. 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 35.5 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 responsible 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 1.6 billion acres of forests and associated rangelands in the United States.

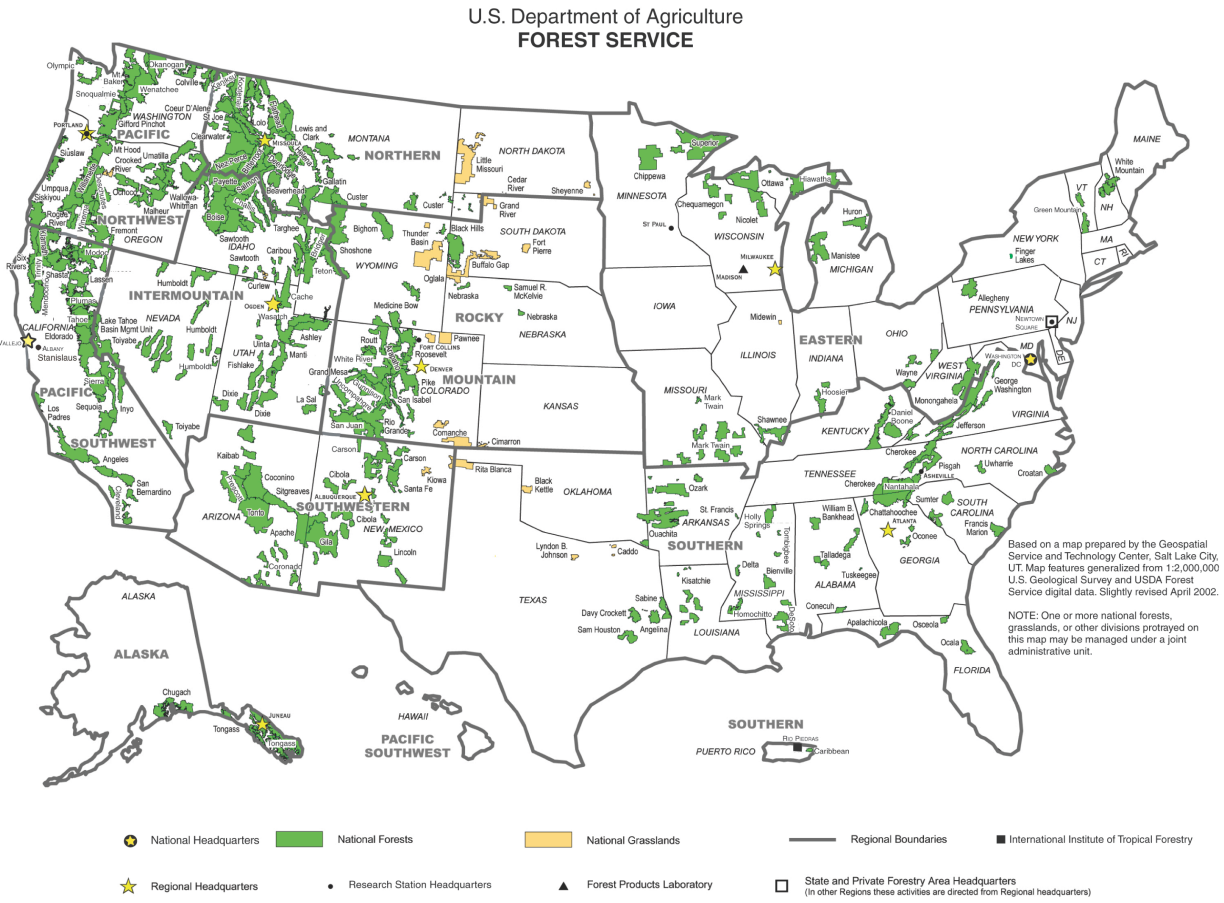
State and Private Forestry. This responsibility segment reaches across the boundaries of national forests and uses cooperative agreements with State and local governments, tribal governments, forest industries, and private landowners to provide technical and financial assistance that helps protect and 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.

Some of the responsibility segment names are the same as those used for deputy areas, but the terms are not synonymous.

Locations of Forest Service Administrative Units

The map illustrates the 155 national forests and 20 national grasslands that collectively make up the NFS of the Forest Service.



