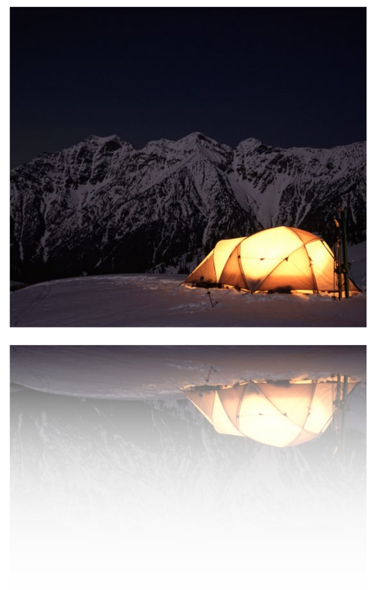
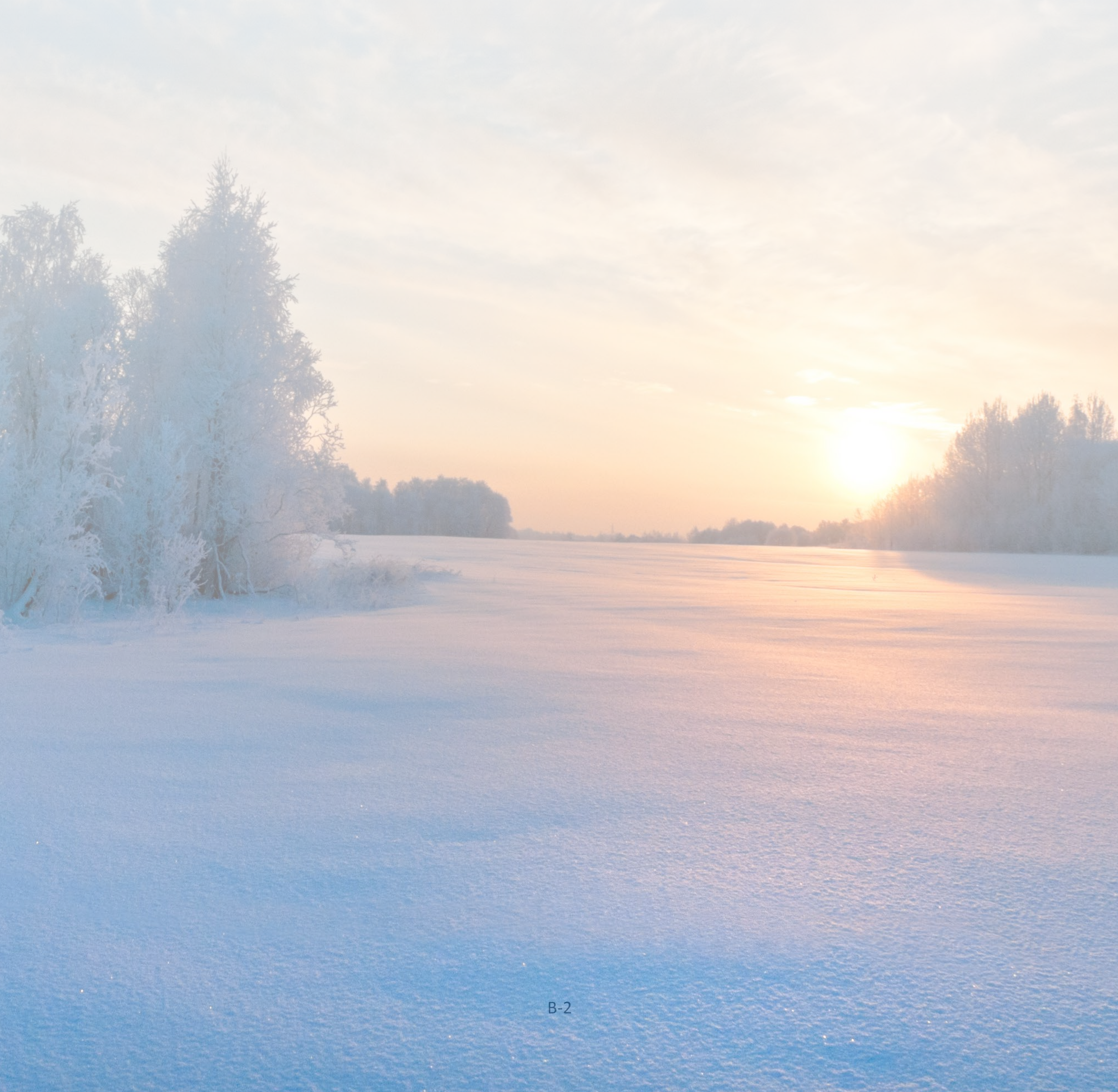
Part B: Financial Section



