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Department of
Agriculture

Forest Service

December 2011



Forest Service Fiscal Year 2011 Agency Financial Report



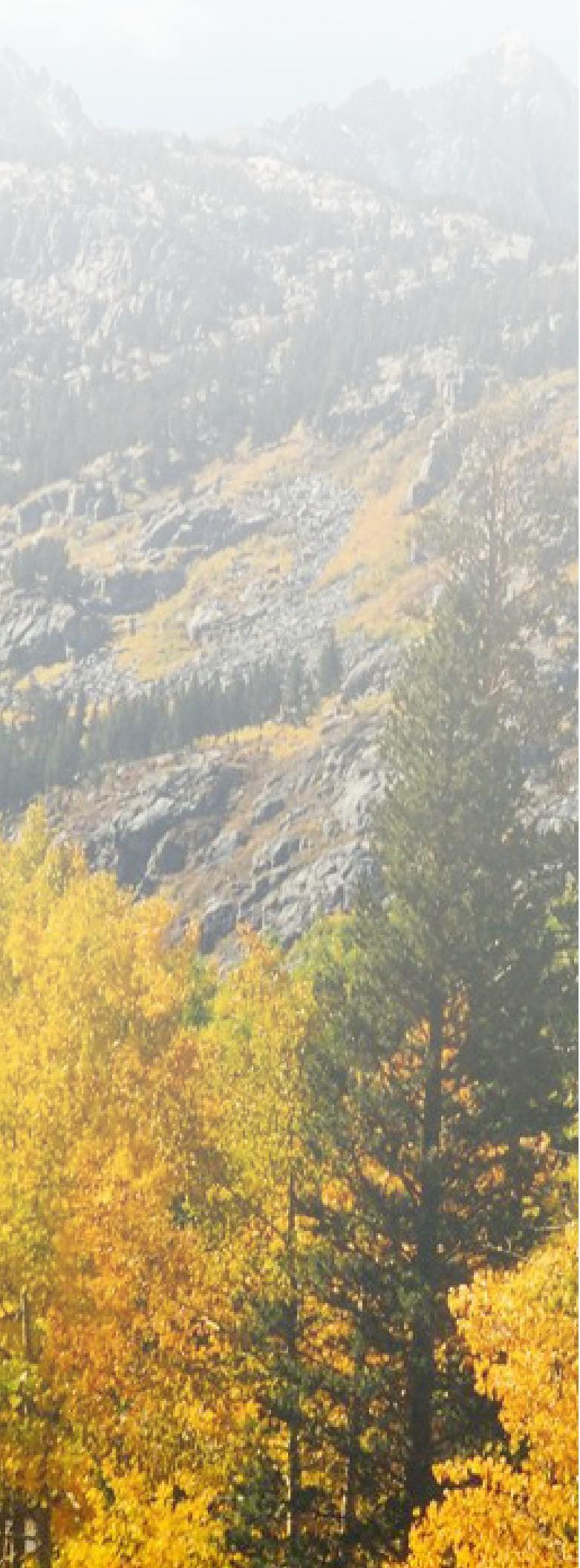
The Forest Service, U.S. Department of Agriculture (USDA), has chosen to produce an Agency Financial Report (AFR) for fiscal year 2011. This AFR was produced in accordance with the Office of Management and Budget (OMB) Circular A-136 Financial Reporting Requirements.

The AFR provides—

- An overview of the Forest Service's financial and performance results in the Management's Discussion and Analysis (MD&A);
- The Financial Section, comprised of the audited financial statements and notes, and required supplementary information, the independent auditors' report, and the USDA Office of Inspector General's (OIG) transmittal letter;
- Other Accompanying Information (OAI), such as Management Challenges, Management's Assurances, and recovery audit results for erroneous and improper payments, in accordance with the Improper Payments Information Act (IPIA).
- In addition to the AFR, the Forest Service will include its FY 2011 Annual Performance Report (APR) and FY 2012 performance plan with its Congressional Budget Justification in February 2012.

All of these documents will be available on the Forest Service Web site at <http://www.fs.fed.us/>.

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Our Mission...

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

Our values...

- care for the Nation's forest and grassland ecosystems
- value the varied skills and contributions of a diverse workforce
- Strive for accountability by every employee for the efficient management of the capital resources he or she uses
- Be responsive to national and local interests
- Be focused on the needs of future generations

The Strategic Goals...

- Restore, Sustain, and Enhance the Nation's Forests and Grasslands
- Provide and Sustain Benefits to the American People
- Conserve Open Space
- Sustain and Enhance Outdoor Recreation Opportunities
- Maintain Basic Management Capabilities of the Forest Service
- Engage Urban America With Forest Service Programs
- Provide Science-Based Applications and Tools for Sustainable Natural Resources Management



Message From the Chief

As Chief of the Forest Service, U.S. Department of Agriculture, I am proud to present our fiscal year (FY) 2011 Agency Financial Report (AFR). This report describes the stewardship and management of the public funds entrusted to our care, as reflected in our mission—"to sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations."

Founded in 1905, the Forest Service has a long tradition of caring for the land and serving people. The seven strategic goals in the Forest Service Strategic Plan for FY 2007–2012 are (1) to restore, sustain, and enhance the Nation's forests and grasslands; (2) provide and sustain benefits to the American people; (3) conserve open space; (4) sustain and enhance outdoor recreation opportunities; (5) maintain basic management capabilities of the Forest Service; (6) engage urban America in Forest Service programs; and (7) provide science-based applications and tools for sustainable natural resource management.

Our focus is on the ground—on the places where you live, work, and play. Above all, we are dedicated to keeping everyone on the ground safe and secure. Our objective is to serve our communities, both rural and urban. One way to achieve this objective is to work with partners to sustain healthy, resilient forests and rangelands on Federal, State, and private lands. Healthy lands support the outdoor activities of millions of Americans each year, a service we proudly provide on the National Forest System. A central concern for all Americans is sustainable land management. We owe it to ourselves and to future generations to protect our communities, properties, and wildland resources from catastrophic fire and other threats.

Today's conservation challenges are daunting. Climate change has intensified regional drought, triggered extreme weather events, and contributed to uncharacteristically severe wildfires and outbreaks of insects and disease. America's forested watersheds also face degradation by invasive species and from the conversion of working forests and ranches to developed uses.

To address this challenging environment, the Forest Service has embraced five major focus areas:

Safety. Our jobs sometimes take us into high-risk environments, such as managing wildland fires. A constant, relentless focus on safety is the only way we work.

Inclusiveness. Diversity of thought is fundamental to any successful organization. We are creating a work environment that fully supports inclusiveness and diversity—that is free from barriers and discrimination, both for our employees and for the public we serve.

Restoration. The key to conservation is to restore the functions and processes characteristic of healthy, resilient forest and grassland ecosystems. We are bringing people together to collaborate across ownerships—to pursue common restoration goals based on mutual respect. Watershed restoration is essential to accomplish our restoration goals. Watersheds capable of delivering plentiful supplies of pure, clean water can also deliver all the other benefits that people get from forests—clean air, habitat for wildlife, opportunities for outdoor recreation, and more.



Wildland fire. As communities have spread into fire-prone forests, fire seasons have steadily worsened. We are meeting the challenge by restoring fire-adapted ecosystems; helping to create fire-adapted human communities; and making safe, effective, risk-based wildland fire management decisions.

Community. Conservation begins where people live. Our job is to work with local communities for social and economic, as well as ecological sustainability. Our goal is a continuous network of healthy forested landscapes, from remote wilderness areas to shady urban neighborhoods, parks, and greenways. Community- or place-based conservation provides jobs and economic opportunities associated with restoration projects and with outdoor recreation and tourism.

At the Forest Service, a sound financial foundation is necessary for meeting our obligations to the American people. This report demonstrates our accountability to the people we serve. In lieu of a Performance and Accountability Report, it complies with Office of Management and Budget Circular A-136, Financial Reporting Requirements.

I am pleased to announce that the Forest Service received an “unqualified audit opinion” for FY 2011, meaning that the auditor found our financial statements to be true and fair. The audit reported no material weaknesses. The agency officially closed all open financial statement audits and recommendations, in addition to closing a record number of program audits. In total, the Forest Service closed 15 audits and 99 audit recommendations during the year; thereby significantly improving agency internal controls.

Founded more than a century ago, the Forest Service was a model of financial accountability for its time. Since then, our responsibilities have grown; we now play a role in sustainable forest management all over the country and, indeed, around the world. Nevertheless, we are still committed to our founding principles of sound financial management and accountability to the American people. Our continued success is due to the hard work of our Forest Service employees and their steadfast dedication—together with our partners and volunteers—to protecting and restoring America’s forests and grasslands, for the benefit of generations to come.



THOMAS L. TIDWELL
Chief of the Forest Service

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Part A

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unaudited

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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 our stewardship over the financial resources entrusted to us. The Forest Service's APR will be published with the fiscal year (FY) 2013 Congressional Budget Justification in February 2012 at <http://www.fs.fed.us>.

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

- 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 2011 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, 2011 AND 2010

ABOUT THE AGENCY

MISSION

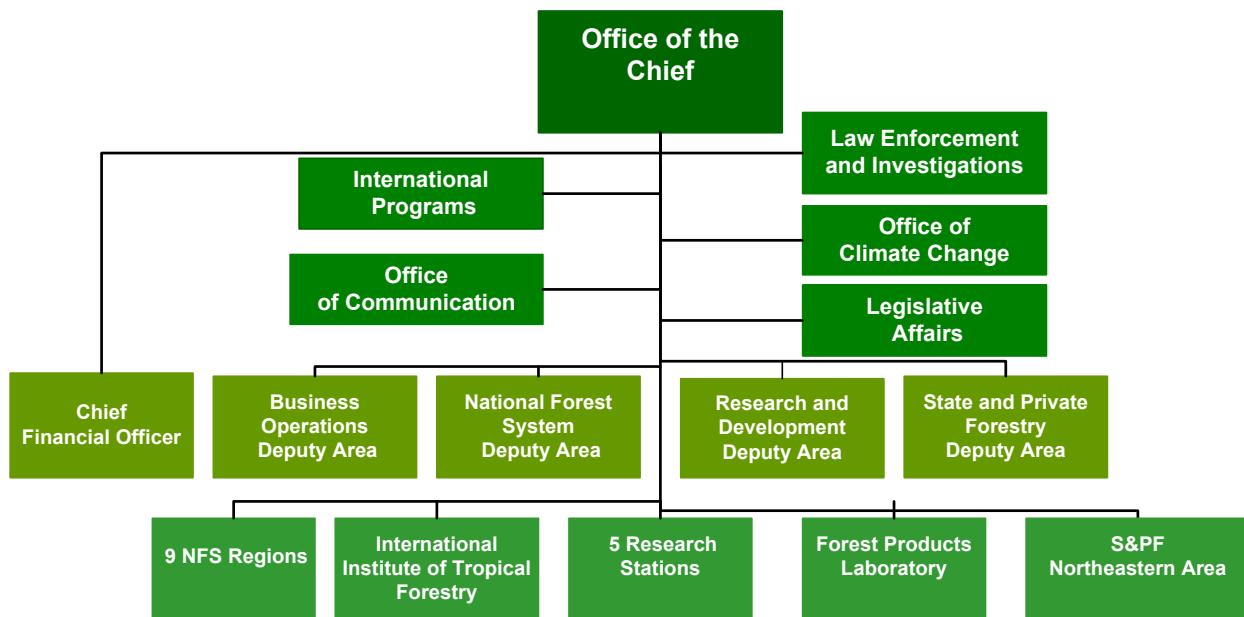
*Sustain the health, diversity, and productivity of the
Nation's forests and grasslands to
meet the needs of present and future generations.*

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 USDA Under Secretary for Natural Resources and Environment.

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



FOREST SERVICE CHIEF FINANCIAL OFFICER AND THE DEPUTY AREAS

Within the CFO and each deputy area (the third tier in the organization chart) are the programmatic areas that enable the Forest Service to achieve its mission.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Chief Financial Officer
Financial Management and Systems
Financial Policy
Financial Reporting and Reconciliation
Audit and Assurance
Budget and Finance

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 2011 CFO Accomplishments

- Received the 10th consecutive clean audit opinion and had no material weaknesses for the 4th consecutive year.
- Closed open financial statement audits and recommendations and a record number of program audits. The Forest Service's annual evaluation, conducted at all levels throughout the agency, indicated that agency controls are achieving these intended objectives, and internal controls provide reasonable assurance that the objectives have been met.
- Continued the implementation of the Point-of-Sale System (POSS) to improve cash management, including payment of permits and other indebtedness via a Web portal. With the new implementation/training strategy for FY 2012, the agency expects an 8-fold increase in the number of implementations.
- Strengthened financial management controls over payments with improved payment testing in compliance with the Improper Payments Elimination Recovery Act (IPERA) and Improper Payments Information Act (IPIA). The agency enhanced its statistical testing of high-risk programs, completed a review of billings to identify improper payments, and acquired software that will improve internal controls over payments for FY 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

State and Private Forestry

Fire and Aviation Management

Cooperative Forestry

Conservation Education

Urban and Community Forestry

Forest Health Protection

Office of Tribal Relations

STATE AND PRIVATE FORESTRY

S&PF's Northeastern 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. Washington Office Staffs are listed to the left.

FY 2011 S&PF Accomplishments¹

- Protected more than 149,000 acres of at-risk forest from conversion.
- Achieved a 16-percent increase over FY 2010 in the acres treated in the Wildland Urban Interface (WUI) that are identified in Community Wildfire Protection Plans (CWPPs).
- Assisted forest landowners in managing more than 1.8 million acres sustainably under forest stewardship plans.
- Achieved agreements with a total of 23 States to help landowners market ecosystem services.

¹ Amounts are considered "year-to-date." Actual amounts will be published in the FY 2011 Annual Performance Report at <http://www.fs.fed.us> in February 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Research and Development	RESEARCH AND DEVELOPMENT
Environmental Sciences	The R&D Deputy Area is comprised of five research stations, the Forest Products Laboratory, and the International Institute of Tropical Forestry (IITF). 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 (SPAs):
Policy Analysis	
Resource Use Sciences	
Forest Management Sciences	<ul style="list-style-type: none">▪ Wildland Fire and Fuels▪ Invasive Species▪ Water, Air, and Soil▪ Wildlife and Fish▪ Resource Management and Use▪ Outdoor Recreation▪ Inventory and Monitoring
Quantitative Sciences	
Science Quality Services	

FY 2011 R&D Accomplishments²

- Provided more than 200,000 maps, graphs, and charts on current and future³ fire-weather conditions at high spatial and temporal resolution over the entire continental United States. Products are updated twice a day and delivered through the World Wide Web in real time at <http://FireWeather.info>.
- Developed ICWater for the U.S. Department of Defense to assess movement in Japanese rivers of radioactive contaminants released from the earthquake-damaged Fukushima Daiichi nuclear power plant. ICWater rapidly assesses risk to drinking water during toxic-spill emergencies.
- Produced a Web-based tool, TACCIMO⁴, to bring the best climate-change science to decisionmakers and planners in a simple and usable format.
- Released a new version of the Forest Service and its partners' free software, i-Tree v.4. In Minneapolis, MN, one i-Tree study found that street trees provided \$25 million in benefits, ranging from energy savings to increased property values. In Chattanooga, TN, i-Tree found that urban forests received \$12.18 in benefits for every dollar invested.