Future Demands, Risks, Uncertainties, Events, Conditions, and Trends

In the past several decades, drought, a change in climate, catastrophic wildland fires, and insects and disease have led to declining forest health across the country. To counter this decline, the Secretary of Agriculture shared his vision in August 2009 for the restoration, conservation, and collaborative management efforts needed to protect our Nation's forests and municipal watersheds.

The Chief of the Forest Service committed to the Secretary's vision of an "all lands" approach that restores forest health on NFS land and on private lands. Ensuring the resiliency of forest and grassland ecosystems across the landscape allows all natural systems to adapt to changes in climate or stress from drought, insects, and disease. Since the NFS and private forestlands are a primary source for much of the country's water supply, restoring the healthy functioning of watersheds will be critical for abundant, high-quality water sources needed by future generations.

The Forest Service cannot achieve the expanded mission without its partnerships with local communities, Federal and State agencies, and tribes. In collaboration with other USDA agencies, Forest Service will provide support and assistance to State and private landowners for restoration efforts, primarily through the S&PF programs.

As part of our priority to conserve lands, the agency will seek to acquire easements of forested lands under significant development pressure, to protect air and water quality, to provide access to national forests, and to provide habitat for fish and wildlife. Current projections indicate 10 percent of privately owned land will convert from rural to urban land use in coming decades.

Reversing the decline in forest health will decrease the risk of catastrophic wildland fire to communities in the wildland-urban interface (WUI). The Secretary's support in addressing fire suppression funding should lessen the risk that dollars and resources are shifted from programs during the busy field season to fire suppression efforts.

Forest Service leadership recognizes it must focus on the highest priority goals in order to achieve success. Key to that success is employee morale. In a recent survey of the best places to work in the Federal Government, Forest Service morale further declined to 206 of 216 Federal agencies surveyed in the 2009 rankings. To address this challenge, the Chief of the Forest Service instituted an informal sensing group to gather candid feedback from employees on a regular basis. The group is comprised of members from across the agency, ensuring a diverse and well-informed approach to designing a solution. Feedback from the sensing group sessions will be incorporated with that from other sources, such as civil rights, the union, and partnership councils, before presenting results to leadership.

In testimony before the Subcommittee on Interior, Environment, and Related Agencies, the Government Accountability Office (GAO) reported that several emerging issues—climate change, increased development in the WUI, the agency's aging workforce, and the Nation's long-term fiscal outlook—underscore the importance of addressing the agency's current management challenges so it is well positioned to meet new challenges. For more information, see Forest Service: Emerging Issues Highlight the Need to Address Persistent Management Challenges (GAO-09-443T) or read the summary at http://www.gao.gov/products/GAO-09-443T. The Secretary tasked the Forest Service with developing a planning rule that follows a collaborative model to address current and emerging issues.

Performance Summary and Highlights

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

The high-level projections of key performance measures within agency goals presented here are based on planned yearend amounts. Detailed discussion and analysis of actual performance will be provided in the APR as required at http://www.fs.fed.us in February 2010.

STRATEGIC GOAL 1—Restore, Sustain, and Enhance the Nation's Forests and Grasslands

Performance Measure	FY 2009 Target	FY 2009 Results
Number of acres treated to restore fire-adapted ecosystems	2,400,000	Projected to exceed

Strategic Outcome: *Forests and grasslands with the capacity to maintain their health, productivity, diversity, and resistance to unnaturally severe disturbance.*

Over 100 years ago, the national forests and grasslands were established to protect the headwaters of municipal watersheds to secure favorable waterflows and provide a sustainable supply of goods and services. The Forest Service strives to balance stewardship for the national forests and grasslands with meeting the public's demands for myriad uses.

Despite past successes, challenges persist. Population growth and expanding urban centers raise demand for goods, services, and amenities from the Nation's private and public forests and rangelands at the same time that natural disturbances and nonnatural changes increase stress and risk of catastrophic wildfire for forest and rangeland ecosystems. Disturbance is a natural process, which is often required to maintain or restore desired ecological components and relationships. However, the Forest Service and partners are challenged to manage disturbance to sustain healthy ecosystems while avoiding intolerable impacts to the goods and services provided to the public by these wildlands.