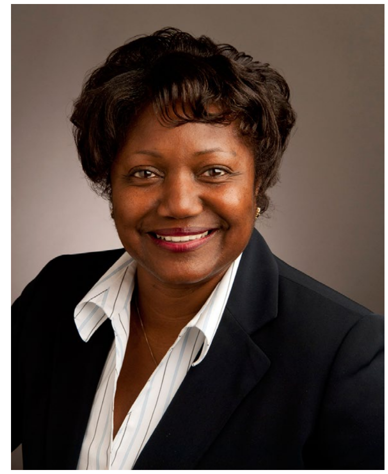



The CFO's Vision

Create an environment that enhances the use of integrated financial and performance information in decisionmaking through application of effective internal controls in agency management processes. We are committed to delivering services that transform complex information into practical knowledge for Forest Service as well as the American public.



Message From the Chief Financial Officer



As Chief Financial Officer for the Forest Service, an agency of the U.S. Department of Agriculture (USDA), I am proud to present the Forest Service's fiscal year (FY) 2013 financial information.

For the 12th consecutive year, the Forest Service demonstrated its ongoing commitment and continuance for excellence in financial management of the approximately $7.8 billion in public funds entrusted to the agency by receiving an unqualified audit opinion on its financial statements. Also, for the 6th consecutive year, the independent auditors reported no area of material weakness.

The Financial Section of the FY 2013 Agency Financial Report provides several aspects of the Forest Service's financial reporting. The core of the Financial Section is the independent auditors' findings and opinion of the Forest Service's audited financial statements and notes. The Required Supplementary Information (RSI) chapter reports costs for deferred maintenance and repairs of major assets and the condition of the National Forest System lands. The Required Supplementary Stewardship Information (RSSI) chapter reports the net cost of operations for the Forest Service's Research and Development's stewardship investments. Finally, the Other Information (OI) chapter provides management's assurance for internal controls and the status of improper payments under the Improper Payments Improvement Act.

During FY 2013, the Forest Service conducted its assessment of the effectiveness of internal control over financial reporting in accordance with USDA's Implementation Guide and as required by the Office of Management and Budget Circular A-123, Appendix. This assessment provided USDA with an unqualified assurance that internal controls over Forest Service financial reporting are operating effectively.

FY 2013 was a year of successes and challenges. Forest Service completed the transition and migration to USDA's new accounting system, the Financial Management Modernization Initiative (FMMI). Additionally, the agency successfully interfaced six priority candidate systems for accounting transactions relating to revenues and payments such as minerals, recreation, timber, and grants and agreements.

Another success was the Phase II implementation of the Point of Sales System (POSS), installing equipment for credit card and online payments at an additional 43 national forests. With these installations, the agency has now installed POSS at 420 ranger districts, visitor centers, and supervisor's offices for 84 of 154 national forests. In FY 2013, approximately $70 million in agency revenue was collected through POSS, up from $23 million in FY 2012.

Challenges came with this year's fire season and the impact of reduced funding from the sequestration. FY 2013 was another year of record-breaking fires and suppression costs, as thousands of employees, partners, cooperators, and local, State, and tribal governments contributed directly and indirectly to the wildfire-suppression efforts. In September, Secretary of Agriculture Tom Vilsack notified the House and Senate Committees on Appropriations of the transfer of funds to the Wildland Fire Management, ensuring sufficient funding for these suppression efforts. These transfers were necessary due to severe wildfire conditions across the Western States.

Through all the successes and challenges in FY 2013, the agency continues to focus on becoming a diverse and inclusive organization where everyone is respected, welcomed, treated fairly and given the same opportunity to contribute to our mission. The Forest Service values the innovation and collaboration that come from inclusiveness. These qualities, in turn, enable our employees in the finance, budget, and program areas to support the achievement of the Forest Service mission to “sustain the health, diversity, and productivity of the Nation’s forests and grasslands to meet the needs of present and future generations.”