² Amounts are considered "year-to-date." Actual amounts will be published in the FY 2011 Annual Performance Report at <http://www.fs.fed.us> in February 2012.

³ "Future" is defined as up to 75 hours in advance.

⁴ TACCIMO is the Template for Assessing Climate Change Impacts and Management Options.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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	

NATIONAL FOREST SYSTEM

The NFS provides stewardship and management of the 193 million acres of national forests and grasslands. Following U.S. Department of 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.

The NFS has nine regions, comprised of national forest and grasslands. Each region is led by a regional forester who reports directly to the Chief of the Forest Service and has broad responsibility for coordinating activities among the various forests and grasslands within the region, for providing overall leadership for regional natural resource and social programs, and for coordinating regional landuse planning. Within the 9 NFS regions are 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.

FY 2011 NFS Accomplishments⁵

- Protected economically vital fish populations by restoring more than 3,800 stream miles and more than 26,000 acres of lake habitat and reconnecting nearly 600 miles of threatened and endangered species habitat.
- Achieved 2,954,842 tons of woody biomass made available from NFS lands for bioenergy generation.
- Achieved a 94-percent visitor satisfaction rating with facilities, services, and settings.

⁵ Amounts are considered "year-to-date." Actual amounts will be published in the FY 2011 Annual Performance Report at <http://www.fs.fed.us> in February 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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

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 2011 Business Operations Accomplishments

- Fully implemented the Human Resources Redesign.
- Completed the new Forest Service policy and electronic form for telework.
- Exceeded the 80-day staffing goal with the all-time low of 70 days.
- Migrated 100 percent of employees' email to the Forest Service's implementation of USDA's Enterprise Messaging System, or gEMS. The target was 80 percent.
- Identified no system material weaknesses through the financial audit process.
- Completed 8-hour safety training for an estimated 40 percent of all Forest Service personnel.

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 our 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 include 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

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

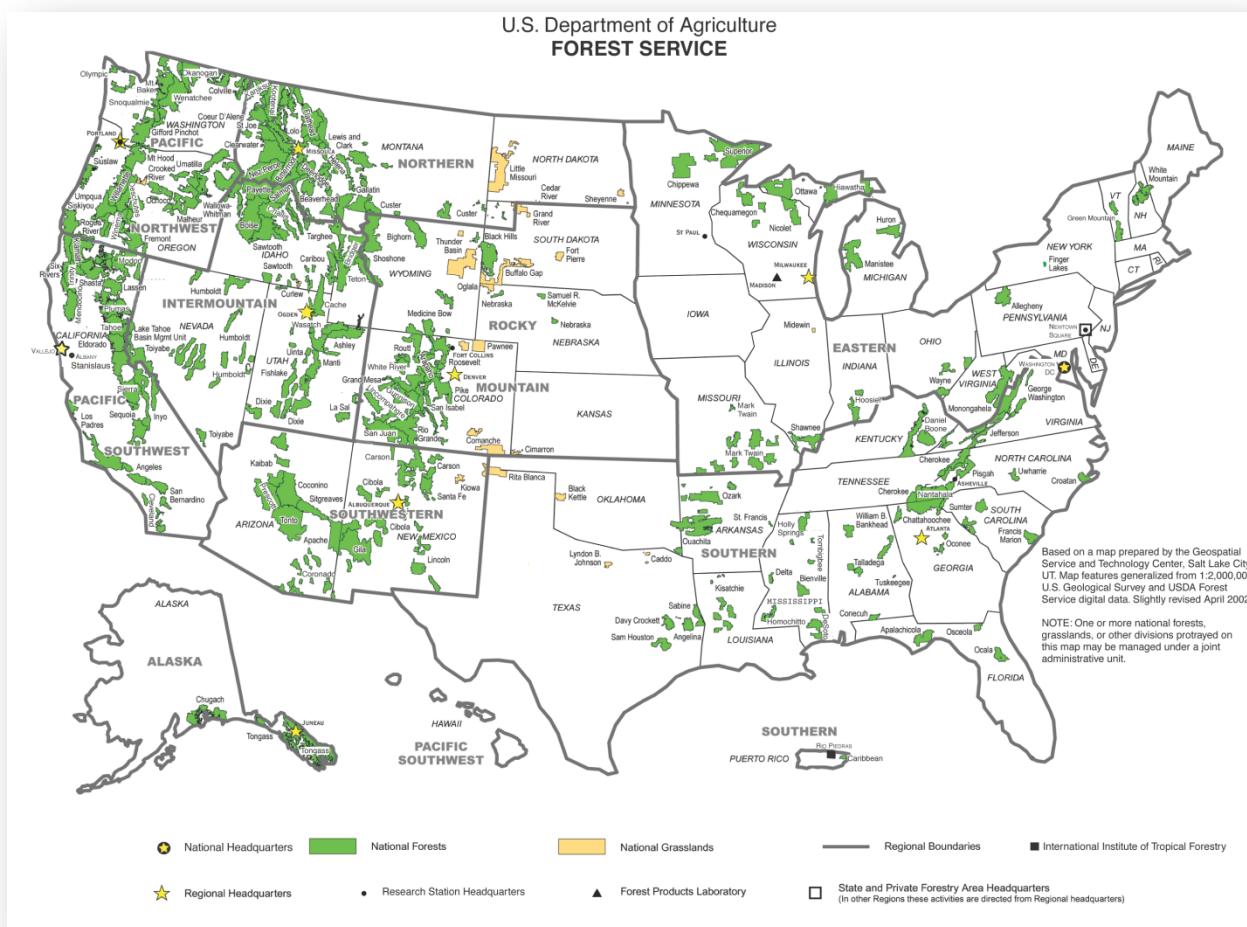
technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.3 billion acres of forests and associated rangelands in the United States.

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.

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.



**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

DEMANDS, RISKS, CONDITIONS, AND TRENDS

THE FOREST SERVICE'S SAFETY JOURNEY

Forest Service employees are passionate about their work and make an incredible difference in caring for the land and serving people. However, no employee should get hurt on behalf of the agency. Each employee has inherent value as a person that touches and enriches the lives of many others.

Unfortunately, many of our colleagues are hurt or killed each year. That is unacceptable. The Forest Service is committed to dramatically different safety outcomes but recognizes that commitment is not enough. In a spirit of humility we have magnified our focus and engaged in a "journey" to discover what else it will take. Although we know there is much we do not know, we are confident that it is indeed a journey more than a destination – one that will require our sustained effort.

The Forest Service is also confident that each employee must be part of that journey, and that together we can make a big difference in the safety outcomes we experience. In the coming months, we will have meaningful discussions about reducing hazards and improving safety. Therefore, we ask all Forest Service employees to join us on this journey to ensure we are not only the world's premier conservation agency but also world-class in being safe.

In FY 2011, the Chief of the Forest Service shared the National Leadership Council's (NLC's) intention to engage every employee in a meaningful dialogue as part of an agencywide initiative—the Forest Service *Safety Journey*. Senior and middle leaders with the support of "Safety Catalysts" were trained as cadre members during 2.5-day sessions. Cadre members are, in turn, convening mandatory 1-day safety engagement sessions for all employees. The NLC's goal for this initiative is 100 percent of Forest Service employees by the end of calendar year 2011.



To mitigate the safety risk even further, a subgroup of NLC members reached out to internal and external experts and employees to help design a continuously improving safety system based on learning rather than compliance. The Forest Service is currently benchmarking existing efforts and approaches to ensure the agency captures and retains what is working well as part of our corporate approach.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Learning objectives for the 1-day safety engagement session for all employees included:

1. Stimulate different thinking about safety.
2. Introduce some basic tools to improve employee risk management skills.
3. Help build a safety learning culture.

Hundreds of employees have been asked to share their ideas on the most strategic investments the agency could make to dramatically improve safety. More than 80 unique suggestions were identified. The NLC recommended several high-leverage investments for FYs 2011 and 2012 to the Executive Leadership Team (ELT). The ELT intends to make strategic investments that will make a difference in employee and public safety.

RESTORATION AND WILDLAND FIRE

Climate change poses a significant threat to America's forests and grasslands and jeopardizes the Nation's fresh water supply, recreational opportunities, and wildlife habitat. Problems caused by wildfires, changing rain patterns, and expanding forest insect infestations have been driven in part by a changing climate; future impacts are projected to be more severe.

Across the United States, wildfire seasons have been getting worse with an annual average of 6.7 million acres burned between 2001 and 2011. In 2011 alone, 8.2 million acres were burned; the Wallow Fire broke the record with more than 500,000 acres burned. Also, from 1999 through October 2011, nearly 34,000 homes, businesses, and outbuildings burned in wildfires.



What are we doing to address these problems? The Forest Service's *Cohesive Wildfire Management Strategy* has three main goals:

1. First, restoring fire-adapted ecosystems on a landscape scale by reducing fuels and reintroducing fire.
2. Second, building fire-adapted human communities.
3. Third, responding appropriately to wildfire; using fires where we can; and suppressing them where they threaten lives, homes, and critical natural resources.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

IMPROVE FOREST HEALTH AND REDUCE FIREFIGHTING COSTS

In USDA Management Challenges (August 2011), the Office of Inspector General (OIG) found that the Forest Service needed to improve forest health and reduce firefighting costs. The Forest Service spends significant funds to reduce hazardous fuels in forests to protect people and property from wildfires, yet fuels accumulate three times faster than the agency can reduce them. The overall cost of wildland fire management is more than 40 percent of the agency's budget.

The OIG recommended the Forest Service focus not only on managing natural resources but also on ensuring that it approaches complex budgetary and human resource management issues with the same dedication. In FY 2011, the Forest Service:

- Hired a contractor to conduct an indepth analysis to determine how the agency should proceed with determining future firefighting-crew needs and costs.
- Developed performance standards to assess whether the tactics employed are cost effective.
- Revamped the Working Capital Fund program and developed the "Aerial Firefighting Aircraft Replacement Action Plan" in an effort to strengthen the agency's aerial firefighting acquisition process.

The OIG also recommended that the Forest Service needs a cohesive strategy to effectively combat invasive species. In FY 2011, the Forest Service conducted an overall review of the agency's information systems for the invasive species program and took steps to ensure that the systems are adequate. In FY 2012, the agency plans to develop new NFS invasive species management policy and an adequate, cohesive internal control environment for managing the program.

The OIG identified workforce succession planning for firefighters as an emerging issue that may develop into a management challenge. With many employees approaching retirement, the Forest Service's firefighting workforce is particularly vulnerable. Since firefighter trainees take an average of 23 years to qualify for critical firefighting positions, this situation becomes more urgent. The agency is responding by developing a new firefighting business model and approaching workforce issues through strategic planning and multiagency coordination.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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 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 2011 year-to-date (YTD) actual performance reported as of November 7, 2011. Final performance accomplishments for these strategic measures will be published in the FY 2011 APR in February 2012. Final resources by strategic goal—identified as “Estimated”—will also be available in the APR.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

STRATEGIC GOAL 1: RESTORE, SUSTAIN, AND ENHANCE THE NATION'S FORESTS AND GRASSLANDS

Goal 1 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$4,620	\$4,240	\$4,138

The national forests and grasslands were established to protect land, secure favorable waterflows, and provide a sustainable supply of goods and services to the American people. In addition to managing these lands, the Forest Service provides technical and financial assistance to the States and private forest landowners. During the past century, the agency has achieved a balance between providing land stewardship services and meeting public demands for various uses of the NFS. Despite past successes, challenges persist. In recent years, people have become more aware of forest disturbance. The increasing extent and frequency of uncharacteristically severe wildland fires and insect and disease outbreaks have caused particular concern. The Forest Service works to restore, sustain, and enhance the land through an integrated approach that includes programs such as Watershed Management, Invasive Species Management, and Management of Aquatic and Terrestrial Habitats.

Reduce the risk to communities and natural resources from wildfire.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Moved toward desired conditions (acres and percentage)	991,000 39%	799,215 27%	693,957 24%	960,000 40%	516,310 30%	54% 75%	1,600,000 40%
Maintained in desired conditions (acres and percentage)	830,000 33%	1,146,720 38%	1,231,800 42%	1,200,000 50%	586,318 34%	49% 68%	2,000,000 50%
Brought into stewardship contracts (acres)	57,500	88,304	152,834	250,000	100,577	40%	300,000

Build community capacity to suppress and reduce losses from wildfires.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Treated in the WUI that have been identified in CWPPs ⁶ or equivalent plans (percentage of acres)	17%	41%	44.8%	75%	51.8%	69%	75%

⁶ CWPPs are Community Wildfire Protection Plans.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Restore and maintain healthy watersheds and diverse habitats.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Watersheds in class 1 condition (percentage of all)	30%	30%	26%	30%	52.3%	171.6%	32%
Terrestrial habitat restored (acres, in thousands)	642	2,154	2,037	1,725	1,876	120%	3,973,000
Stream habitat restored (miles)	4,600	3,498	3,577	2,312	2,350	87%	2,670
Lake habitat restored (acres)	18,000	23,570	27,779	16,437	18,269	111%	23,600
Acres needing reforestation or timber stand improvement that were treated (percentage)	13%	18%	23%	15.5%	13.8%	89.3%	17%

STRATEGIC GOAL 2: PROVIDE AND SUSTAIN BENEFITS TO THE AMERICAN PEOPLE

Goal 2 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$572	\$394	\$355

America's forests and grasslands contain abundant natural resources and opportunities that help meet the demands and needs of the American people. Sustainable management of these resources ensures that the availability of goods and services continues into the future and that land productivity is maintained. National forest management provides a variety of opportunities for use and provides

for wildlife diversity, supplies of wood products, energy sources and transmission infrastructure, wildlife and domestic livestock forage, water supplies, and other goods and services.

Primarily through 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 in the United States.

The Forest Service also provides international technical assistance, which not only advances the sustainability of forest resources abroad but also improves conditions here at home. Our research provides a solid scientific foundation for the sustainable management of forests and grasslands and improvements in the use and marketing of forest products and services.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Wood fiber provided to meet demand ⁷ (CCF ⁸)	5,400,000	4,829,254	5,020,841	4,916,781	4,845,059	98.5%	5,232,000
Green tons and/or volume of woody biomass available through permits, contracts, grants, agreements, or the equivalent ⁹ (number)	N/A	2,331,989	3,306,138	2,700,000	2,954,842	109%	2,700,000

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 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
National forests and grasslands under grazing permit that are sustainably managed for all rangeland products (acres, in thousands)	81,560	79,097	76,154	81,560	75,387	92.4%	81,560

⁷ Actual measure is "Wood fiber provided to meet the Nation's demand for forest products in an environmentally sustainable manner."

⁸ CCF=Hundred cubic feet

⁹ 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, 2011 AND 2010**

Help meet energy resource needs.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 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%	8%	5%	45%	43.5%	97%	10%

STRATEGIC GOAL 3: CONSERVE OPEN SPACE

Goal 3 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$165	\$210	\$177

Open space provides many environmental, social, and economic benefits to rural and urban communities. 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 maintaining the multitude of public benefits we all need and enjoy. These “green spaces” also increase home values and generate jobs and economic vitality. Current population growth trends show a steady loss of vital open spaces to developed uses.