Fire is a natural component of most forest ecosystems. But, when fire occurs in uncharacteristically heavy fuel conditions during periods of prolonged drought and high winds, or within the WUI, it threatens both communities and the environment.

Invasive species, including insects, pathogens, plants, and aquatic pests, pose a long-term risk to forest and rangeland health. Over-crowded forest stands and drought have also increased the extent and frequency of insect and disease outbreaks.

Forest Service efforts to restore and enhance ecosystem health address the quantity and quality of water produced from public and private forests and rangelands and improve terrestrial and aquatic habitat for wildlife and fish. Through management actions on national forests and grasslands and through support for State and private management of non-Federal lands, the Nation's wildland ecosystems will be restored, more resilient, and better able to respond to future climate change and other disturbances.

STRATEGIC GOAL 2—Provide and Sustain Benefits to the American People

Performance Measure	FY 2009 Target	FY 2009 Results
Number of green tons and/or volume of woody biomass from hazardous fuel reduction and restoration treatments on Federal lands	2,700,000	Projected as unmet

Strategic Outcome: *Forests and grasslands with sufficient long-term multiple socioeconomic benefits to meet the needs of society.*

The Nation's forests and grasslands contain abundant natural resources with the potential to meet the demands and needs of the American people for generations to come. Sustainable management of these resources ensures that the availability of goods and services continues into the future and that sustainable land productivity is maintained. Sustainable management provides wildlife habitat and diversity, forest and wood products, energy sources and transmission infrastructure, wildlife and domestic livestock forage, water supplies, and other goods and services.

Primarily through its S&PF programs, the Forest Service provides technical and financial assistance for natural resource management and the sustainable use of resources on non-Federal lands.

R&D's research provides the framework for this sustainable management of forests and grasslands and for the use and marketing of forest products and services.

Challenges that contribute to shortfalls in woody biomass produced include the economic downturn which led to many timber sales and contracts receiving no bids and continuing high levels of appeals and litigation. The need for development and refinement of the technology necessary to effectively utilize woody biomass for bioenergy production also may contribute to a lack of demand for available biomass resources.

STRATEGIC GOAL 3—Conserve Open Space

Performance Measure	FY 2009 Target	FY 2009 Results
Number of acres of nonindustrial private forest land that are being managed sustainably under forest stewardship management plans	3,000,000	Projected to meet

Strategic Outcome: *Maintain the environmental, social, and economic benefits of forests and grasslands by reducing and mitigating their conversion to other uses.*

Rural and urban communities benefit from the environmental, social, and economic values inherent in undeveloped forests and grasslands. These areas of open space protect water quality; conserve native wildlife; and provide renewable timber and forest products, places to recreate, and scenic beauty. These green spaces generate jobs and economic vitality for nearby communities.

In partnership with State forestry agencies, the Forest Service assists communities as they develop sustainable urban forest management plans and community forestry programs. These urban forest management plans, derived from urban tree and forest resource inventories, include protection and management recommendations that become key components of community development and open-space planning.

This measure is based on an inventory of acres that are covered by all current (active) management plans as confirmed through a newly established field monitoring program.

STRATEGIC GOAL 4—Sustain and Enhance Outdoor Recreation Opportunities

Performance Measure	FY 2009 Target	FY 2009 Results
Percentage of customers satisfied with recreational facilities, services, and settings	90%	Projected to meet

Strategic Outcome: *A variety of high-quality outdoor recreational opportunities on the Nation's forests and grasslands are available to the public.*

As managers for approximately 193 million acres of national forests and grasslands, Forest Service must balance multiple priorities. Recreation and land managers across the country struggle with sustaining the ecological integrity of national forests and grasslands, while providing high-quality outdoor recreational experiences for a growing population. America's population is projected to increase by nearly 50 percent by the middle of this century. Increasing population demands and declining public access to privately owned forest land place extensive pressure on public lands to provide recreational opportunities.

The Forest Service works in partnership with volunteers, nongovernmental organizations, other agencies, and the private sector to sustain and enhance outdoor recreation opportunities for all.