This Agency Financial Report provides timely information that the American public can use to better understand Forest Service programs. I hope that you find it useful and that you will follow our progress in advancing the Forest Service’s performance goals and efforts to improve accountability. The agency proudly carries out its financial responsibilities and remains committed to the sound management of resources under our stewardship. We look forward to more financial management improvements in FY 2014.

Thelma J. Strong

THELMA J. STRONG
Chief Financial Officer

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

DATE: December 9, 2013

AUDIT NUMBER: 08401-0003-11

TO: Thomas Tidwell
Chief
Forest Service

ATTN: Thelma Strong
Chief Financial Officer

Jennifer McGuire
Director, Audit and Assurance

Sandy Coleman
Agency Liaison Officer

FROM: Gil H. Harden
Assistant Inspector General for Audit

Gil H. Harden

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2013 and 2012

This report presents the results of the audit of the Forest Service's (FS) financial statements for the fiscal years ending September 30, 2013 and 2012. The report contains an unmodified opinion on the financial statements, as well as an assessment of FS' internal controls over financial reporting and compliance with laws and regulations.

Kearney & Company, P.C. (Kearney), an independent certified public accounting firm, was engaged to conduct the audit. In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards* (issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on FS' financial statements, internal control, or on whether FS' financial management systems substantially complied with the Federal Financial Management Improvement Act; or conclusions on compliance with laws and regulations. Kearney is responsible for the attached auditor's report, dated December 5, 2013, 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 14-02, *Audit Requirements for Federal Financial Statements*.

It is the opinion of Kearney, that the financial statements present fairly, in all material aspects, FS' financial position as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, FS implemented a change in accounting principle to comply with the Federal Accounting Standards Advisory Board's Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. This change requires estimation of both friable and non-friable asbestos-related cleanup costs, and recognition of a liability and related expense for those costs that are both probable and reasonably estimable, consistent with the current guidance in *Statement of Federal Financial Accounting Standards* (SFFAS) *No. 5*, *Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, Chapter 4, "Cleanup Costs"; and Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Additionally, in Note 8 to the financial statements, "Environmental and Disposal Liabilities," the Forest Service describes the asbestos abatement liability. The liability for fiscal year 2013 is recognized as an adjustment to the beginning balance of the Cumulative Results of Operations in the Statement of Changes in Net Position. The initial recognition of estimated liability for asbestos abatement costs as of September 30, 2013 is $118 million.

Furthermore, as discussed in Note 1 to the consolidated financial statements, the FS reclassified certain amounts in the prior year's combined *Statement of Budgetary Resources* (SBR) to conform to the current year's presentation. These reclassifications had no effect on the previously reported SBR balances.

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

- Information technology;
- Property, plant, and equipment;
- Validity and accuracy of unliquidated obligations;
- Timely recordation of cash activity; and
- Payroll accrual.

Kearney did not consider the above significant deficiencies to be material weaknesses.

Kearney reported that FS overall substantially complied with the applicable Federal accounting standards and application of the United States Standard General Ledger at the transaction level. However, Kearney noted an instance in which the FS' financial management systems and related controls were not in compliance with certain Federal financial management systems requirements. Additionally, Kearney reported noncompliance with the Anti-Deficiency Act and the Prompt Payment Act. Furthermore, Kearney noted that FS was not in compliance with grants pre-award requirements in the Code of Federal Resolutions.

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

We appreciate the courtesies and cooperation extended during this audit. This report contains publicly available information and will be posted in its entirety to our website http://www.usda.gov/oig in the near future.

Independent Auditor's Report

KEARNEY & COMPANY

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Forest Service (Forest Service), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the consolidated financial statements. Procedures are selected based on auditor judgment, including an assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing risk, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Forest Service as of September 30, 2013 and 2012, and its net cost of operations, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Forest Service implemented a change in accounting principle to comply with Federal Accounting Standards Advisory Board (FASAB) Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*. This change requires estimation of friable and non-friable asbestos-related cleanup costs, and recognition of a liability and related expenses for those costs that are probable and reasonably estimable, consistent with current guidance in Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, Chapter 4, "Cleanup Costs"; and FASAB Technical Release Number 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Additionally, in Note 8 to the financial statements, "Environmental and Disposal Liabilities," the Forest Service describes the asbestos abatement liability. The liability for fiscal year 2013 is recognized as an adjustment to the beginning balance of the Cumulative Results of Operations in the Statement of Changes in Net Position. The initial recognition of estimated liability for asbestos abatement costs as of September 30, 2013 is $118M.