The Forest Service addresses the issue of open space by acquiring land and collaborating with States and private landowners to protect these areas. For example, the Forest Legacy Program protects environmentally important forest areas that are threatened by development and other nonforest uses. The Forest Stewardship Program develops and delivers appropriate technical and planning assistance to enable active, informed, long-term forest management. Forest Stewardship management plans provide landowners with practical guidance for achieving their own unique objectives in a way that also maximizes public goods and services provided by those forests, such as clean drinking water, clean air, carbon sequestration, wood fiber, recreation, and scenic landscapes. Forest Stewardship management plans place landowners in a much better position to participate in certification programs and access emerging markets, such as those for ecosystem services and carbon credits.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Protect forests and grasslands from conversion to other uses.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Environmentally important forests and grasslands protected from conversion (acres, cumulative and annual)	1,360,000 (0)	1,897,809 176,471	2,056,107 136,960	2,174,107 118,000	2,210,563 149,720	102% 127%	2,601,809 (301,000)

STRATEGIC GOAL 4: SUSTAIN AND ENHANCE OUTDOOR RECREATION OPPORTUNITIES

Goal 4 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$851	\$677	\$650

The Forest Service is challenged with sustaining adequate high-quality outdoor recreation opportunities to meet the Nation's needs while maintaining the ecological integrity of national forests and grasslands. The combination of increasing populations and the continued decline of public access to privately owned forest land creates extensive

pressure on public lands to supply more recreation opportunities. The Forest Service's recreation programs provide jobs not only for the maintenance of infrastructure such as trails and lodges, but also by attracting tourism that supports rural businesses.

If public lands are to provide additional recreational benefits without damaging the landscape, management must be based on a strong scientific foundation, which is provided in part by Forest Service researchers. Preserving high-quality recreation opportunities also requires maintaining the lands and the buildings, roads, and trails on those lands. This infrastructure makes it possible for visitors to view wildlife, explore wilderness and cultural heritage areas, participate in educational activities, and access off-highway vehicle trails. The agency continues to work with its partner volunteers, nongovernmental organizations, other agencies, and the private sector to achieve acceptable results.

Improve the quality and availability of outdoor recreation experiences.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Recreation sites maintained to standard (percentage)	65%	67%	68%	70%	71.2%	100.7%	70%
Total recreation capacity at developed recreation sites that meets accessibility standards (percentage)	10%	23%	19%	27%	23.1%	84.7%	30%
Trails that meet national quality standards (percentage)	60%	26%	41%	35%	25.3%	72.2%	50%

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Customers who are satisfied with recreation facilities, services, and settings (percentage)	80%	91%	94%	90%	93.8%	104%	90%
Road system intended for passenger-car use that is suitable for passenger-car use (percentage)	29%	89%	90%	89%	89.9%	101%	75%

Secure legal entry to national forest lands and waters.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
High-priority access rights-of-way acquired (percentage)	90%	74%	106%	85%	N/A ¹⁰	N/A	95%

Improve the management of off-highway vehicle use.

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 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%	44%	66.7%	100%	76.7%	76.7%	100%

STRATEGIC GOAL 5: MAINTAIN BASIC MANAGEMENT CAPABILITIES OF THE FOREST SERVICE

Goal 5 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$663	\$440	\$414

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. Effectively managing its natural resources and ensuring the safety of the land and its users requires quality data from agency information systems, current strategic unit plans, prepared law enforcement officials, and facility maintenance. The Forest Service strives to improve the administration of national forest lands and facilities “for present and future generations.”

¹⁰ Actual accomplishment for this performance measure will be available in the FY 2013 Budget Justification, available at <http://www.fs.fed.us> in February 2012.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Administrative facilities that are being maintained to standard (percentage)	64%	66%	64%	63%	63%	100%	65%
Newly reported encroachments and title claims administered to standard ¹¹ (percentage)	60%	5%	34%	20%	N/A ¹²	N/A	35%

STRATEGIC GOAL 6: ENGAGE URBAN AMERICA WITH FOREST SERVICE PROGRAMS

Goal 6 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$35	\$37	\$34

The Forest Service has an integrated program of natural resources stewardship to better connect urban residents to public and private forested lands as a way of improving quality of life. The agency works to promote understanding and beneficial management of the urban forest through conservation education, community "greening" efforts, and youth programs. Partners at the Federal, State, and local levels

improve the Forest Service's understanding of what urban residents think of their local parks, nearby woodlands, and national forests and what they want from them. Through these partnerships, the agency builds connections between rural and urban communities.

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

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Communities with developing or established urban and community forestry programs resulting from Forest Service assistance (number)	6,564	6,853	7,102	7,200	14,263	198%	10,000

¹¹Efforts are underway to develop a new performance measure and associated targets for this activity.

¹²Actual accomplishment for this performance measure will be available in the FY 2013 Budget Justification, available at <http://www.fs.fed.us> in February 2012.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

STRATEGIC GOAL 7: PROVIDE SCIENCE-BASED APPLICATIONS AND TOOLS FOR SUSTAINABLE NATURAL RESOURCES MANAGEMENT

Goal 7 Resources by Fiscal Year (in millions)		
2009	2010	Estimated 2011
\$99	\$127	\$118

The Forest Service conducts research and produces technologies to improve the health and use of our Nation's forests and grasslands. Science informs policy and land management decisions to help achieve desired outcomes. Science and the knowledge generated by the Forest Service is transferred to many organizations, including policymakers, wildland fire managers, and communities.

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

PERFORMANCE MEASURE	BASELINE	FY 2009	FY 2010	FY 2011			2012 TARGET
				TARGET	YTD	YTD %	
Customer satisfaction with R&D products and services (ACSI ¹³ score)	72	75	72	75	75	100%	75
Patent applications filed (number)	10	6	6	6	4	66%	8

¹³ American Customer Satisfaction Index (ACSI), an economic indicator that measures the satisfaction of consumers across the U.S. economy.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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 2009 ACTUAL	FY 2010 ACTUAL	FY 2011		FY 2012 TARGET	FY 2015 TARGET
			TARGET	YEAR-END PROJECTION		
Acres on which high-impact targeted practices are implemented on National Forest System and private lands in priority landscapes to accelerate the protection of clean, abundant water (millions of acres)	0	.410	.600 ¹⁴	.330	1.5	N/A ¹⁵
Annual economic contribution of recreation on national forests and grasslands (thousands of jobs)	238	238	238	238	N/A	247
Percentage of acres treated in the wildland-urban interface that have been identified in Community Wildfire Protection Plans	41%	44.8%	75%	51.8%	75%	55%
Cumulative acres in the National Forest System that are in a desired condition relative to fire regime (millions of acres)	58.5	58.8	59.6	59.185	60.1	61.5
Protected from conversion through easements and fee-simple purchases (thousands of acres)	1,924	2,225	2,494	2,245	2,828	2,860

¹⁴ The target of .600 acres is the Forest Service target and only a portion of the overall target for USDA. USDA's target is supported by multiple agencies and is still expected to be met.

¹⁵ N/A is not applicable.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

**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. These statements are:

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, 2011, financial statements provides the following highlights and exhibits, reflecting the comparative amounts for FY 2011 and FY 2010.

CONSOLIDATED BALANCE SHEETS

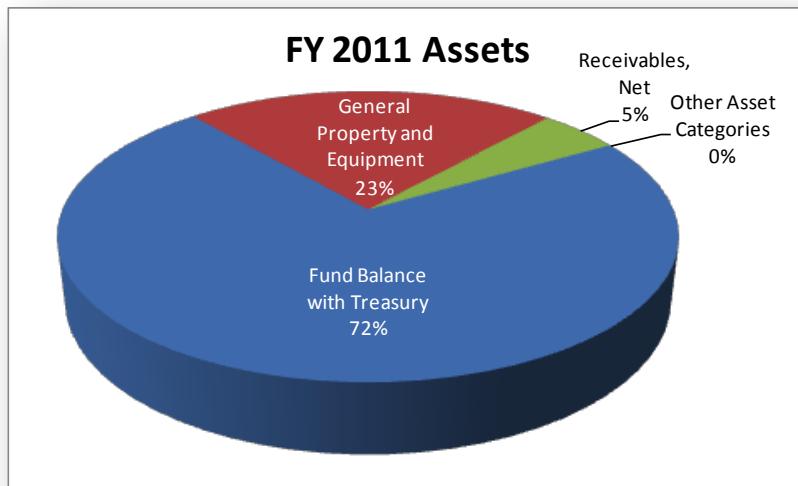
The Balance Sheet is a presentation of the Forest Service's financial condition at the end of the fiscal year. It shows the resources Forest Service holds to meet its statutory requirements (Assets), the amounts it owes that will require payment from these resources (Liabilities), and the difference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

ASSETS

As of September 30, 2011, Forest Service reports \$6.1 billion in assets, representing a decrease of 11 percent from FY 2010 amounts.

ASSET	ASSETS (in millions)			
	FY 2011	FY 2010	DIFFERENCES	
			DOLLARS	PERCENTAGES
Fund Balance with Treasury	\$4,379	\$5,252	(\$873)	(17%)
General Property and Equipment	1,400	1,383	17	1%
Receivables, Net	276	139	137	99%
Total of Major Categories	\$6,055	\$6,774	(\$719)	(11%)
Other Asset Categories	24	51	(27)	(53%)
Grand Total Assets	\$6,079	\$6,825	(\$746)	(11%)

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**



Fund Balance with Treasury (FBWT)

FBWT (72 percent of assets) decreased \$873 million (17 percent) from FY 2010, primarily due to rescissions (cancellations) of prior-year balances as well as increased disbursements of American Recovery and Reinvestment Act (ARRA) funds. FBWT 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.

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

General PP&E (23 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 6—Stewardship PP&E and the Required Supplementary Information (RSI) section.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Receivables, Net

Accounts Receivable, Net (5 percent of assets) increased \$137 million (99 percent) from FY 2010, primarily due to an increase in wildfire activity, primarily in the State of Texas, with associated reimbursable revenue to be paid by the State.

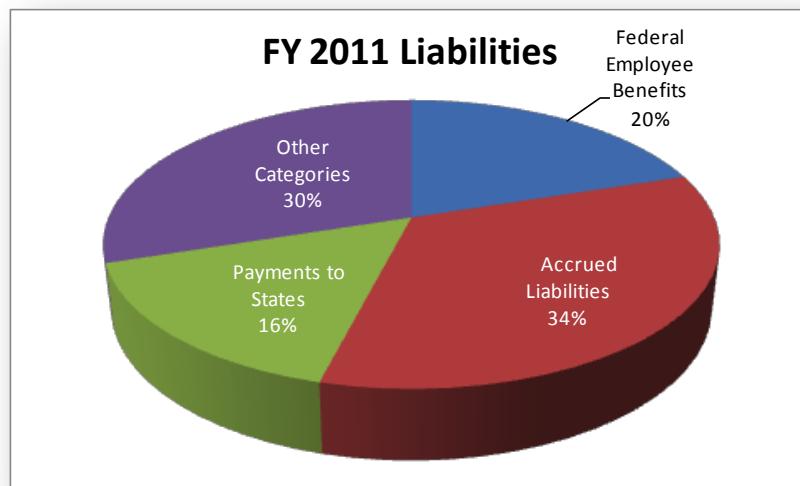
Other Assets

Other assets (less than 1 percent of assets) decreased \$27 million (53 percent) from FY 2010, primarily due to reductions in advances and prepayments for goods and services provided to the Forest Service, as well as redemption of Treasury securities in the first quarter of FY 2011.

LIABILITIES

As of September 30, 2011, the Forest Service reports \$2.3 billion in liabilities, representing an increase of 6 percent from FY 2010 amounts.

LIABILITY	LIABILITIES (in millions)		DIFFERENCES	
	FY 2011	FY 2010	DOLLARS	PERCENTAGES
Federal Employee Benefits	\$454	\$443	\$11	2%
Other Liabilities (non-Federal)				
Accrued Liabilities	782	734	48	7%
Payments to States	357	409	(52)	(13%)
Other Categories	669	551	118	21%
Grand Total Liabilities	\$2,262	\$2,137	\$125	6%



MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Federal Employee Benefits

Federal Employee Benefits (20 percent of liabilities) had an increase of \$11 million (2 percent) from FY 2010. 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 \$48 million (7 percent) from FY 2010. 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.

Payments to States

The liability for Payments to States (16 percent of liabilities) decreased \$52 million (13 percent) from FY 2010 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.

Other Categories

Other Categories (30 percent of liabilities) increased \$118 million (21 percent) from FY 2010. 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 unexpended appropriations of \$2.1 billion and cumulative results of operations of \$1.8 billion. The total net position decreased by \$871 million (19 percent) from FY 2010.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

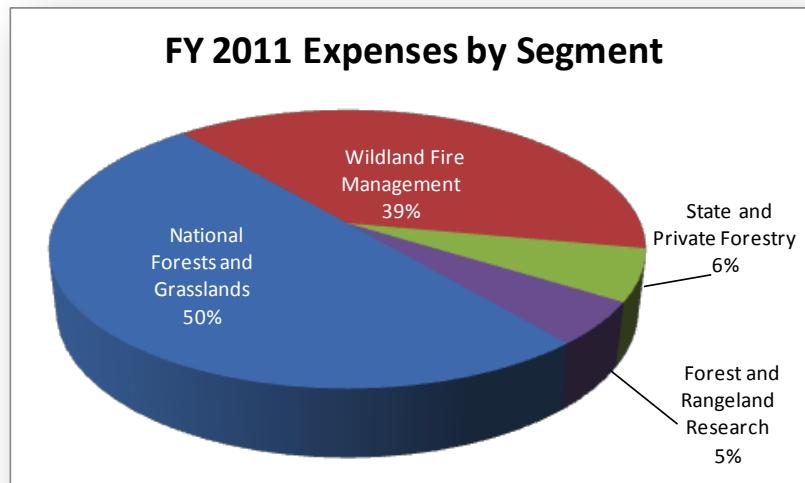
CONSOLIDATED STATEMENTS OF NET COST

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 \$6.3 billion, representing an increase of 4 percent from FY 2010 amounts.

DESCRIPTION	NET COST OF OPERATIONS (in millions)		DIFFERENCES	
	FY 2011	FY 2010	DOLLARS	PERCENTAGES
Program Cost by Segment:				
National Forests and Grasslands	\$3,603	\$3,808	(\$205)	(5%)
Wildland Fire Management	2,817	2,078	739	36%
State and Private Forestry	390	448	(58)	(13%)
Forest and Rangeland Research	350	368	(18)	(5%)
Total Program Costs	7,160	6,702	458	7%
Less: Total Earned Revenue	\$833	\$623	\$210	34%
Net Cost of Operations	\$6,327	\$6,079	\$248	4%

Expenses

Forest Service program costs are \$7.2 billion for FY 2011, representing an increase of 7 percent from FY 2010. The increase is primarily due to increased Wildland Fire Management costs (39 percent of program costs) as a result of increased wildfire activity in the State of Texas.