STRATEGIC GOAL 5—Maintain Basic Management Capabilities of the Forest Service

Performance Measure	FY 2009 Target	FY 2009 Results
Percentage of administrative facilities maintained to standard	66%	Projected as unmet

Strategic Outcome: *Administrative facilities, information systems, and land ownership management with the capacity to support a wide range of natural resource challenges.*

The Forest Service workforce minimizes the impact of natural events or the unintended consequences of human-caused events with competencies and leadership necessary to provide effective decisionmaking. Reliable corporate information about the agency's facilities and infrastructure, as well as the stewardship of the flora and fauna found in hundreds of watersheds, is a critical factor in the agency's decisionmaking.

The rising cost of construction, materials, and fuels have impacted the ability to increase the percent of buildings maintained to standard. The current inventory is larger than needed and many facilities are in disrepair, as evidenced by a large deferred maintenance backlog. It has been difficult to properly maintain facilities with available resources. Better planning and assessment supports the agency's effort to determine an optimal infrastructure level, keeping only what is necessary to implement the agency's mission and meet public expectations. To further inform infrastructure maintenance, the agency has adopted the industry standards for the Facility Condition Index for buildings.

STRATEGIC GOAL 6—Engage Urban America with Forest Service Programs

Performance Measure	FY 2009 Target	FY 2009 Results
Number of communities with urban and community forestry programs resulting from Forest Service assistance	5,890	Projected to meet

Strategic Outcome: *Broader access by Americans to the long-term environmental, social, economic, and other types of benefits provided by the Forest Service.*

Three Forest Service branches—NFS, S&PF, and R&D—contribute to an integrated program of natural resource stewardship to benefit America's urban forests. The Forest Service supports conservation education, community greening efforts, and programs that provide youth with volunteer opportunities to plant trees, participate in urban forest inventory activities in their neighborhoods, or visit national forests and grasslands.

The Forest Service works closely with Federal, State, or local government partners to learn what America's urban residents want from their neighborhood parks, nearby woodlands, and national forests. It is through these partnerships that Forest Service builds connections with the Nation's rural and urban communities.

To accomplish success, the Forest Service will work towards increasing awareness of urban populations and urban natural resources through training and information sharing and developing partnerships with nontraditional partners to engage urban and underserved audiences.

STRATEGIC GOAL 7—Provide Science-Based Applications and Tools for Sustainable Natural Resources Management

Performance Measure	FY 2009 Target	FY 2009 Results
Customer satisfaction[1] with R&D products and services	73	Projected to meet

Strategic Outcome: *Management decisions are informed by the best available science-based knowledge and tools.*

The Forest Service's R&D stations and the technology and development centers provide sustainable management solutions for issues affecting the Nation's forests and grasslands. To address existing and emerging issues, such as global climate change and energy demand, this work focuses on the organizational effectiveness of applications in the realms of social science, organizational behavior, decision science, and effective fire management.

To achieve the American Customer Satisfaction Index target score, Forest Service provided information and science-based tools for managers and policymakers to develop and implement effective processes that engage users in all phases of R&D study development.

[1] The American Customer Satisfaction Index assesses the satisfaction of private and other external customers with the relevance, usefulness, and accessibility of Research and Development products and services.

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. The four principal statements are as follows:

Consolidated Balance Sheets
Consolidated Statements of Net Cost
Consolidated Statements of Changes in Net Position
Combined Statements of Budgetary Resources

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, 2009, financial statements provides the following highlights. The exhibits below reflect the comparative amounts for FY 2009 and FY 2008.

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).

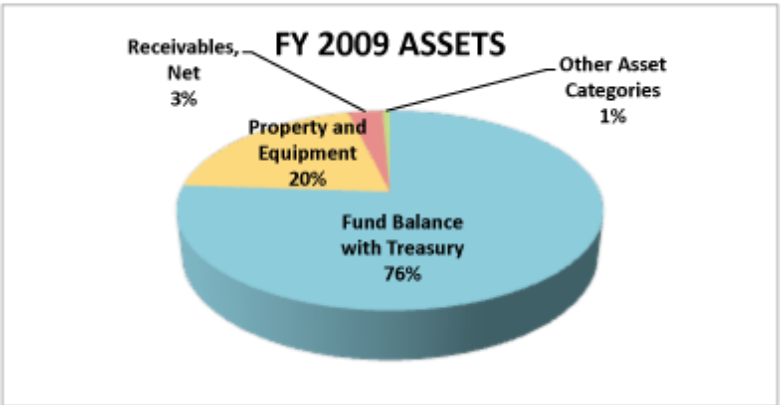
ASSETS

As of September 30, 2009, Forest Service reports $6.8 billion in assets, representing an increase of 17 percent from FY 2008 amounts.