Additionally, as discussed in Note 1 to the consolidated financial statements, the Forest Service reclassified certain amounts in the prior year's combined Statement of Budgetary Resources to conform to the current year's presentation. These reclassifications had no effect on the previously reported Statement of Budgetary Resources balances.

Our opinion is not modified with respect to these matters.

Other Reporting Responsibilities

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information (hereinafter referred to as the "required supplementary information") be presented to supplement the consolidated financial statements. This information, although not a part of the consolidated financial statements, is required by OMB and FASAB, who consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, and/or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These procedures included inquiries of management about the methods used in preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Independent Auditor's Report on Internal Control Over Financial Reporting, and *Independent Auditor's Report on Compliance with Applicable Provisions of Laws, Regulations, Contract, and Grant Agreements*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued reports, dated December 5, 2013, on our consideration of the Forest Service's internal control over financial reporting and our tests of the Forest Service's compliance with certain provisions of laws, regulations, contracts, and grants agreements; and other matters for the year ended September 30, 2013. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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. 14-02, and in considering the entity's internal control over financial reporting and compliance.

Kearney & Company

Alexandria, Virginia
December 5, 2013

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the accompanying consolidated financial statements of the United States Forest Service (Forest Service), which comprise the consolidated balance sheets as of and for the year ended September 30, 2013, the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the year then ended, and have issued our report thereon, dated December 5, 2013. 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. 14-02, *Audit Requirements for Federal Financial Statements*.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Forest Service's internal control over financial reporting (internal control) to determine the appropriate audit procedures in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Forest Service's internal control. Accordingly, we do not express an opinion on the effectiveness of the Forest Service's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 14-02. We did not test all internal controls relevant to operating objectives, as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (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. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies.

We noted certain additional matters involving internal control over financial reporting that we will report to the Forest Service's management in a separate letter.

Forest Service's Response to Findings

The Forest Service's management has provided its response to our findings in a separate memorandum attached to this report. The Forest Service's response was not subject to the procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
December 5, 2013

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Schedule of Findings

Significant Deficiencies

I. Information Technology (Repeat Modified Condition)

The Forest Service's information technology (IT) internal control structure, for both the General Support Systems (GSS) and critical financial reporting applications, did not include evidence of a comprehensive risk analysis, effective monitoring of design and performance, nor the ability to identify and respond to changing risk profiles. The National Institute of Standards and Technology (NIST) and the Government Accountability Office's (GAO) 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 (SoD) and principles of least privilege, as follows:

  - The Forest Service assigned conflicting roles to the Natural Resource Manager (NRM) applications. Within the NRM applications, we noted seven Real Property Management (RPM) conflicts of permissions granted to users that violated the SoD Matrix provided by the Forest Service. The NRM applications' management noted that of these seven conflicts, five RPM users were granted conflicting roles due to the nature of their work, as documented in the "Special Notes" section of the RPM SoD Matrix. The two remaining RPM user conflicts were remediated after identification by Kearney & Company, P.C. (Kearney)
  - We identified four NRM Locatable Minerals, three NRM Mineral Materials, and three NRM Range users in violation of the principles of least privilege. These users had more privileges assigned to their accounts than were necessary for their job functions. Of these 10 users, management noted that three NRM Locatable Minerals, three NRM Mineral Materials, and three NRM Range users were given conflicting roles due to the nature of their work, as documented in the "Special Notes" section of the Least Privilege Table. These violations of least privilege do not pose a risk of violation of SoD per the agency role definitions; however, they are a violation of the Forest Service's information systems security policy and introduce unnecessary risk to data access and integrity. The one remaining NRM Locatable Minerals user conflict was remediated after Kearney's audit procedures identified it.

  Although Kearney's testing did not identify any improper or erroneous transactions that were a direct result of SoD weaknesses, inadequate SoD contributes to an overall weakening of the internal control environment, and increases the risk that errors and irregularities could occur and remain undetected. Inadequate SoD controls may lead to fraud or unauthorized transactions in the financial records. Additionally, one or more

NRM users with access granting them excessive capabilities could introduce an error or unauthorized transaction relating to payments and entries within the Financial Management and Modernization Initiative (FMMI) without approval from another user.