Revenue

The Forest Service's earned revenue—from both the public and intragovernmental—is \$833 million for FY 2011 and \$623 million for FY 2010, resulting in an increase of \$210 million. The increase of revenue is primarily attributed to reimbursable services provided to the State of Texas for fire suppression.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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 reimbursable activities for fire and work completed 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 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 2011	FY 2010	DIFFERENCES	
			DOLLARS	PERCENTAGES
Unexpended Appropriations	\$2,056	\$2,991	(\$935)	(31%)
Cumulative Results of Operations	1,761	1,697	64	4%
Total Net Position	\$3,817	\$4,688	(\$871)	(19%)

Unexpended Appropriations

The Unexpended Appropriations balance is \$2.1 billion for FY 2011, representing a decrease of 31 percent from FY 2010. The decrease is primarily due to FY 2011 Treasury Recissions, reductions in appropriations received in FY 2011, and an increase in appropriations used in FY 2011, which causes the unexpended balance to decrease as reflected by the increase in total program costs.

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 in Part B. Financial Section of this AFR.

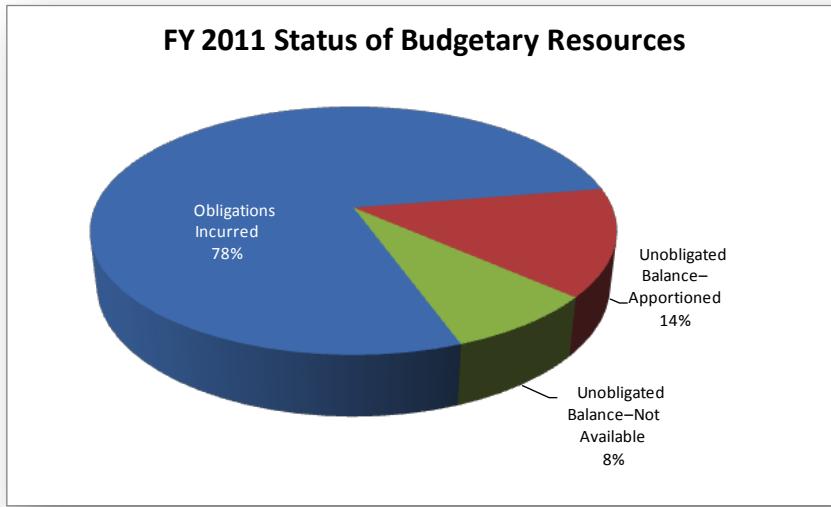
COMBINED STATEMENTS OF BUDGETARY RESOURCES

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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

Forest Service's total budgetary resources were \$8.6 billion in FY 2011 and \$9.3 billion in FY 2010, representing a decrease of 8 percent from FY 2010.

STATEMENT OF BUDGETARY RESOURCES (in millions)				
STATEMENT OF BUDGETARY RESOURCES	FY 2011	FY 2010	DIFFERENCES	
	DOLLARS	PERCENTAGES		
Total Budgetary Resources	\$8,585	\$9,339	(\$754)	(8%)
Status of Budgetary Resources				
Obligations Incurred	6,678	6,980	(302)	(4%)
Unobligated Balance—Apportioned	1,194	1,361	(167)	(12%)
Unobligated Balance—Not Available	713	998	(285)	(29%)
Total Status of Budgetary Resources	\$8,585	\$9,339	(\$754)	(8%)



Unobligated Balance—Apportioned

The Unobligated Balance—Apportioned decreased \$167 million (12 percent) in FY 2011, primarily due to a decrease in the balances in FY 2011 for Wildland Fire Management. The need to obligate funds for increased fire-related activities caused the reduction in unobligated balances.

Unobligated Balance—Not Available

The Unobligated Balance—Not Available decreased \$285 million (29 percent) in FY 2011, primarily due to transfers out of budget authority from the FLAME Act Fund. The transfers were needed to cover the increased wildfire activity. This reduction was offset by fewer apportionments in FY 2011 for the Recreation Fee Demonstration Program and an increase in appropriations received for the Cooperative Work Trust Fund.

**MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA)

The management control objectives under FMFIA, or the Integrity Act of 1982, are listed in the “*What's FMFIA?*” box, below. Deficiencies that seriously affect an agency's ability to meet these management control objectives are deemed “material weaknesses.”

What is FMFIA?

The *Federal Managers' Financial Integrity Act*, or FMFIA, requires agency managers to reasonably assure Congress and the American public that all financial information meets the following control objectives:

- 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.

FMFIA 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, 2011.

**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 U.S. 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, 2011.

1. Federal financial management system requirements.
2. Applicable Federal Accounting Standards.
3. The USSGL at the transaction level.

FY 2011 Results

Based on the results of our evaluation, Forest Service is substantially compliant with the Sections listed above.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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.

FY 2011 Results

No IT material weaknesses were noted for Assurance Year 2011.

INTERNAL CONTROLS 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 2011 Assurance Year (ending June 30, 2011), 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 reasonable assurance that controls over the financial reporting area are operating effectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

ARRA

In FY 2011, [ARRA](#)¹⁶ funds enabled the Forest Service to treat more than 510,670 acres of NFS land to reduce wildfire risk and create or retain more than 3,751 jobs each quarter. For more information, go to http://usda.gov/wps/portal/arra?navid=USDA_ARRA_PLAN.

Seven out of nine [Fast Reports](#)¹⁷ issued by OIG in FY 2011 were completed and corrective actions were implemented. The Forest Service continues to work on mitigating the remaining two Fast Reports. The OIG commended the Forest Service for working proficiently to ensure that the agency was accountable for the efficient and effective disbursement of ARRA funds.

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 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.

¹⁶ For more information on ARRA, go to http://usda.gov/wps/portal/arra?navid=USDA_ARRA_PLAN.

¹⁷ Fast Reports are OIG findings reported to Forest Service management that require a response within 5 days on (1) the factual accuracy of the finding, and (2) any proposed corrective action to remediate the issue.

Part B

FINANCIAL SECTION

Message From the Chief Financial Officer

The Forest Service, an agency of the Department of Agriculture (USDA), strives to increase transparency of financial information that promotes the Open Government initiative and accountability and demonstrates results to the American people. As Chief Financial Officer, I am especially pleased to note that for the 10th consecutive year, the Forest Service received an unqualified ("clean") audit opinion on its principal FY 2011 financial statements. Additionally, for the 4th consecutive year, the independent auditors reported no area of material weakness.

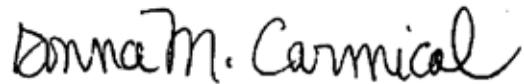
As outlined in Chief Tidwell's message at the beginning of this report, we have worked aggressively in FY 2011 to complete recommended actions and close all open financial statement audits and a record number of program audits. These results demonstrate the agency's continued commitment to financial management excellence.

The agency's continued achievements in financial management are due in part to its focus on collaboration between the finance, budget, and program areas, as well as the various partnerships within each of these areas. Collaboration efforts advance good communication, transparency, integration, and efficiency in delivery of services. The joint efforts of Forest Service managers, employees, and partners are key as the Forest Service sustains quality financial management.

In keeping with USDA's commitment to deploy an enhanced financial system, the Forest Service is moving forward to prepare for the significant changes that come with the Financial Management Modernization Initiative (FMMI). In FY 2012, the Forest Service will continue to devote resources to ensure a successful implementation of FMMI in early FY 2013.

While we celebrate our successes, we also realize we have areas in which we can improve and strive to promote efficiency and continuous improvement.

Chief Tidwell addressed the daunting conservation challenges in his message. As such, we continue to address the inherent logistical challenges of managing vast natural resources that are becoming more complicated and expensive. It is key that we provide timely and accurate financial data to assist managers in making decisions as they manage these important resources.



DONNA M. CARMICAL
Chief Financial Officer





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



NOV 10 2011

REPLY TO
ATTN OF: 08401-0001-11

TO: Thomas Tidwell
Chief
Forest Service

ATTN: Donna Carmical
Chief Financial Officer

Jennifer McGuire
Director, Audit and Assurance

Sandy Coleman
Agency Liaison Officer

FROM: Gil H. Harden *(Signature)*
Assistant Inspector General
for Audit

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2011 and 2010

This report presents the results of the audit of Forest Service's (FS) financial statements for the fiscal years ending September 30, 2011 and 2010. 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, conducted the fiscal year 2011 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; or conclusions on compliance with laws and regulations. Kearney is responsible for the attached auditor's report, dated November 8, 2011, 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 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, 2011, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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 noncompliances with laws and regulations exclusive of FFMIA.

The financial statements of FS as of and for the year ended September 30, 2010, were audited by KPMG LLP whose report dated November 5, 2010, expressed an unqualified opinion on those financial statements.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, including the timeframes to address the report recommendations. Please note the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

Independent Auditor's Report

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheet of the United States Forest Service (Forest Service), an agency of the United States Department of Agriculture (USDA), as of September 30, 2011, and the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources (hereinafter referred to as "the financial statements") for the year then ended. The financial statements are the responsibility of the Forest Service's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Forest Service as of September 30, 2010 were audited by other auditors whose report, dated November 5, 2010, expressed an unqualified opinion on those statements.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Accompanying Information sections is not a required part of the basic financial statements. Rather, they are considered supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board. This supplementary information is the responsibility of the Forest Service's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary 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. However, such

information was not subjected to the procedures applied in our audit of the basic financial statements. Accordingly, we do not express an opinion on this information.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended, we have also issued reports, dated November 8, 2011, on our consideration of the Forest Service's internal control over financial reporting and compliance, 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, 2011. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the Forest Service's compliance with certain provisions of laws and regulations 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 audit.



Alexandria, Virginia
November 8, 2011

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Chief of the United States Forest Service
The Inspector General, 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, 2011, and have issued our report dated November 8, 2011. 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; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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 (IT)

The Forest Service's 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 two weaknesses related to segregation of duties. In one instance, three users of one application had access to the application's development and production environments. The Forest Service's control structure relies on a manual control to mitigate this weakness; however, Kearney & Company, P.C.'s (Kearney) audit procedures indicated that this manual control does not mitigate the weakness. In the second instance, eight users of another application were able to perform incompatible functions. The Forest Service's control structure contains an automated review control for these functions at the Albuquerque Service Center (ASC); however, Kearney's audit procedures did not indicate that the Forest Service mitigates the risk related to this segregation of duties weakness to an acceptable level.

Recommendation Number 1: Kearney recommends that the Forest Service monitor access to systems in order to prevent users from having incompatible functions, and document any instances of conflicting roles and provision of access based on risk

analysis. Kearney also recommends that the Forest Service augment and improve the identified mitigating controls to specifically address the weaknesses identified.

- The Forest Service did not deactivate employee accounts within one business day of an employee's separation, as required by Forest Service policy. Kearney's audit procedures identified approximately 600 separated employees in four applications. If their accounts are not deactivated timely, employees who have been separated may be able to access information systems after their separation from the Forest Service, which could result in waste, fraud, or abuse. Failure to limit user access and processing capabilities to authorized employees may result in system vulnerabilities, possible defalcations, and errors in accounting records.

Recommendation Number 2: Kearney recommends that the Forest Service implement a process to ensure that inactive accounts and accounts for separated employees are disabled or removed from Forest Service information systems in a timely manner.

- The Forest Service does not currently maintain a comprehensive IT inventory of hardware and software for one General Support System (GSS), nor does it currently document and maintain hardware and software configuration baselines for two GSSs. Without a process for managing configuration baselines, the Forest Service increases the risk that information systems and their supporting IT infrastructures are not configured in a manner to maximize security. Weak security could lead to the compromise of information systems, and ultimately, sensitive financial data. Weak security could also negatively impact the confidentiality, integrity, and availability of financial system data. Additionally, the Forest Service cannot develop a comprehensive and effective IT Contingency Plan (CP) without baseline configurations. Failure to develop and test an IT CP may result in the loss of system access, data, and automated controls, which could lead to errors and defalcations.

Recommendation Number 3: Kearney recommends that the Forest Service implement a process to ensure that information system inventories and configuration baselines are documented and updated in accordance with policy. This may require the Forest Service to document, back up, and protect a current and comprehensive baseline inventory of hardware, software, and firmware. This may also require the Forest Service to map hardware, software, and firmware to the applications they support. Kearney also recommends that the Forest Service select mandatory configuration settings based off of a NIST-approved baseline, and document any deviations from the baseline. This may require the Forest Service to ensure that changes to existing baselines follow the change management process, whereby changes are authorized, tested, approved, and documented according to policy.

- The Forest Service did not update documentation authorizing two information systems to operate in a timely manner. Specifically, the Forest Service did not fully implement all recommended steps within the risk management framework, including ongoing monitoring of the control environment and updating of System Security Plans (SSP) on

an annual basis, as required per United States Department of Agriculture (USDA) policy. By not monitoring the control environments for information systems and updating SSPs, the Forest Service increases the likelihood that risks to information systems will not be adequately mitigated in a timely and consistent manner, which may ultimately lead to errors in accounting records.

Recommendation Number 4: Kearney recommends that the Forest Service implement a process to ensure that the risk management framework is fully implemented. This may require the Forest Service to update SSPs at least annually, or whenever there is a significant change to the control environment. Kearney also recommends that the Forest Service certify and accredit all information systems before they are placed into operation or at least every three years, or more frequently if major system changes occur.

- The Forest Service does not have a formal and documented service provider management monitoring function in place. The Forest Service has not assigned responsibility for monitoring contracts, Service Level Agreements (SLA), and Statements on Standards for Attestation Engagement (SSAE) No. 16 reports. The Forest Service has not mitigated the risks associated with the use of service providers, and may not be able to identify ineffective or inefficient services provided by service providers, or failures in the service providers' control environments.

Recommendation Number 5: Kearney recommends that the Forest Service implement a process to ensure that third party SLAs are executed, and that SSAE No. 16 reports are received from all service providers and evaluated. This may require the Forest Service to implement a service provider management process to identify parties responsible for monitoring contracts, agreements, SLAs, and SSAE No. 16 reports.

- The Forest Service was not able provide documentation supporting the status of any background re-investigations, as required by Office of Personnel Management (OPM) and 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.

Recommendation Number 6: Kearney recommends that the Forest Service improve its process for background investigations and re-investigations to ensure that necessary investigations are performed in accordance with Forest Service policy. This may require the Forest Service to ensure that databases used to track contractors' and employees' background investigations and re-investigations are continually updated with contractors joining and leaving the Forest Service. This may also require the Forest Service to ensure that contractors and employees have background investigations commensurate with their position descriptions, and that re-investigations are completed in a timely manner.

- 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 199. Although the Forest Service has installed the software necessary to support multi-factor authentication for remote access users, it has not completed the implementation. The Forest Service has not fully complied with Homeland Security Presidential Directive 12, in that Personal Identity Verification cards have not been issued to approximately half of the 15,000 Forest Service employees and 2,500 contractors with Virtual Private Network access. Lack of multi-factor authentication over remote access could cause financial systems to be vulnerable to fraudulent access. Multi-factor authentication should be designed to be a more secure control to ensure that only approved and appropriate access to sensitive financial data is allowed.

Recommendation Number 7: Kearney recommends that the Forest Service implement a process to ensure that the selection of authentication methods is 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.

II. Property, Plant, and Equipment (PP&E)

The Forest Service reported approximately \$1.4 billion in net PP&E on its fiscal year (FY) 2011 Balance Sheet, which is about 23% 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 internal control structure was not sufficient to ensure that projects were transferred from Work in Process (WIP) to PP&E as the project was substantially completed and placed into service. Specifically, field personnel do not submit project completion forms timely. Property personnel do not review WIP projects for indications of substantial completion. Forest Service policy produces at least a three-month delay in transferring substantially completed projects to PP&E.