ASSETS (in millions)				
Asset	FY 2009	FY 2008	Differences	
			Dollars	Percentages
Fund Balance with Treasury	$5,146	$4,066	$1,080	27%
General Property and Equipment	1,359	1,375	(16)	(1%)
Receivables, Net	210	303	(93)	(31%)
Total of Major Categories	$6,715	$5,744	$971	17%
Other Asset Categories	47	31	16	52%
Grand Total Assets	**$6,762**	**$5,775**	$987	17%

Fund Balance with Treasury

Fund Balance with Treasury is the amount in the Forest Service's accounts with the U.S. Department of Treasury that are available only for the purposes for which the funds were appropriated. These accounts include general funds, revolving funds, special funds, trust funds, deposit funds, clearing accounts, and miscellaneous receipt accounts. The majority of Forest Service's assets are Fund Balance with Treasury (76 percent of assets), reflecting a $1.1 billion increase (27 percent) from FY 2008 due to the American Recovery and Reinvestment Act (ARRA) of 2009 appropriations.



General Property, Plant, and Equipment (PP&E)

General PP&E (20 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.

Stewardship PP&E

Stewardship PP&E 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 6–Stewardship PP&E and the Required Supplementary Information (RSI) section.

Receivables, Net

Accounts Receivable, Net (3 percent of assets) decreased $93 million (31 percent) from FY 2008 primarily due to the combination of receiving payment from a settled claim, an increase in account receivable write offs, and a decrease in estimated revenue accruals for the FY 2009 fire season.

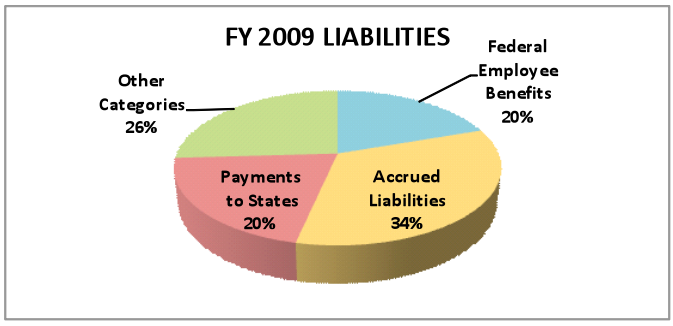
LIABILITIES

As of September 30, 2009, the Forest Service reports $2.1 billion in liabilities, representing an increase of 3 percent from FY 2008 amounts.

LIABILITIES (in millions)				
Liability	FY 2009	FY 2008	Differences	
			Dollars	Percentages
Federal Employee Benefits	$421	$406	$15	4%
Other Liabilities				
Accrued Liabilities	721	567	154	27%
Payments to States	442	531	(89)	(17%)
Other Categories	554	579	(25)	(4%)
Grand Total Liabilities	**$2,138**	**$2,083**	**$55**	**3%**

Federal Employee Benefits

Federal Benefits (20 percent of liabilities) had an increase of $15 million (4 percent) from FY 2008. 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 (34 percent of liabilities) had an increase of $154 million (27 percent) from FY 2008. Accrued Liabilities consist primarily of accruals for payroll and for receipt of goods and services.

Payments to States

The liability for Payments to States (20 percent of liabilities) decreased $89 million (17 percent) from FY 2008 due primarily 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. In the following fiscal year, the U.S. Department of Treasury apportions, or reimburses, the agency for payments made to the States.