Recommendation Number 1: Kearney recommends that the Forest Service implement a process to ensure that no individual has complete control over incompatible NRM functions. Additionally, Kearney recommends that the Forest Service administer access for the NRM information system in such a way that all users are provisioned with roles that do not violate the Forest Service's information systems security policy or introduce unnecessary risk to data access and integrity.

- The Forest Service's control structure contains three weaknesses related to the user access administration process, as follows:

  - The Forest Service did not deactivate Incident Business System (IBS), NRM, and Virtual Incident Procurement (VIPR) accounts within one business day after employees' separation, in accordance with the *Forest Service Manual*
  - Forest Service user accounts were not deactivated from the United States Department of Agriculture (USDA)-owned EmpowHR system and Integrated Acquisition System (IAS) within two business days after employees' separation, in accordance with USDA policy
  - The Forest Service failed to reset Application Hosting Environment (AHE) service account passwords in accordance with Forest Service policy.

System/application users who have been separated may unnecessarily retain access to information systems after their separation from the Forest Service. Failure to limit user access and processing capabilities to authorized individuals may result in defalcations and errors in accounting records. These accounts may also be used to circumvent controls over financial transactions, which could lead to erroneous and improper transactions, embezzlement, unauthorized use, or destruction of data, and may weaken the organization's internal control structure. Inadequate account and identity management controls increase the risk that temporary and active accounts may be used by unauthorized Forest Service and contractor personnel to perform unauthorized activities. Further, when inactive and separated user accounts are not effectively reviewed by management, it increases the potential that unauthorized activities could occur without timely detection.

Additionally, when passwords are not reset on a regular basis, familiarity with a password could eventually lead to its compromise.

Recommendation Number 2: Kearney recommends that the Forest Service perform the following corrective actions to address this issue:

- Investigate centralizing and automating the processes for disabling or deactivating accounts using an automated solution in which Human Resources (HR) actions (e.g.,

separations) trigger user accounts to be automatically disabled on Forest Service-owned systems
- As in fiscal year (FY) 2012, implement a process to ensure that accounts for separated employees are disabled or removed from Forest Service information systems in a timely manner
- Continue reengineering, revising, or otherwise better enforcing the existing user account review processes to ensure notifications of separated employee actions from HR are closely and effectively coupled with timely deactivation of user accounts in all systems
- Enhance periodic user account reviews to determine whether unauthorized access occurred using separated user account credentials after the users' separation dates
- Review the procedures in place for resetting passwords on Forest Service-owned systems and applications
- Monitor the removal of Forest Service users from non-Forest Service-owned systems to ensure users are removed timely.

- Kearney cited background investigations as an internal control weakness in the FY 2011 and 2012 audits. For the current FY, the Forest Service noted that the issue was fully remediated and closed as of May 10, 2013; however, Kearney noted that of the 19 employees and contractors sampled, three were not in compliance with background investigation or re-investigation requirements (Kearney noted that one of the exceptions was remediated by the Forest Service by September 30, 2013).

  Forest Service employees and contractors who have not been screened by the background investigation process prior to gaining access to the Forest Service's information system(s) and/or re-investigated according to Office of Personnel Management (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 3: As in FY 2012, Kearney recommends that the Forest Service's management continue to strengthen procedures for identifying, communicating, documenting, and resolving outstanding security clearances and background investigations within the prescribed time periods.

II. Property, Plant, and Equipment (Repeat Modified Condition)

The Forest Service reported approximately $1.3B in net property, plant, and equipment (PP&E) on its FY 2013 Balance Sheet, which is about 26% of its total assets. Kearney's audit procedures identified several internal control deficiencies that negatively impact the Forest Service's ability to record real and personal property transactions in a complete, accurate, and timely manner. When combined, these deficiencies are considered to be a significant deficiency, as summarized below.

- For assets acquired that are not in ready-to-use condition or projects with an extended construction period, the Forest Service accumulates project costs in Work in Progress (WIP) until the asset is placed into service. Assets are placed into service upon completion of the Project Completion Certification Form. Failure to transfer WIP costs to completed PP&E in a timely manner could result in an understatement of depreciation expense and PP&E.