Kearney's audit procedures identified eight current year untimely WIP transfers, a 40% error rate, and 106 WIP projects that had no financial activity in the last four months. Additional procedures revealed that 18 projects, a 90% error rate, were substantially complete and should have been placed into service. Delays in the WIP transfer caused an understatement of depreciation by approximately \$1.2 million.

Recommendation Number 8: Kearney recommends that the Forest Service perform an annual evaluation of WIP projects to timely identify the need for WIP project closure. This may require the Forest Service to monitor the potential impact of understating depreciation expense related to untimely WIP transfers. Kearney also recommends that

the Forest Service improve escalation procedures to ensure appropriate monitoring and communication with field personnel.

- The Forest Service reported approximately \$24 million of repairs and maintenance expenses. Kearney's audit procedures identified approximately \$10 million of expenses that should have been capitalized in 26 transactions—a 42% error rate. The Forest Service's internal control structure did not ensure that only expenditures related to ordinary repairs and maintenance were expensed; the Forest Service expensed asset improvements, which included assets that were being remodeled, renovated, upgraded, or replaced. These improperly expensed transactions resulted in an understatement of depreciation by approximately \$100,000.

Recommendation Number 9: Kearney recommends that the Forest Service revise its existing desk procedures related to acquisition and capitalization of property that highlight the need to include capitalized costs when acquiring assets, and include direction stressing the need for periodic notifications and communication between field personnel and the ASC. Kearney also recommends that the Forest Service review its current capitalization procedures to assess an acceptable level of risk for not accurately capturing all capital improvement projects. This may require the Forest Service to identify and implement preventative and detective controls as necessary.

- The Forest Service's internal control structure did not ensure that capitalized personal property costs were complete and accurate. Kearney's audit procedures identified four transactions, a 3% error rate, in which approximately \$5,000 of costs were not capitalized, projecting approximately \$1 million in understated PP&E. These costs were related to transportation and modifications, and the errors resulted from the improper coding of transactions. In addition to an understatement of PP&E, these errors produced an understatement of current year depreciation expense.

Recommendation Number 10: Kearney recommends that the Forest Service revise its existing desk procedures related to acquisition and capitalization of property highlighting the need to include capitalized costs when acquiring assets, and include direction stressing the need for periodic notifications and communication between field personnel and the ASC. Kearney also recommends that the Forest Service perform a review over all personal property additions for FY 2011 (in both personal property sub-ledger systems), and analyze and assess all capitalized costs associated with placing personal property into service. In addition, Kearney recommends that the Forest Service implement a detective control that analyzes costs associated with placing an asset into service at the Budget Object Code (BOC) level and comparing these costs to the job codes used for capitalized property.

- The Forest Service's internal control structure did not ensure that leases were accounted for properly. Kearney's audit procedures identified that 20 of the 47 capital leases, a 43% error rate, did not qualify for capital lease treatment when the option periods were removed from the analysis. In addition, the Forest Service did not update future

minimum operating lease payment schedules for subsequent changes to payment terms. Assets under capital leases were overstated by approximately \$6 million, obligations under capital leases were understated by approximately \$1 million, and the future minimum operating lease payment disclosure was originally and cumulatively overstated by \$180 million.

Recommendation Number 11: Kearney recommends that the Forest Service refine and reassess its processes and internal controls related to lease accounting to ensure that leased assets are recorded accurately and completely. Kearney also recommends that the Forest Service implement a procedure to ensure that changes to operating leases are reflected in the future minimum payment schedule.

- The Forest Service's internal control structure does not ensure that property disposals are recorded timely. Kearney's audit procedures identified 23 property disposals recorded in the current year that occurred in a prior FY.

Recommendation Number 12: Kearney recommends that the Forest Service strengthen its monitoring controls over property disposals at the field level in order to more accurately align the physical disposal of the asset in question and the receipt of the field supporting documentation.

During the audit, we noted certain other matters that we will report to the Forest Service's management in a separate letter. Additionally, the Forest Service's management has indicated in a separate response that it concurs with the findings presented in our report. We did not audit the Forest Service's response, and accordingly, we do not express an opinion on it.

* * * * *

This report is intended solely for the information and use of Forest Service management, those charged with governance and others within the Forest Service, the USDA Office of Inspector General, OMB, GAO, 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 8, 2011

APPENDIX A: Status of Prior Year Deficiencies

In the Independent Auditor's Report on Internal Control included in the audit report of the Forest Service's FY 2010 financial statements,¹ 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	2010 Status	2011 Status
IT Internal Control Environment	Significant Deficiency	Significant Deficiency
Accounts Payable Accruals	Significant Deficiency	N/A
Financial Reporting Requirements	Significant Deficiency	N/A
Credit Card Transactions	Significant Deficiency	Management Letter
Revenue Related Transactions	Significant Deficiency	N/A
Third Party Transactions Review	Significant Deficiency	Modified Repeat Condition (included in the IT Significant Deficiency)

* * * * *

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

¹ *Independent Auditor's Report on the U.S. Forest Service 2010 and 2009 Financial Statements.*

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND OTHER MATTERS

To the Chief of the United States Forest Service
The Inspector General, 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, 2011, and have issued our report dated November 8, 2011. 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 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. 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 certain provisions was not an objective of our audit and accordingly, we do not express such an opinion.

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 U.S. Standard General Ledger (USSGL) at the transaction level. Our audit procedures indicated that the Forest Service substantially complies with FFMIA; however, we noted two instances in which the Forest Service's financial management systems did not substantially comply with certain Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level. The Forest Service did not maintain adequate segregation of duties in two financial systems. Additionally, the Forest Service did not terminate approximately 600 user access accounts upon employee separation.

Except as noted above, the results of our tests of compliance with the provisions of selected laws and regulations disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, as amended.

During the audit, we noted certain other matters that we will report to the Forest Service's management in a separate letter. Additionally, the Forest Service's management provided a separate response to our report. We did not audit the Forest Service'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 management, those charged with governance and others within the Forest Service, the U.S. Department of Agriculture Office of Inspector General, OMB, the Government Accountability Office, 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 & Company". The signature is fluid and cursive, with "Kearney" on the first line and "& Company" on the second line, slightly overlapping the first.

Alexandria, Virginia
November 8, 2011



United States
Department of
Agriculture

Forest
Service

Washington
Office

1400 Independence Avenue, SW
Washington, DC 20250

File Code: 1430
Date: NOV 08 2011

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

Dear Mr. Kubistal,

We have reviewed the Kearney & Company Independent Auditors Report dated the day of this letter, and generally agree with its contents. The 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,

DONNA M. CARMICAL
Chief Financial Officer

cc: Steve Bozell OIG, Jennifer McGuire, Kandice Cotner, Dianna Capshaw, Erica Y Banegas,
Sandy T Coleman



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**U.S. Department of Agriculture
Forest Service**
CONSOLIDATED BALANCE SHEETS
As of September 30, 2011 and 2010
(in millions)

	2011	2010
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 4,379	\$ 5,252
Investments (Note 3)	-	6
Accounts Receivable, net (Note 4)	20	24
Total Intragovernmental	<u>4,399</u>	<u>5,282</u>
Cash and Other Monetary Assets	1	1
Accounts Receivable, net (Note 4)	256	115
General Property, Plant, and Equipment (PP&E), net (Note 5)	1,400	1,383
Other (Note 1D)	23	44
Total Assets	<u><u>\$ 6,079</u></u>	<u><u>\$ 6,825</u></u>
Stewardship PP&E (Note 6)		
Liabilities:		
Intragovernmental:		
Federal Employee Benefits (Notes 7 & 8)	\$ 73	\$ 74
Other (Note 10)	188	132
Total Intragovernmental	<u>261</u>	<u>206</u>
Accounts Payable	36	47
Federal Employee Benefits (Notes 7 & 8)	381	369
Environmental and Disposal Liabilities (Notes 7 & 9)	1	1
Other (Note 10)	1,583	1,514
Total Liabilities (Note 7)	<u><u>2,262</u></u>	<u><u>2,137</u></u>
Commitments and Contingencies (Note 10)		
Net Position:		
Unexpended Appropriations - other funds	2,056	2,991
Cumulative Results of Operations - earmarked funds (Note 12)	1,002	933
Cumulative Results of Operations - other funds	759	764
Total Net Position	<u><u>3,817</u></u>	<u><u>4,688</u></u>
Total Liabilities and Net Position	<u><u>\$ 6,079</u></u>	<u><u>\$ 6,825</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, 2011 and 2010
(in millions)

	2011	2010
Program Costs (Note 13):		
Total Gross Costs	\$ 7,160	\$ 6,702
Less: Total Earned Revenue	833	623
Net Cost of Operations	\$ 6,327	\$ 6,079

**U.S. Department of Agriculture
Forest Service**
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2011 and 2010
(in millions)

	FY 2011			FY 2010		
	Earmarked Funds (Note 12)	All Other Funds	Consolidated Total	Earmarked Funds (Note 12)	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balance	\$ 933	\$ 764	\$ 1,697	\$ 907	\$ 751	\$ 1,658
Budgetary Financing Sources:						
Appropriations Used	-	5,849	5,849	-	5,531	5,531
Non-Exchange Revenue	-	2	2	-	2	2
Donations and Forfeitures of Cash	1	-	1	1	-	1
Transfers - In/Out without Reimbursement	116	-	116	170	-	170
Other Financing Sources (Non-Exchange):						
Transfers without Reimbursement	(68)	68	-	(60)	63	3
Imputed Financing	-	425	425	-	426	426
Other	66	(68)	(2)	43	(58)	(15)
Total Financing Sources	115	6,276	6,391	154	5,964	6,118
Net Cost of Operations	(46)	(6,281)	(6,327)	(128)	(5,951)	(6,079)
Net Change	69	(5)	64	26	13	39
Cumulative Results of Operations	1,002	759	1,761	933	764	1,697
Unexpended Appropriations:						
Beginning Balance	-	2,991	2,991	-	2,966	2,966
Budgetary Financing Sources:						
Appropriations Received	-	5,327	5,327	-	5,557	5,557
Appropriation Transfers - In/Out	-	(3)	(3)	-	(1)	(1)
Other Adjustments	-	(410)	(410)	-	-	-
Appropriations Used	-	(5,849)	(5,849)	-	(5,531)	(5,531)
Total Budgetary Financing Sources	-	(935)	(935)	-	25	25
Total Unexpended Appropriations	-	2,056	2,056	-	2,991	2,991
Net Position	\$ 1,002	\$ 2,815	\$ 3,817	\$ 933	\$ 3,755	\$ 4,688

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Forest Service
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2011 and 2010
(in millions)

	2011	2010
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	\$ 2,359	\$ 2,745
Recoveries of Prior Year Unpaid Obligations	94	40
Budget Authority:		
Appropriations	5,824	6,094
Spending Authority from Offsetting Collections:		
Earned:		
Collected	496	495
Change in Receivables from Federal Sources	137	(50)
Change in Unfilled Customer Orders:		
Advance Received	49	7
Without Advance from Federal Sources	38	9
Subtotal	<u>6,544</u>	<u>6,555</u>
Nonexpenditure Transfers, net	(2)	(1)
Permanently Not Available	(410)	-
Total Budgetary Resources (Note 16)	<u><u>\$ 8,585</u></u>	<u><u>\$ 9,339</u></u>
Status of Budgetary Resources:		
Obligations Incurred (Note 15):		
Direct	\$ 6,064	\$ 6,571
Reimbursable	614	\$ 409
Subtotal	<u>6,678</u>	<u>6,980</u>
Unobligated Balance-Apportioned (Note 2)	1,194	1,361
Unobligated Balance Not Available (Note 2)	713	998
Total Status of Budgetary Resources (Note 16)	<u><u>\$ 8,585</u></u>	<u><u>\$ 9,339</u></u>
Change in Obligated Balance:		
Obligated Balance, net		
Unpaid Obligations, Brought Forward, October 1	\$ 3,072	\$ 2,641
Less: Uncollected Customer Payments from Federal Sources,		
Brought Forward, October 1	<u>(310)</u>	<u>(351)</u>
Total Unpaid Obligated Balance, net	<u>2,762</u>	<u>2,290</u>
Obligations Incurred, net	6,678	6,980
Less: Gross Outlays	(6,885)	(6,509)
Less: Recoveries of Prior Year Unpaid Obligations, actual	(94)	(40)
Change in Uncollected Customer Payments from Federal Sources	(175)	41
Obligated Balance, net, End of Period		
Unpaid Obligations (Note 17)	2,771	3,072
Less: Uncollected Customer Payments from Federal Sources	<u>(485)</u>	<u>(310)</u>
Total, Unpaid Obligated Balance, net, End of Period (Note 2)	<u><u>\$ 2,286</u></u>	<u><u>\$ 2,762</u></u>
Net Outlays:		
Gross Outlays	\$ 6,885	\$ 6,509
Less: Offsetting Collections	(545)	(503)
Less: Distributed Offsetting Receipts	<u>(467)</u>	<u>(429)</u>
Net Outlays	<u><u>\$ 5,873</u></u>	<u><u>\$ 5,577</u></u>

The accompanying notes are an integral part of these statements.

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

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 September 29, 2010. 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

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

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 thousand 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 6 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 6 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.

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

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 9 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

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

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 13 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, 2011 and 2010 was \$425 million and \$426 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 Transportation (DOT), Department of Interior (DOI), Department of the Army, Department of the Navy, Department of the Air Force, and the Corps of Engineers, Civil.

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

The Forest Service receives allocation transfers, as the child, from the DOL, 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.

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

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, 2011. These suspense accounts were discontinued effective July 31, 2008. USDA elected not to obtain a waiver, which would have permitted the Forest Service to continue using suspense accounts. In addition, Treasury has stopped accepting new activity in these suspense accounts from entities without the required waiver, but certain intragovernmental activity is still mapped to 12F3875 and 12F3885. Although there is continuing activity in 12F3875, as of September 30, 2011, the balance is zero and therefore did not result in a discrepancy with Treasury. Per Treasury guidance, the balances are not reported to Treasury. The difference between the FBWT balance and Treasury as of September 30, 2011, is \$222,169.

Fund Balance with Treasury as of September 30, 2011 and 2010 consisted of the following:

	(in millions)	
	2011	2010
A. Fund Balances:		
(1) Trust Funds	\$ 397	\$ 374
(2) Special Funds	964	943
(3) Revolving Funds	178	167
(4) General Funds	2,726	3,686
(5) Other Fund Types	114	82
Total	<u><u>\$ 4,379</u></u>	<u><u>\$ 5,252</u></u>
B. Status of Funds:		
(1) Unobligated Balance		
(a) Available	\$ 1,194	\$ 1,361
(b) Unavailable	713	998
(2) Obligated Balance not yet Disbursed	2,286	2,762
(3) Non-Budgetary FBWT Accounts	186	131
Total	<u><u>\$ 4,379</u></u>	<u><u>\$ 5,252</u></u>

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

NOTE 3: INVESTMENTS

Investments are associated with earmarked funds. The Federal Government does not set aside assets to pay future expenditures associated with earmarked funds. Instead, the cash generated from earmarked funds is used by Treasury for general Government purposes. Treasury securities are issued to the earmarked fund as evidence of earmarked receipts and provide the fund with the authority to draw upon Treasury for future authorized expenditures. These securities are an asset to the earmarked fund and are presented as Investments in Note 12 – Earmarked Funds. Treasury securities are a liability of Treasury and are eliminated in the consolidation of the U.S. Government-wide financial statements. Treasury will finance any future redemption of the securities by an earmarked fund in the same manner that all other Government expenditures are financed. Forest Service earmarked fund investments reported in FY 2010 were redeemed in 1st Quarter FY 2011.