NET POSITION

As reported in the Statement of Changes in Net Position, the Forest Service reported unexpended appropriations of $2.9 billion and cumulative results of operations of $1.7 billion, an increase of $932 million (25 percent) in net position from FY 2008. The increase from FY 2008 amounts is due to the ARRA appropriations.

CONSOLIDATED STATEMENTS OF NET COST

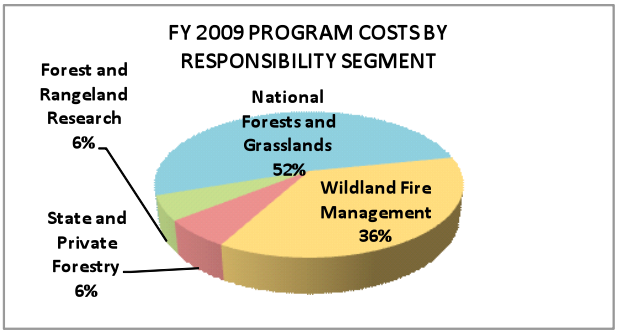
The Consolidated Statements of Net Cost report the difference of two amounts: total gross costs minus total gross revenue for the year. The Forest Service's net cost of operations was $5.9 billion, representing an increase of 1 percent from FY 2008 amounts.

Expenses

Forest Service program costs are $6.6 billion for FY 2009, representing a decrease of 2 percent from FY 2008.

GROSS EXPENSES (in millions)				
Responsibility Segments	FY 2009	FY 2008	Differences	
			Dollars	Percentages
National Forests and Grasslands	$3,434	$3,309	$125	4%
Wildland Fire Management	2,385	2,661	(276)	(10%)
State and Private Forestry	412	407	5	1%
Forest and Rangeland Research	358	334	24	7%
Total Program Costs	**$6,589**	**$6,711**	**($122)**	**(2%)**

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 Strategic Goal 7. State and Private Forestry is a principle contributor to accomplishing Strategic Goals 3 and 6. Wildland Fire Management is a principle contributor to accomplishing Strategic Goal 1.

Wildland Fire Management (36 percent of program costs) decreased $276 million (10 percent) due to a decrease in FY 2009 fire accruals in combination with current-year reversals of large FY 2008 fire accruals.

Revenue

Forest Service earned revenue from both the public and intragovernmental is $679 million for FY 2009 and $865 million for FY 2008. Due to decreasing timber sale receipts and estimated revenue accruals for the reimbursable cooperative fire agreements, earned revenue decreased by 22 percent from FY 2008.

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, such as work completed mainly for other Federal agencies, in accordance with the Economy Act and other authorities.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

The Statements of Changes in Net Position reports 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 2009	FY 2008	Differences	
			Dollars	Percentages
Unexpended Appropriations	$2,966	$1,970	$996	51%
Cumulative Results of Operations	1,658	1,722	(64)	(4%)
Total Net Position	**$4,624**	**$3,692**	$932	25%

Unexpended Appropriations

The increase in unexpended appropriations for FY 2009 is primarily attributed to ARRA appropriations received. 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 12: Earmarked Funds.

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 $9.8 billion in FY 2009 and $8.6 billion in FY 2008, representing an increase of 14 percent from FY 2008. The increase is primarily due to receipt of ARRA appropriations for FY 2009.

Analysis of Systems, Controls, and Compliance with Laws

MANAGEMENT'S ASSURANCES

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The management control objectives under FMFIA, or the Integrity Act of 1982, are to reasonably assure that:

- Programs achieve their intended results.
- Resources are used consistent with overall mission.
- Programs and resources are free from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Controls are sufficient to minimize any improper or erroneous payments.
- Performance information is reliable.
- System security is in substantial compliance with all relevant requirements.
- Continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels.
- Financial management systems are in compliance with Federal financial systems standards.

Deficiencies that seriously affect an agency's ability to meet these management control objectives are deemed "material weaknesses."

FMFIA Assertions

Forest Service management conducted its annual evaluations of internal control (Section 2) and financial systems (Section 4), effective for the period ending September 30, 2009.

Based on the results of the evaluations, Forest Service can provide qualified reasonable assurance that internal controls are operating effectively. No new material weaknesses were identified in FY 2009 and none remain from prior years.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

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 United States Standard General Ledger (USSGL) 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 for the period ending September 30, 2009.