  The Forest Service's recently modified (placed into service in the third quarter of FY 2013) internal control structure did not identify WIP projects that are substantially complete. Kearney identified 113 WIP projects that had no financial activity in the last four months, or as of our June 30, 2013 and September 30, 2013 testing. Our procedures revealed that eight out of 37 projects sampled (a 9% error rate) were substantially complete and should have been placed into service, totaling approximately $3.2M of projects costs. Delays in the WIP transfer caused an understatement of depreciation by approximately $561,000.

  The exceptions identified during final substantive testing of WIP projects with no activity for four or more months caused an understatement in accumulated depreciation and depreciation expense of approximately $7,000 as of September 30, 2013.

  Additionally, the errors and processing delays in the Project Completion Certification Form resulted in a lack of accountability for asset custodianship, which could result in waste.

  Recommendation Number 4: Kearney recommends that the Forest Service's Albuquerque Service Center (ASC), Budget and Finance (B&F) continue performing quarterly reviews over WIP projects with senior management, refine and modify controls over all material WIP projects that may cross over FYs, and record an accrual if deemed material at any FY end.

- The Forest Service reported approximately $45M of repairs and maintenance expenses. Kearney evaluated 18 repairs and maintenance expenses, and identified 11 transactions that should have been capitalized rather than expensed. These transactions were for improvements of assets, including remodels, renovations, upgrades, or replacements. These improvements either improved the assets' capacities or extended the assets' useful lives. The Forest Service capitalizes costs incurred associated with initial purchases recorded in order to place an asset into service. However, additional costs incurred after the asset is placed into service regarding major repairs or work performed to key components of a structure (e.g., roof replacement) are not considered for capitalization purposes. Current practice does not differentiate between expenditures that help an asset achieve its expected life, and expenditures that extend an asset's useful life. The 11 errors account for approximately $2M of the total $3.6M in costs tested. In addition, accumulated depreciation of $22,133 was not recorded on the 11 errors identified.

Kearney identified three transactions, totaling approximately $534,000, that should have been capitalized as personal property additions. These three errors produced an understatement of depreciation expense of $37,000. The net impact of the three errors and the associated depreciation expense that should have been recorded if assets were properly capitalized was an overstatement of $497,000 in net costs. Kearney noted three transactions that should have been capitalized as leasehold improvements rather than expensed. The three errors totaled $779,000 in costs that should have been capitalized. These three errors also produced an understatement of depreciation expense of $16,928. Kearney identified one additional transaction, which, while properly classified as an expense, was improperly charged to the repairs and maintenance Budget Object Code (BOC).

Kearney identified 18 exceptions that produced a non-statistically projected understatement of $7.6M in PP&E as of September 30, 2013. Kearney also identified that the Forest Service did not include recorded acquisition costs associated with these transactions, causing an understatement in depreciation expense and accumulated depreciation of approximately $200,000.

Recommendation Number 5: As in FY 2012, Kearney recommends that the Forest Service's Acquisition Management (AQM) community issue a reminder to the Field Budget Approvers of the appropriate requisition process for the acquisition of capitalized, accountable, and/or sensitive personal property through IAS by properly classifying the acquisition of property through the correct BOCs. Kearney also recommends that the Forest Service review its policies with internal and external groups.

- The Forest Service's control structure contains two weaknesses related to real property operating lease disclosures, as follows:

  - The Forest Service does not accurately update future minimum payment amounts resulting from lease modifications and amendments. Kearney's audit procedures identified seven errors over the evaluated sample of 12 real property operating leases, consisting of a 1.8% error rate, and extrapolated the error results to the annual disclosure amounts. This error rate extrapolated over the entire population of 405 real property operating leases results in an overstatement of $8.3M over the cumulative five-year disclosure period; the largest annual overstatement was approximately $3.6M in Year 5 and later
  - The Forest Service included all lease option periods in the disclosure instead of just fixed, non-cancelable lease payments. Kearney evaluated the overstatement by year and identified one error over the 12 real property operating leases evaluated, consisting of a 7% error rate, and extrapolated the error results to the annual disclosure amounts. This error rate extrapolated over the entire population results in an overstatement of $19M, which was the entire balance in Year 5 and later.

The Forest Service's future minimum lease payment disclosure for real property operating leases contains annual overstatements up to $8.3M as of June 30, 2013 and

$33.6M as of September 30, 2013, resulting from amendments and modifications to payment terms not reflected in the disclosure summary; and annual overstatements up to $19M as of June 30, 2013, resulting from the inclusion of option years. Combined, the result is a possible overstatement of $27.3M as of June 30, 2013 and $33.6M as of September 30, 2013 for the real property operating lease future payments.