Investments

As of and for the year ended September 30, 2011

(in millions)

	Amortization Method	Cost	Net Amortized (Premium)	Investments, Net	Market Value Disclosure
(3) Non-Marketable:					
Market-Based	Straight-Line	\$ -	\$ -	\$ -	\$ -
Total	N/A	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

As of and for the year ended September 30, 2010

(in millions)

	Amortization Method	Cost	Net Amortized (Premium) Discount	Investments, Net	Market Value Disclosure
(3) Non-Marketable:					
Market-Based	Straight-Line	\$ 6	\$ -	\$ 6	\$ 6
Total	N/A	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ 6</u>

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

NOTE 4: 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, 2011 and 2010, the Intragovernmental Accounts Receivable balances were \$20 million and \$24 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, 2011 and 2010 consisted of the following:

	(in millions)	
	2011	2010
Accounts Receivable	\$ 264	\$ 121
Allowance for Uncollectible Accounts	(8)	(6)
Accounts Receivable, Net	<u>\$ 256</u>	<u>\$ 115</u>

**U.S. Department of Agriculture
Forest Service**
Notes to the Consolidated and Combined Financial Statements
For the years ended September 30, 2011 and 2010

NOTE 5: 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, 2011 and 2010 the Forest Service's General PP&E consisted of the following:

Property Class	Estimated Useful Life (Years)	September 30, 2011		
		Cost	Accumulated Depreciation	Book Value
Personal Property				
Equipment	5 - 20	\$ 702	\$ (462)	\$ 240
Internal Use Software	5	94	(84)	10
Internal Use Software in Development	n/a	73	-	73
Total Personal Property		869	(546)	323
Real Property				
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
Total Real Property		3,728	(2,651)	1,077
Total		\$ 4,597	\$ (3,197)	\$ 1,400

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Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property				
Equipment	5 - 20	\$ 688	\$ (467)	\$ 221
Internal Use Software	5	95	(76)	19
Internal Use Software in Development	n/a	46	-	46
Total Personal Property		829	(543)	286
Real Property				
Land and Land Rights	n/a	51	-	51
Improvements to Land	10	715	(624)	91
Construction in Progress	n/a	139	-	139
Buildings, Improvements, and Renovations	15 - 30	977	(591)	386
Other Structures and Facilities	15 - 50	1,698	(1,301)	397
Assets Under Capital Lease	5 - 30	61	(36)	25
Leasehold Improvements	10	14	(6)	8
Total Real Property		3,655	(2,558)	1,097
Total		\$ 4,484	\$ (3,101)	\$ 1,383

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NOTE 6: 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.

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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 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. Assemblage assets include materials donated to the Forest Service, artifact or archival materials collected from a single site, Forest Service administrative unit or event, or any combination thereof.

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, 2011, are as follows:

HERITAGE ASSET SITES BY MANAGEMENT AREA	FY 2010			FY 2011
	Final Sites	Additions	Deletions	Final Sites
National Forests				
Region 1 - Northern Region	15	-	-	15
Region 2 - Rocky Mountain Region	17	-	-	17
Region 3 - Southwestern Region	12	-	-	12
Region 4 - Intermountain Region	18	-	-	18
Region 5 - Pacific Southwest Region	18	-	-	18
Region 6 - Pacific Northwest Region	21	-	-	21
Region 8 - Southern Region	35	-	-	35
Region 9 - Eastern Region	17	-	-	17
Region 10 - Alaska Region	2	-	-	2
Subtotal	155			155
National Grasslands				
Region 1 - Northern Region	4	-	-	4
Region 2 - Rocky Mountain Region	7	-	-	7
Region 3 - Southwestern Region	4	-	-	4
Region 4 - Intermountain Region	1	-	-	1
Region 5 - Pacific Southwest Region	1	-	-	1
Region 6 - Pacific Northwest Region	1	-	-	1
Region 8 - Southern Region	2	-	-	2
Subtotal	20			20
Non Forest Service Sites	155	18	(6)	167
TOTAL SITES	330	18	(6)	342

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.

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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:

- **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.

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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.

The NFS sites reported by major category as of September 30, 2011, are as follows:

STEWARDSHIP LAND ASSET SITES	FY 2010			FY 2011	
	Final Sites	Additions	Deletions	Final Sites	
National Forests	155	-	-	155	
National Grasslands	20	-	-	20	
Research and Experiment Areas	3	-	-	3	
National Preserves and Other Areas	3	-	-	3	
TOTAL SITES	181	-	-	181	

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NOTE 7: 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, 2011 and 2010 consisted of the following:

	(in millions)	
	<u>2011</u>	<u>2010</u>
Intragovernmental:		
Treasury Judgment Fund	\$ 20	\$ 18
Other Unfunded Employment Related Liability	21	14
Federal Employee Benefits (Note 8)	73	74
Total Intragovernmental Not Covered by Budgetary Resources	<u>114</u>	<u>106</u>
Federal Employee Benefits (Note 8)	381	369
Annual Leave Liability	214	214
Contingent Liabilities (Note 10)	12	-
Accrued Liability for Payments to States	357	409
Total Liabilities Not Covered by Budgetary Resources	<u>1,078</u>	<u>1,098</u>
Total Liabilities Covered by Budgetary Resources	<u>1,184</u>	<u>1,039</u>
Total Liabilities	<u><u>\$ 2,262</u></u>	<u><u>\$ 2,137</u></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.

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NOTE 8: 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, 2011 and 2010 consisted of the following:

	(in millions)	
	2011	2010
Intragovernmental Federal Employee Benefits (Note 7)	\$ 73	\$ 74
Federal Employee Benefits (Note 7)	381	369
Total	\$ 454	\$ 443

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NOTE 9: 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 has recognized an estimated liability for government related events of \$1 million for the years ended September 30, 2011 and 2010.

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NOTE 10: OTHER LIABILITIES

	(in millions)					
	2011			2010		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental						
Employer Contributions & Payroll Tax	\$ -	36	\$ 36	\$ -	30	\$ 30
Accrued Liabilities	20	67	87	18	43	61
Advances from Others	-	42	42	-	26	26
Deposit Liabilities	-	2	2	-	1	1
Other (Note 7)	-	21	21	-	14	14
Total Intragovernmental	\$ 20	168	\$ 188	\$ 18	114	\$ 132
Other						
Accrued Liabilities	-	782	782	-	734	734
Advances from Others	-	83	83	-	49	49
Deposit Liabilities	-	108	108	-	77	77
Purchaser Road Credits	-	1	1	-	1	1
Accrued Liability for Payments to States & Counties	-	357	357	-	409	409
Annual Leave Liability	-	214	214	-	214	214
Contingent Liabilities	-	12	12	-	-	-
Custodial Liabilities	-	1	1	-	3	3
Capital Leases (Note 11)	19	3	22	22	3	25
Other	-	3	3	-	2	2
Total Other	\$ 19	1,564	\$ 1,583	\$ 22	1,492	\$ 1,514
Total Other and Intragovernmental Liabilities	\$ 39	1,732	\$ 1,771	\$ 40	1,606	\$ 1,646

As of September 30, 2011 and 2010, 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.

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, (P.L. 106-393) as amended by § 601 of The Emergency Economic Stabilization Act of 2008, (H.R. 1424) (P.L. 110-343) also provides for roads and schools, Forest Service projects and emergency services. Legislation mandates a declining scale in payment calculation of approximately 90 percent of the full funding amount for the preceding fiscal year. 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.

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

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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, 2011 the Forest Service contingent liabilities and commitments increased by \$12 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.

The accrued and potential contingent liabilities as of September 30, 2011 and 2010 are summarized as follows:

		(in millions)		
FY 2011		Accrued Liabilities	<u>Estimated Range of Loss</u>	
(in millions)	Contingent Liabilities		Lower End	Upper End
	Probable	\$ 12	\$ 12	\$ 199
	Reasonably Possible	\$ 33	\$ 33	\$ 125

		<u>Estimated Range of Loss</u>		
FY 2010		Accrued Liabilities	<u>Estimated Range of Loss</u>	
(in millions)	Contingent Liabilities		Lower End	Upper End
	Probable	\$ -	\$ -	\$ 17
	Reasonably Possible	\$ 1	\$ 1	\$ 198

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NOTE 11: 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, 2011 and 2010 and future capital and operating lease agreement payments as of September 30, 2011 consisted of the following:

	(in millions)	
	2011	2010
Capital Leases:		
Summary of Assets Under Capital Leases		
Land, Buildings, Machinery, and Equipment	\$ 61	\$ 61
Accumulated Amortization	(39)	(36)
Total	<u>\$ 22</u>	<u>\$ 25</u>
Future Payments Due:		
	Land & Buildings, Machinery, and Equipment	
Year 1 (2012)	9	
Year 2 (2013)	9	
Year 3 (2014)	8	
Year 4 (2015)	8	
Year 5 (2016)	7	
After 5 Years	26	
Total Future Lease Payments	\$ 67	
Less: Imputed Interest	(33)	
Less: Executory Costs	(12)	
Subtotal	22	
Lease Liabilities Covered by Budgetary Resources	\$ 22	
Operating Leases:	(in millions)	
Future Payments Due:		
	Land & Buildings, Machinery, and Equipment	
Fiscal Year		
Year 1 (2012)	\$ 48	
Year 2 (2013)	40	
Year 3 (2014)	35	
Year 4 (2015)	31	
Year 5 (2016)	27	
After 5 Years	155	
Total Future Lease Payments	<u>\$ 336</u>	

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NOTE 12: 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 Quinault 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, and significant funds are specifically identified as shown below:

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	Water Conservation Fund	State, Private, & International Forestry Land & Water	Other Funds	Total
ASSETS							
Fund Balance with Treasury Investments	\$ 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	
TOTAL ASSETS	\$ 394	\$ 210	\$ 172	\$ 123	\$ 599	\$ 1,498	
LIABILITIES							
Accounts Payable	\$ 1	\$ 1	-	-	\$ 2	\$ 4	
Other Liabilities	80	332	2	29	49	492	
TOTAL LIABILITIES	81	333	2	29	51	496	
Total Net Position	313	(123)	170	94	548	1,002	
TOTAL LIABILITIES AND NET POSITION	\$ 394	\$ 210	\$ 172	\$ 123	\$ 599	\$ 1,498	
CHANGE IN NET POSITION							
Beginning Balances, as adjusted	\$ 326	\$ (191)	\$ 170	\$ 83	\$ 545	\$ 933	
Budgetary Financing Sources:							
Donations and Forfeitures of Cash	-	-	-	-	1	1	
Transfers -in/out without Reimbursement	-	-	-	53	63	116	
Other Financing Sources:							
Transfers-in/out without Reimbursement	-	-	-	-	(68)	(68)	
Other	-	-	-	-	66	66	
Total Financing Sources	-	-	-	53	62	115	
Revenue	88	116	19	-	212	435	
Expenses	(101)	(48)	(19)	(42)	(271)	(481)	
Net Cost of Operations	(13)	68	-	(42)	(59)	(46)	
ENDING BALANCES	\$ 313	\$ (123)	\$ 170	\$ 94	\$ 548	\$ 1,002	

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Earmarked Funds

As of and for the year ended September 30, 2010

(in millions)

	Cooperative Work	Payments to States National Forest Fund	Restoration of Forest Lands and Improvements	Forestry Land & Water Conservation Fund	Recreation Fee Demonstration Program	Other Funds	Total
ASSETS							
Fund Balance with Treasury	\$ 357	\$ 197	\$ 169	\$ 124	\$ 98	\$ 372	\$ 1,317
Investments	-	-	-	-	-	6	6
Accounts Receivable, Net	2	-	2	-	1	11	16
Advances To Others	-	1	-	9	-	-	10
General Property, Plant & Equipment, Net	19	2	-	-	3	97	121
TOTAL ASSETS	\$ 378	\$ 200	\$ 171	\$ 133	\$ 102	\$ 486	\$ 1,470
LIABILITIES							
Accounts Payable	\$ 2	\$ -	\$ -	\$ -	\$ 1	\$ 2	\$ 5
Other Liabilities	50	391	1	50	4	36	532
TOTAL LIABILITIES	52	391	1	50	5	38	537
Total Net Position	326	(191)	170	83	97	448	933
TOTAL LIABILITIES AND NET POSITION	\$ 378	\$ 200	\$ 171	\$ 133	\$ 102	\$ 486	\$ 1,470
CHANGE IN NET POSITION							
Beginning Balances, as adjusted	\$ 359	\$ (272)	\$ 175	\$ 80	\$ 128	\$ 437	\$ 907
Budgetary Financing Sources:							
Donations and Forfeitures of Cash	1	-	-	-	-	-	1
Transfers -in/out without Reimbursement	-	-	-	76	-	94	170
Other Financing Sources:							
Transfers-in/out without Reimbursement	(1)	-	-	-	-	(59)	(60)
Other	-	-	-	-	-	43	43
Total Financing Sources	-	-	-	76	-	78	154
Revenue	79	118	33	-	65	120	415
Expenses	(112)	(37)	(38)	(73)	(96)	(187)	(543)
Net Cost of Operations	(33)	81	(5)	(73)	(31)	(67)	(128)
ENDING BALANCES	\$ 326	\$ (191)	\$ 170	\$ 83	\$ 97	\$ 448	\$ 933

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. The Secure

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Rural Schools and Community Self-Determination Act of 2000 (P.L. 106-393) as amended by § 601 of The Emergency Economic Stabilization Act of 2008, (H.R. 1424) (P.L. 110-343), provides stabilized education and road maintenance funding through predictable payments to counties, job creation in those counties, and other opportunities associated with the restoration, maintenance, and stewardship of Federal lands.

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.

Recreation Fee Demonstration Program

The Recreation Fee Demonstration Program Treasury account 12X5268 receives deposits of recreation fees collected from projects that are part of the Recreation Fee Demonstration program. These monies are retained and used for backlog repair and maintenance of recreation areas, sites or projects. These funds are also used for interpretation, signage, habitat or facility enhancement, resource preservation, annual operation, maintenance, and law enforcement related to public use of recreation areas and sites. The Recreation Fee Demonstration Program is authorized by § 315 of Title III General Provisions of Public Law 104-134: Recreation Fee Demonstration Program 16 U.S.C. 4601-6a.

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NOTE 13: 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, 2011 and 2010.