1. Federal financial management system requirements.
2. Applicable Federal Accounting Standards.
3. The U.S. Standard General Ledger (SGL) at the transaction level.

FY 2009 Results

As of September 30, 2009, the Forest Service was in substantial compliance with the FFMIA, except for specific instances related to the requirement that the SGL be at the transaction level. Specifically:

- Depreciation is computed correctly in the subsidiary ledger, but recorded in the primary USDA accounting system at a summary level due to a system limitation.

- Capitalized leases records are maintained in subsidiary ledgers and recorded quarterly in the primary USDA accounting system.
- Real Property asset dispositions resulting in a loss are recorded as negative gains because of a posting logic problem in primary USDA accounting system.
- Nonappropriated monies are incorrectly transferred to a fund used solely for appropriated funds, causing a variance in several high-priority accounts. The variance(s) is corrected with a manual adjustment, once spending occurs, that "reverses" the transfer by using an inappropriate posting logic for nonappropriated monies.

Remediation for these items is anticipated to be complete upon final implementation of the USDA Federal Management Modernization Initiative (FMMI) to replace the current primary accounting system.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT (FISMA)

The 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.

In FY 2009, the Forest Service's financial management systems did not fully comply with Federal financial management systems requirements of the Federal Information Systems Management Act of 2002. The Forest Service is aware of the vulnerability of its assets and financial data due to error or fraud and has made great strides to correct the information security controls deficiencies.

Security audit findings, security deficiencies identified in systems' certification and accreditation (C&A) process, and security deficiencies identified in self-assessments are listed and tracked in the FISMA Plan of Actions and Milestones, updated monthly and reported to USDA quarterly for inclusion in its FISMA Report to OMB.

FY 2009 Results

No IT material weaknesses were noted for Assurance Year 2009.

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 2009 Assurance Year (ending June 30, 2009), in accordance with USDA's Implementation Guide for OMB Circular A-123, Internal Control over Financial Reporting, Appendix A.

To assess the level of internal control at the agency level, the Forest Service prepares risk assessments to evaluate program vulnerabilities for internal controls and then tests the controls. 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 reasonable assurance that controls over the financial reporting area are operating effectively.

For FY 2009, Forest Service identified no new material weaknesses or significant deficiencies; only two significant deficiencies remain. The Forest Service documented the corrective actions in USDA's A-123 Document Tracking System for the Assurance Year 2009.

MANAGEMENT INITIATIVES

American Recovery and Reinvestment Act of 2009

The ARRA included $1.15 billion in funds for the Forest Service to implement projects that sustain the Nation's forests and grasslands, create jobs, and promote U.S. economic recovery. In passing the law, Congress emphasized accountability for and transparency of funds spent, and OMB issued guidance to establish internal controls, oversight mechanisms, and other approaches to meet ARRA's accountability objectives.

USDA Office of Inspector General (OIG) provides oversight to ensure funds are spent by the Forest Service in a manner that minimizes the risk of improper use. In its initial report, OIG concluded that the agency should implement a process to ensure that both contractors and Forest Service contracting officials are aware of and follow the Buy American Act's provisions related to ARRA.

To strengthen the management and oversight of acquisitions, the Forest Service established four specialized Economic Recovery Operations Centers (EROCs). These EROCs will also provide a pool of highly trained professionals available to provide guidance and consultation to partners and contractors. The EROCs are centralized in four locations: Denver, CO; Vallejo, CA; Sandy, OR; and Atlanta, GA.

To reduce the risk of improper use of ARRA funding, Forest Service will—

- Increase training for partners and contractors receiving ARRA funds and their subcontractors so that all are aware of the full scope of this legislation.
- Follow the Buy American clauses and other clauses within the ARRA.

Go to http://usda.gov/wps/portal/arra?navid=USDA_ARRA_PLAN to see USDA's Recovery Act Plans and Reports, the latest news in ARRA efforts, or Forest Service successes in the ARRA implementation.

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 31 U.S.C. 3515 (b).

The Forest Service statements have been prepared from its books and records in accordance with Generally Accepted Accounting Principles (GAAP) 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.