Recommendation Number 6: As in FY 2012, Kearney recommends that the Forest Service review the current process for updating lease payment information to reflect the most recent lease amendments and modifications. Kearney also recommends that the Forest Service increase the frequency of updating the lease payment information.

III. Validity and Accuracy of Unliquidated Obligations (New Condition)

The Forest Service's internal controls were not sufficient to ensure that unliquidated obligations (ULO) were consistently and systematically evaluated for validity and de-obligation. When combined, these deficiencies are considered to be a significant deficiency, as summarized below.

- The Forest Service records obligations in its financial management system when it enters into an agreement, such as a contract or purchase order, to purchase goods and services. Once recorded, obligations remain open until they are fully reduced by a disbursement, de-obligated, or until the appropriation funding the obligation is closed. As invoices are received and payments are made, obligations are liquidated by the amount of the payments.

  ULOs represent the cumulative amount of orders, contracts, and other binding agreements not yet outlaid. The Forest Service's policies and procedures provide guidance related to the periodic review, analysis, and validation of the ULO balances posted to the general ledger (GL). The Forest Service was unable to evaluate the validity of open obligations for the first and second quarters of FY 2013. Forest Service policy states, "The Forest Service is required to certify quarterly that reviews and corrective actions related to unliquidated obligations inactive for at least 12 months were performed." The Forest Service received a waiver from USDA granting an exemption from performing the review and certification of ULOs for the first and second quarters of FY 2013. While the Forest Service obtained a waiver, a key internal control over accurate reporting of ULOs did not operate for at least half of the year and may have impacted the efficacy of the subsequent two quarterly certifications. As of August 1, 2013, the third quarter review was performed on schedule and the fourth quarter review will be performed on schedule.

  Failure to maintain an effective ULO control environment in which invalid open obligations are identified and de-obligated timely may result in difficulties in managing funds, improper payments, inaccurate budgetary reports, and possible violations of Federal regulations.

  The Forest Service's internal controls were not sufficient to ensure that ULOs were consistently and systematically evaluated for validity and de-obligation. The Forest

Service was unable to provide Kearney a ULO file that included all open obligations with current and prior year activity, to include the date of last activity. Therefore, Kearney evaluated the validity and liquidation status of 546 ULOs with a recorded value of $691M as of September 30, 2012. Kearney identified 12 exceptions that no longer represented future Forest Service funding needs. Thus, the obligations with a value of $829,000 were not de-obligated in a timely manner.

Kearney selected a statistical sample of ULOs and evaluated the results. The identified exceptions produced a projected likely error of approximately $31.2M in the overall balance as of October 1, 2012. The current internal control structure was not operating effectively to facilitate the accurate reporting of ULO balances in the financial statements.

Recommendation Number 7: Kearney recommends that the Forest Service re-establish its standardized processes to ensure the validity and accuracy of ULOs, to include defining aging and dollar-based strata, to ensure consistent and representative reviews of high risk ULOs are completed as in prior years. Kearney also recommends that the Forest Service take the following corrective actions to address this issue:

- Strengthen the ULO validity procedures by requiring positive confirmations from all respondents. These positive confirmations should be returned in a timely manner to ensure inclusion in period-end financial reports and support audits
- Perform independent reviews of program and post responses for high dollar, high risk ULOs. These responses should be compared to the supporting documentation to confirm the validity and accuracy of the ULO balances
- The Forest Service's management should work to enhance regional accountability of contracts, grants and agreements, or other obligating vehicles by sampling ULO certifications. In addition, the Forest Service should communicate the results of the samples upward and downward through the management structure to support regional accountability
- The Forest Service should develop metrics to measure improvement and trends at the regions over time.

IV. Timely Recordation of Cash Activity (New Condition)

The Intra-governmental Payment and Collection (IPAC) system was developed by the Department of the Treasury (Treasury) to standardize and streamline the payment or collection of funds for goods or services provided between Federal agencies. The Controller Operations Division (COD) of the National Finance Center (NFC) is responsible for recording all Treasury IPAC transactions in the financial system; however, the Forest Service should ensure these transactions are recorded in its financial system accurately and timely. Failure to record these transactions accurately and timely could result in erroneous and inaccurate financial statements.