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

	National	Forest and	State and	Wildland	
	Forests	and	Private	Fire	
	Grasslands	Rangeland	Forestry	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 14)	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
Net Cost of Operations	\$ 3,047	\$ 327	\$ 348	\$ 2,605	\$ 6,327

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Program Costs by Segment
For the year ended September 30, 2010
(in millions)

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	\$ 305	\$ 42	\$ 15	\$ 224	\$ 586
Imputed Costs	426	-	-	-	426
Reimbursable Costs	147	19	12	135	313
Total Intragovernmental Gross Costs	878	61	27	359	1,325
Less: Intragovernmental Earned Revenue	77	28	28	(1)	132
Intragovernmental Net Costs	801	33	(1)	360	1,193
Gross Costs With the Public:					
Grants and Indemnities	421	16	287	75	799
Stewardship Land Acquisition (Note 14)	57	-	-	-	57
Other:					
Operating Costs	2,185	259	117	1,513	4,074
Depreciation Expense	118	2	-	28	148
Reimbursable Costs	149	30	17	103	299
Total Other	2,452	291	134	1,644	4,521
Total Gross Costs with the Public	2,930	307	421	1,719	5,377
Less: Earned Revenues from the Public	448	4	-	39	491
Net Costs with the Public	2,482	303	421	1,680	4,886
Net Cost of Operations	\$ 3,283	\$ 336	\$ 420	\$ 2,040	\$ 6,079

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NOTE 14: COST OF STEWARDSHIP PP&E

Stewardship PP&E acquired in FYs 2011 and 2010 amounted to \$44 and \$57 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 6 remains unchanged.

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NOTE 15: 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 2011 and 2010.

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

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

**For the year ended September 30, 2010
(in millions)**

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred - Direct	\$ 3,537	\$ 3,034	\$ 6,571
Obligations Incurred - Reimbursable	93	316	409
Total Obligations Incurred	\$ 3,630	\$ 3,350	\$ 6,980

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NOTE 16: EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

The differences between the FY 2010 Statement of Budgetary Resources (SBR) and the FY 2010 actual numbers presented in the FY 2012 Budget of the United States Government (Budget) are summarized in the table below. The President's Budget with actual numbers for 2011 has not yet been published, and is expected to be published in February of 2012, and to be made available at 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	9,339	9,334	5	0%
Total Status of Resources	9,339	9,334	5	0%
Unobligated Balance-Beginning of Year	2,745	2,741	4	0%
Recoveries of Prior Year Obligations	40	41	(1)	-2%
New Budget Authority	6,094	6,094	-	0%
Spending Authority from Offsetting Collections	461	460	1	0%
Non Expenditure Transfers	(1)	(2)	1	-50%
Total New Obligations	6,980	6,980	-	0%
Unobligated Balance & Unobligated Balance not Available	2,359	2,354	5	0%
Obligated Balance - Beginning of Year	2,290	2,290	-	0%
Obligated Balance - End of Year	2,762	2,763	(1)	0%
Gross Outlays	6,509	6,508	1	0%
Less: Offsetting Collections	(503)	(502)	(1)	0%
Less: Distributed Offsetting Receipts	(429)	(426)	(3)	-1%
Net Outlays	5,577	6,006	(429)	-7%

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NOTE 17: UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders included in unpaid obligations as of September 30, 2011 and 2010 were as follows:

	(in millions)	
	2011	2010
Unpaid Obligations	2,771	3,072
Undelivered Orders	1,860	2,243

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NOTE 18: 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, 2011 and 2010, the amount of marijuana on hand was 28,205 (kg) and 32,046 (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 19: RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

	(in millions)	
	2011	2010
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 6,678	\$ 6,980
Less: Spending Authority from Offsetting Collections and Recoveries	<u>814</u>	<u>501</u>
Obligations Net of Offsetting Collections and Recoveries	<u>5,864</u>	<u>6,479</u>
Less: Offsetting Receipts	<u>467</u>	<u>429</u>
Net Obligations	<u>5,397</u>	<u>6,050</u>
Other Resources:		
Transfers in/out Without Reimbursement	-	3
Imputed Financing from Costs Absorbed by Others	425	426
Other	<u>(2)</u>	<u>(15)</u>
Net Other Resources Used to Finance Activities	<u>423</u>	<u>414</u>
Total resources used to finance activities	<u>5,820</u>	<u>6,464</u>
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But not Yet Provided	380	(421)
Resources that Fund Expenses Recognized in Prior Periods	<u>(20)</u>	<u>(27)</u>
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Change in Unfilled Orders	89	16
Other	<u>(1)</u>	-
Resources that Finance the Acquisition of Assets	<u>(184)</u>	<u>(163)</u>
Other Resources or Adjustments to Net Obligated Resources that do not Affect the Net Cost of Operations	<u>66</u>	<u>60</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>330</u>	<u>(535)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>6,150</u>	<u>5,929</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	-	8
Increase in Exchange Revenue Receivable from the Public	<u>(7)</u>	<u>(3)</u>
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	<u>(7)</u>	5
Components not Requiring or Generating Resources:		
Depreciation and Amortization	145	148
Revaluation of Assets or Liabilities	34	2
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	6	(1)
Other	<u>(1)</u>	<u>(4)</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources	<u>184</u>	145
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	<u>177</u>	<u>150</u>
Net Cost of Operations	<u>\$ 6,327</u>	<u>\$ 6,079</u>

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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.

Part C

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Unaudited

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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) 2011 Net Cost of Operations: \$327 million. Of the \$327 million—

\$299 million was an investment of Research and Development (R&D) funding;
\$ 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 with an emphasis in seven strategic program areas (SPAs).

Wildland Fire and Fuels

Wildland Fire and Fuels R&D provides managers with the knowledge and tools to reduce the negative impacts of fire and enhance the beneficial effects of wildland fire, as a natural process, and understand 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 plants, animals, fish, insects, diseases, invertebrates, and other species not native to an ecosystem whose introduction is likely to cause economic or environmental harm.

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 from an ecosystem perspective.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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.

Inventory and Monitoring

Inventory and Monitoring R&D provides the resource data, analysis, and tools needed to monitor forest ecosystems at greatest risk from 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.

**REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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 2011 stewardship investment.

R&D Stewardship Investments	2011	2010	2009	2008	2007
Net Cost of Operations (in millions)	\$327	\$338	\$323	\$304	\$261
Basic Research	91	94	87	82	60
Applied Research	220	227	220	207	154
Development	16	17	16	15	47
New interagency agreements and contracts	32	38	57	40	41
Interagency agreements and contracts continued	12	12	12	12	17
Articles published in journals	3,083	1,790	2,294	1,903	1,336
Articles published in all other publications	1,178	1,481	886	1,487	1,846
Patent(s) granted	3	2	3	6	3
Patent licenses executed	2	0	0	1	0

Part D

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited

**REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

REQUIRED SUPPLEMENTARY INFORMATION

DEFERRED MAINTENANCE

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

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,

REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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.

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 Totals by Asset Class as of September 30, 2011 (in millions)

Asset Class	Overall Condition	Critical Maintenance	Noncritical Maintenance	Cost To Return To Acceptable Condition
Bridge	Varies	\$33	\$151	\$184
Building	Varies	83	981	1,064
Dam	Varies	8	15	23
Fence	Varies	293	0	293
Handling Facility	Varies	22	0	22
Heritage	Varies	7	19	26
Minor Constructed Features ¹	Varies	0	109	109
Roads ²	Varies	334	3,000	3,334
Trail	Varies	6	290	296
Trail Bridge	Varies	3	7	10
Wastewater System	Varies	19	17	36
Water System	Varies	61	48	109
Wildlife, Fish, and TES ³	Varies	5	2	7
Grand Total		\$874	\$4,639	\$5,513

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 the U.S. Environmental Protection Agency and States;
3. Road management objectives developed through the National Forest Management Act forest planning process; and

¹ In prior years, Minor Constructed Features were mislabeled as "Recreation Sites."

² Deferred maintenance amount for Roads is for passenger-car roads (maintenance levels 3-5) only. Total deferred maintenance, including high-clearance roads (maintenance levels 1 and 2), is \$4,762 million. All road beds are considered stewardship assets.

³ In prior years, Wildlife, Fish, and Threatened and Endangered Species were incorrectly identified as "Wilderness."

**REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
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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. 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 our 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. All 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.

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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.

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 2006 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 2011 year-to-date⁴ accomplishments on NFS and State and Private Forestry lands include treatment of 254,883 acres for invasives and 28,581 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 2012 at <http://www.fs.fed.us>.

⁴ Actual accomplishments for FY 2011 will be published in the FY 2013 Budget Justification in February 2012 at <http://www.fs.fed.us>.

REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Combined Statement of Budgetary Resources by Major Budget Account

For the year ended September 30, 2011

(in millions)

Budgetary Resources:	National Forest and Grasslands	Forest and Rangeland Research	State and Private Forestry	Capital Improvement and Maintenance	Wildland Fire Management	Permanent and Trust Funds	Working Capital Fund	Total
Unobligated Balance, Brought Forward, October 1:	\$ 221	\$ 47	\$ 65	\$ 106	\$ 862	\$ 934	\$ 124	\$ 2,359
Recoveries of Prior Year Unpaid Obligations	7	1	9	13	59	3	2	94
Budget Authority:								
Appropriation	1,601	307	278	473	2,465	700	-	5,824
Spending Authority from Offsetting Collections								
Earned								
Collected	74	25	42	20	58	27	250	496
Change in Receivables from Federal Sources	(7)	(3)	-	5	142	-	-	137
Change in Unfilled Customer Orders								
Advance Received	-	-	15	-	-	34	-	49
Without Advance from Federal Sources	(15)	3	30	13	7	-	-	38
Subtotal	1,653	332	365	511	2,672	761	250	6,544
Nonexpenditure Transfers, net	12	27	106	-	(147)	-	-	(2)
Permanently Not Available	(3)	(1)	(1)	(1)	(404)	-	-	(410)
Total Budgetary Resources	\$ 1,890	\$ 406	\$ 544	\$ 629	\$ 3,042	\$ 1,698	\$ 376	\$ 8,585
Status of Budgetary Resources:								
Obligations Incurred:								
Direct	\$ 1,621	\$ 340	\$ 394	\$ 500	\$ 2,466	\$ 743	-	\$ 6,064
Reimbursable	62	24	59	27	199	-	243	614
Subtotal	1,683	364	453	527	2,665	743	243	6,678
Unobligated Balance-Apportioned	161	34	81	96	135	592	95	1,194
Unobligated Balance Not Available	46	8	10	6	242	363	38	713
Total Status of Budgetary Resources	\$ 1,890	\$ 406	\$ 544	\$ 629	\$ 3,042	\$ 1,698	\$ 376	\$ 8,585
Change in Obligated Balance:								
Obligated Balance, net								
Unpaid Obligations, Brought Forward, October 1	\$ 469	\$ 147	\$ 567	\$ 728	\$ 999	\$ 119	\$ 43	\$ 3,072
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(124)	(40)	(22)	(43)	(81)	-	-	(310)
Total Unpaid Obligated Balance, net	345	107	545	685	918	119	43	2,762
Obligations Incurred, net	1,683	364	453	527	2,665	743	243	6,678
Less: Gross Outlays	(1,678)	(353)	(401)	(859)	(2,620)	(735)	(239)	(6,885)
Less: Recoveries of Prior Year Unpaid, actual	(7)	(1)	(9)	(13)	(59)	(3)	(2)	(94)
Change in Uncollected Customer Payments from Federal Sources	22	-	(30)	(18)	(149)	-	-	(175)
Obligated Balance, net, End of Period								
Unpaid Obligations	467	157	610	383	984	124	46	2,771
Less: Uncollected Customer Payments from Federal Sources	(102)	(40)	(52)	(61)	(229)	-	(1)	(485)
Total, Unpaid Obligated Balance, net, End of Period	\$ 365	\$ 117	\$ 558	\$ 322	\$ 755	\$ 124	\$ 45	\$ 2,286
Net Outlays:								
Gross Outlays	\$ 1,678	\$ 353	\$ 401	\$ 859	\$ 2,620	\$ 735	\$ 239	\$ 6,885
Less: Offsetting Collections	(74)	(25)	(57)	(21)	(58)	(60)	(250)	(545)
Less: Distributed Offsetting Receipts	(86)	-	-	-	-	(381)	-	(467)
Net Outlays	\$ 1,518	\$ 328	\$ 344	\$ 838	\$ 2,562	\$ 294	\$ (11)	\$ 5,873

REQUIRED SUPPLEMENTARY INFORMATION—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Combined Statement of Budgetary Resources by Major Budget Account
For the year ended September 30, 2010
(in millions)

Budgetary Resources:	National Forest and Grasslands	Forest and Rangeland Research	State and Private Forestry	Capital Improvement and Maintenance	Wildland Fire Management	Permanent and Trust Funds	Working Capital Fund	Total
Unobligated Balance, Brought Forward, October 1:	\$ 220	\$ 44	\$ 55	\$ 663	\$ 712	\$ 924	\$ 127	\$ 2,745
Recoveries of Prior Year Unpaid Obligations	9	2	5	2	18	3	1	40
Budget Authority:								
Appropriation	1,636	312	308	556	2,517	765	-	6,094
Spending Authority from Offsetting Collections Earned								
Collected	74	29	29	20	78	26	239	495
Change in Receivables from Federal Sources	(2)	3	(1)	(1)	(49)	-	-	(50)
Change in Unfilled Customer Orders								
Advance Received	(1)	(1)	6	1	-	2	-	7
Without Advance from Federal Sources	-	(1)	10	8	(8)	-	-	9
Subtotal	1,707	342	352	584	2,538	793	239	6,555
Nonexpenditure Transfers, net	12	29	113	-	(155)	-	-	(1)
Permanently Not Available								
Total Budgetary Resources	\$ 1,948	\$ 417	\$ 525	\$ 1,249	\$ 3,113	\$ 1,720	\$ 367	\$ 9,339
Status of Budgetary Resources:								
Obligations Incurred:								
Direct	\$ 1,654	\$ 346	\$ 429	\$ 1,125	\$ 2,231	\$ 786	\$ -	\$ 6,571
Reimbursable	73	24	31	18	20	-	243	409
Subtotal	1,727	370	460	1,143	2,251	786	243	6,980
Unobligated Balance-Apportioned	170	35	58	90	276	710	22	1,361
Unobligated Balance Not Available	51	12	7	16	586	224	102	998
Total Status of Budgetary Resources	\$ 1,948	\$ 417	\$ 525	\$ 1,249	\$ 3,113	\$ 1,720	\$ 367	\$ 9,339
Change in Obligated Balance:								
Obligated Balance, net								
Unpaid Obligations, Brought Forward, October 1	\$ 448	\$ 142	\$ 501	\$ 362	\$ 1,007	\$ 129	\$ 52	\$ 2,641
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(126)	(38)	(14)	(36)	(137)	-	-	(351)
Total Unpaid Obligated Balance, net	322	104	487	326	870	129	52	2,290
Obligations Incurred, net	1,727	370	460	1,143	2,251	786	243	6,980
Less: Gross Outlays	(1,697)	(363)	(388)	(775)	(2,242)	(793)	(251)	(6,509)
Less: Recoveries of Prior Year Unpaid, actual	(9)	(2)	(5)	(2)	(18)	(3)	(1)	(40)
Change in Uncollected Customer Payments from Federal Sources	2	(2)	(9)	(7)	57	-	-	41
Obligated Balance, net, End of Period								
Unpaid Obligations	469	147	567	728	999	119	43	3,072
Less: Uncollected Customer Payments from Federal Sources	(124)	(40)	(22)	(43)	(81)	-	-	(310)
Total, Unpaid Obligated Balance, net, End of Period	\$ 345	\$ 107	\$ 545	\$ 685	\$ 918	\$ 119	\$ 43	\$ 2,762
Net Outlays:								
Gross Outlays	\$ 1,697	\$ 363	\$ 388	\$ 775	\$ 2,242	\$ 793	\$ 251	\$ 6,509
Less: Offsetting Collections	(73)	(28)	(35)	(21)	(78)	(29)	(239)	(503)
Less: Distributed Offsetting Receipts	(83)	-	-	-	-	(346)	-	(429)
Net Outlays	\$ 1,541	\$ 335	\$ 353	\$ 754	\$ 2,164	\$ 418	\$ 12	\$ 5,577

Part E

OTHER ACCOMPANYING INFORMATION

Unaudited

**OTHER ACCOMPANYING INFORMATION—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

OTHER ACCOMPANYING INFORMATION (OAI)

MANAGEMENT CHALLENGES

The Reports Consolidation Act of 2000 requires 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 2011.

Forest Service Management and Community Action Needed To Improve Forest Health and Reduce Firefighting Costs¹
Forest Service's Invasive Species Program-OIG Audit Report Number 08601-7-AT
<i>Completed Fiscal Year 2011 Accomplishments/Action(s)</i>
-Ensured National Forest System's (NFS) Invasive Species Program accomplishments were included within the agency's annual performance reporting process. -Conducted an overall review of the agency's information systems for the Invasive Species Program and took steps to ensure the systems are adequate to report data.
<i>Planned FY 2012 Actions</i>
-Develop new NFS invasive species management policy (Forest Service Manual 2900) to include program-wide policy of providing early detection and rapid response within Forest Service and document all Invasive Species Program's internal policies and procedures. -Develop an adequate, cohesive internal control environment for managing the Invasive Species Program and reporting accurately how much the agency is spending to combat invasive species. Implement a monitoring plan to assess the Invasive Species Program and related internal control. -Revise the National Strategy and Implementation Plan for Invasive Species management and establish a control for revising the strategy once every 5 years. -Develop an inventory plan including responsibilities, timeframes, and benchmarks for inventorying all invasive species, the risk the species poses, and the efficacy of available treatments. -Develop a standard for how many acres are affected by each of the agency's treatments, and require the regions to follow these standards when reporting performance results. -Develop and implement a formal review system to verify the accuracy of invasive species accomplishment data reported.
Forest Service's Contracted Labor Crews-OIG Audit Report Number 08001-2-AT
<i>Completed FY 2011 Accomplishments/Action(s)</i>
-Hired a contractor to conduct an in-depth analysis to determine how the agency should proceed with determining future firefighting crew needs and costs. -National Wildlife Coordinating Group established a new evaluation form to reflect clear and objective standards for evaluating the effectiveness of firefighting crews, implemented a plan for tracking the results of these performance evaluations, eliminated duplicate inspections of dispatched contract crews at an incident, and incorporated the use an electronic employment eligibility verification system as required by Executive order.
Large Fire Suppression Costs—OIG Audit Report Number 08601-44-SF

¹ USDA's Management Challenge Number 6.

OTHER ACCOMPANYING INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

Completed FY 2011 Accomplishments/Action(s)

-Required the agency to develop incident commander and line officer evaluations that include performance standards to assess whether the tactics employed are cost effective and assure financial oversight. The Forest Service issued a letter directing the regional foresters to use the **Incident Commander Effectiveness Rating Form** for incident commander and line officer performance evaluations. The agency now focuses on risk management and risk exposure to evaluate incident commander performance and developed the standards based on the information obtained in the Incident Action Plans, Incident Status Summaries and Unit Logs, which provide the necessary information to measure and evaluate the success of daily fire action, activities, and costs.

Replacement Plan for Firefighting Aerial Resources—OIG Report Number 08601-53-SF

Completed FY 2011 Accomplishments/Action(s)

-Revamped the Working Capital Fund (WCF) program and developed the "Aerial Firefighting Aircraft Replacement Action Plan" in an effort to strengthen the agency's aerial firefighting acquisition process. The plan includes specific goals and timelines for completing the planning and procurement processes. In addition, the plan requires that the integrated project team develop a 5-year "USDA Forest Service Aerial Firefighting Strategic Plan" and adopt goals and performance measures. The plan also requires that the agency analyze its current firefighting systems and databases to address whether the capability for assessing air tankers' impact on suppressing fires during "initial attack," and "after" for those fires that escape, can be incorporated within the systems. Finally, it requires the agency to analyze actual performance data collected from the systems and databases in accordance with the goals and performance measures.

- Set specific goals and timeframes for completing the aviation planning and procurement processes.
- Developed a "WCF Fleet Aircraft Replacement Plan" approved on April 18, 2011, that shows estimated timeframes and costs for replacing aircraft.
- Established a new process to develop WCF aircraft rates and periodically review the rates to ensure the agency meets its long-term needs for replacing aircraft.

Firefighting Succession Planning—OIG Audit Report Number 08601-54- SF

Planned FY 2012 Actions

- With USDA's Natural Resources and Environment mission area, continue to work with the U.S. Office of Personnel Management (OPM) to assure fire management positions are classified appropriately and direction on the use of the GS-401 job series is provided throughout the agency.
- Develop a "**Firefighter Workforce and Succession Planning Action Plan**" to list each recommendation from the audit and the key steps and milestones for completing all the tasks under the audit, along with the program leads and estimated completion dates.
- Develop a "**Fire and Aviation Management Workforce and Development Strategic Framework**" document that includes a workforce goal for recruiting, developing, and retaining a highly skilled fire and aviation workforce and a support force of Forest Service employees in other disciplines. This document provides the overall philosophy and desired future of fire and aviation in the Forest Service. The framework will help determine the appropriate numbers and skill mix of employees and detail how the agency will get there.

OTHER ACCOMPANYING INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NET COST OF OPERATIONS BY STRATEGIC GOAL

The 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 USDA's Strategic Goals 1 and 2 (of four).

USDA Strategic Goal	Forest Service Strategic Goal
Goal 1: Assist rural communities to create prosperity so they are self-sustaining, repopulating, and economically thriving	Goal 2: Provide and Sustain Benefits to the American People
	Goal 4: Sustain and Enhance Outdoor Recreation Opportunities
	Goal 6: Engage Urban America With Forest Service Programs
Goal 2: Ensure our national forests and private working lands are conserved, restored, and made more resilient to climate change, while enhancing our water resources	Goal 1: Restore, Sustain, and Enhance the Nation's Forests and Grasslands
	Goal 3: Conserve Open Space
	Goal 5: Maintain Basic Management Capabilities of the Forest Service
	Goal 7: 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, 2011 AND 2010**

**U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENTS OF NET COST
For the years ended September 30, 2011 and 2010
(in millions)**

Strategic Goals:	2011	2010
1. Restore, Sustain, and Enhance the Nation's Forests and Grasslands:		
1A. Gross Costs	4,897	\$ 4,611
1B. Less: Earned Revenue	<u>570</u>	<u>429</u>
1C. Net Goal Cost	<u>4,327</u>	<u>\$ 4,182</u>
2. Provide and Sustain Benefits to the American People:		
2A. Gross Costs	478	430
2B. Less: Earned Revenue	<u>56</u>	<u>40</u>
2C. Net Goal Cost	<u>422</u>	<u>\$ 390</u>
3. Conserve Open Space:		
3A. Gross Costs	235	227
3B. Less: Earned Revenue	<u>28</u>	<u>21</u>
3C. Net Goal Cost	<u>207</u>	<u>\$ 206</u>
4. Sustain and Enhance Outdoor Recreation Opportunities:		
4A. Gross Costs	816	748
4B. Less: Earned Revenue	<u>95</u>	<u>69</u>
4C. Net Goal Cost	<u>721</u>	<u>\$ 679</u>
5. Maintain Basic Management Capabilities of the Forest Service:		
5A. Gross Costs	543	510
5B. Less: Earned Revenue	<u>63</u>	<u>47</u>
5C. Net Goal Cost	<u>480</u>	<u>\$ 463</u>
6. Engage Urban America with Forest Service Programs:		
6A. Gross Costs	43	39
6B. Less: Earned Revenue	<u>4</u>	<u>4</u>
6C. Net Goal Cost	<u>39</u>	<u>\$ 35</u>
7. Provide Science-based Applications and Tools for Sustainable Natural Resource Management:		
7A. Gross Costs	148	137
7B. Less: Earned Revenue	<u>17</u>	<u>13</u>
7C. Net Goal Cost	<u>131</u>	<u>\$ 124</u>
Total Gross Costs	\$ 7,160	\$ 6,702
Total Earned Revenue	<u>833</u>	<u>623</u>
Net Cost of Operations	<u>\$ 6,327</u>	<u>\$ 6,079</u>

OTHER ACCOMPANYING INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

IMPROPER PAYMENTS IMPROVEMENT ACT (IPIA) REPORTING

As required by the Improper Payments Information Act of 2002 (IPIA) and Office of Management and Budget (OMB) 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).

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 Office of the Chief Financial Officer (OCFO) deems necessary. In addition to risk assessments, agencies are required to provide a management certification which 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, and (4) there have been no new audit reports describing significant improper payments or internal control issues. If any of these statements are not true, 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 2011.

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 2011 (the period of 10/01/2009 through 9/30/2010).

THE DESCRIPTION OF THE CORRECTIVE ACTION PLAN(S)

The result of our sampling over the WFSU program resulted in a testing error rate of 0.00 percent for FY 2011. In addition, the enhanced analytics conducted over the WFSU program resulted in \$204,626 of improper payments or 0.03 percent of total outlays. The root causes of the improper payments were mostly administrative in nature or related to travel advances.

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	\$491,122,137	\$ 46,991,848	\$0.00	0.0%	\$0.00	0.0%

OTHER ACCOMPANYING INFORMATION—UNAUDITED FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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 2012, 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 Reduction Outlook are limited to the WFSU.

Improper Payment Reduction Outlook (in thousands)									
IPIA Reporting Year	FY 2010			FY 2011			FY 2012		
Actual Fiscal Year	FY 2009			FY 2010			FY 2011		
Program	Outlays	IP %	IP \$	Outlays	IP %	IP \$	Outlays	IP %	IP \$
WFSU ²	\$480,800	0.00%	\$0.00	\$491,000	0.00%	\$0.00	\$595,290	0.00%	\$0.00

Improper Payment Reduction Outlook (in thousands)						
IPIA Reporting Year	FY 2013			FY 2014		
Actual Fiscal Year	FY 2012			FY 2013		
Program	Estimated Outlays	IP %	IP \$	Estimated Outlays	IP %	IP \$
WFSU ³	\$885,000	0.00%	\$0.00	\$992,700	0.00%	\$0.00

RECOVERY OF IMPROPER PAYMENT

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires Federal agencies to enhance their efforts in preventing, detecting, and recovering improper payments. Beginning FY 2011, the Forest Service conducted a retroactive review of FYs 2010 and 2011 billings to enhance our 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.

² Credit card transactions and salaries and expenses were excluded from the Wildland Fire Suppression (WFSU) population and considered as separate funds.

³ 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, 2011 AND 2010

Recovery of Improper Payments Actual Dollars Recovered				
FY 2007	FY 2008	FY 2009	FY 2010 ⁴	FY 2011
\$85,658	\$99,361	\$1,720	\$1,700,000	\$2,115,003

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.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Exhibit1. Definitions for terms used in this section

Beginning Balance	The FY 2011 beginning balance agrees with the FY 2010 ending balance of material weaknesses.
New	The total number of material weaknesses that have been identified during FY 2010.
Resolved	The total number of material weaknesses that dropped below the level of materiality in FY 2010.
Consolidated	The combining of two or more findings.
Reassessed	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), Section 2 Effectiveness of Internal Control over Financial Reporting to a FMFIA, Section 4 Conformance with Financial Management System Requirements .
Ending Balance	The Forest Service's FY 2011 ending balance for material weaknesses at yearend.

SUMMARY OF FINANCIAL STATEMENT AUDIT

Summary of Financial Statement Audit						
Audit Opinion	Unqualified					
Restatement	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

⁴ 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.

**OTHER ACCOMPANYING INFORMATION—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	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)						
Statement of Assurance	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)						
Statement of Assurance	Systems conform, conform except for the below nonconformance(s), or do not conform to financial management system requirements (OMB Circular A-136, Section 4 OAI)					
	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

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

Appendix:

ACRONYMS AND ABBREVIATIONS

Unaudited

**ACRONYMS AND ABBREVIATIONS—UNAUDITED
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

ACRONYMS AND ABBREVIATIONS

ACRONYM OR ABBREVIATION	EXPLANATION
ACSI	American Customer Satisfaction Index
AFR	Agency Financial Report
APR	Annual Performance Report
ARRA	American Recovery and Reinvestment Act of 2009
ASC	Albuquerque Service Center
BS	balance sheet(s)
CCF	hundred cubic feet
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CRO	Cumulative Results of Operations
CSRS	Civil Service Retirement System
CWPP	Community Wildfire Protection Plan
DOI	U.S. Department of the Interior
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
ELT	executive leadership team
EPA	U.S. Environmental Protection Agency
FBWT	fund balance with treasury
FECA	Federal Employees' Compensation Act
FERS	Federal Employees' Retirement System
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FLAME	Federal Land Assistance, Management, and Enhancement Act
FMFIA	Federal Managers' Financial Integrity Act
FMMI	USDA Federal Management Modernization Initiative
FPL	Forest Products Laboratory
FSH	Forest Service handbook
FSM	Forest Service manual
FY	fiscal year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
gEMS	Government Enterprise Messaging Service
GS	General Schedule
GSA	General Services Administration
H.R.	House Rule
HRM	Human Resource Management
IITF	International Institute of Tropical Forestry
IP	improper payment
IPERA	Improper Payment Elimination and Recovery Act
IPIA	Improper Payment Information Act
IT	information technology
K-V	Knutson-Vandenberg, a trust fund for timber sale area improvements
Kg	kilogram
L&WCF	Land and Water Conservation Fund
MD&A	Management's Discussion and Analysis, a section of the AFR
MNP	Midewin National Tallgrass Prairie
MUS	monetary unit sampling
NFS	National Forest System (Deputy Area)

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ACRONYM OR ABBREVIATION	EXPLANATION
NLC	national leadership council
NRE	Natural Resources and Environment (USDA)
O&M	Operations and Maintenance
OAI	Other Accompanying Information, a section of the AFR
OCFO	Office of the Chief Financial Officer (USDA)
OIG	Office of Inspector General (USDA)
OGC	Office of General Counsel
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PAR	Performance and Accountability Report
PHA	Priority heritage assets
P.L.	Public Law
POSS	Point-of-Sale-System
PP&E	Property, Plant, and Equipment
R&D	Research and Development (Deputy Area)
RCRA	Resource Conservation and Recovery Act
RSI	Required Supplementary Information, a section of the AFR
RSSI	Required Supplementary Stewardship Information, a section of the AFR
S&PF	State and Private Forestry (Deputy Area)
SBR	Statement(s) of Budgetary Resource(s)
SCNP	Statement(s) of Change(s) in Net Position
SNC	Statement(s) of Net Cost
SNP	Statement of Net Position
SOF	Statement of Financing
TACCIMO	Template for Assessing Climate Change Imports and Management Options
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USSGL	U.S. Standard General Ledger
WCF	Working Capital Fund
WFSU	Wildland Fire Suppression
WUI	wildland-urban interface
YTD	year-to-date