The Forest Service completes a Statement of Differences reconciliation to ensure the accuracy and timeliness of deposit and disbursement data reflected in the Fund Balance with Treasury

(FBWT). Additionally, the Forest Service completes a reconciliation of its FBWT information to identify and resolve differences between the agency financial records and Treasury balances. The Forest Service's cash collection and reconciliation control environments include design and operation weaknesses that, when combined, are considered to be a significant deficiency, as summarized below.

- The FBWT reconciliation amount peaked at $2T as of March 30, 2013 for several reasons, including the continuing resolution and backlog of Treasury IPAC transactions. Of the $2T, $1.9T was provided under the continuing resolution and apportioned in accordance with OMB's automatic apportionment bulletin. Once the continuing resolution was passed, Treasury processed the warrant for the $1.9T, and the overall FBWT reconciliation amount decreased to $26M as of June 30, 2013. Further, the Forest Service encountered delays in processing cash activity, to include IPAC transactions. Treasury developed IPAC to standardize and streamline the payment or collection of funds for goods or services provided between Federal agencies. The Forest Service should record these transactions in its financial system accurately and timely. Failure to record these transactions could result in erroneous and inaccurate financial statements.

  IPAC transactions processed between the Forest Service and other Federal agencies will follow their respective process areas through most of the acquisition or agreement stage (i.e., if it is a grant, it will follow the grant process; if it is a contract for goods, it will follow the IAS process, etc.). NFC is responsible for managing and monitoring IPAC transactions. The Forest Service's ASC B&F receives and reviews a weekly suspense report detailing the outstanding IPAC transactions for which funds have been transferred but the transfer has not yet been matched to the agreement. The Forest Service does not enter the IPAC transactions into the financial records until the agreement matching occurs. For unrecorded transfers that are aged over 60 days, ASC B&F will follow up on the status of the payment with NFC. During FY 2013, this suspense account balance grew significantly over the previous year. As of July 25, 2013, there was a net unrecorded balance of $85M.

  The Forest Service Collections Clearinghouse (CCH) is primarily responsible for resolving collection records created by a Citibank lockbox that have not successfully interfaced into FMMI. Transactions that are not interfaced into FMMI are recorded into a suspense fund. If balances in the suspense fund are not cleared in a timely manner, the financial information may be overlooked and misallocated to the proper account.

  Kearney conducted a process overview with Forest Service personnel, including individuals responsible for unidentified lockbox collections. As of March 31, 2013, the Forest Service CCH reported 3,949 unidentified transactions with a net book value of $28M.

  The unidentified transactions may result in classifications and allocations to improper accounts. As a result of this finding, revenue and accounts receivable may be incomplete and inaccurate, which could result in a misstatement on the proprietary financial statements. Untimely recording of a collection or payment could result in a misstatement of assets or liabilities on the financial statements.

As of September 30, 2013, the FBWT reconciliation amount was $2M and the IPAC net unrecorded balance was $9M; the Forest Service cleared the remaining backlog of unidentified Citibank lockbox cash collections.

The untimely recording of a collection or payment could result in a misstatement of assets or liabilities on the financial statements. Accounts receivable and suspense accounts may be overstated, which could result in a misstatement to the financial statements.

Recommendation Number 8: Kearney recommends that the Forest Service continue to monitor and manage the changes made to its control environment in the second half of the year to ensure continued performance. In addition, Kearney recommends that the Forest Service continue to find automated fixes to remove the labor intensive component for reporting unidentified Citibank lockbox collections. Kearney also recommends that the Forest Service continually review its process for outstanding IPAC transactions to facilitate the matching process performed by NFC. The level of detailed knowledge held by Forest Service personnel may be leveraged to decrease the time that the transactions remain in the aging status.

V. Payroll (New Condition)

The Forest Service recognizes that it has liabilities that exist as of the Balance Sheet date that are not recorded in the accounting system. These items are material in amount, and estimates of these liabilities must be recorded in the financial statements. Periodically, these estimates need to be validated to ensure that the methodology being utilized to create the accounting estimate is statistically relevant and is a true representation of the liability being accrued. If the methodology used to create an accounting estimate is not statistically sound or the accrual amounts posted are not validated, the agency risks misstating its Balance Sheet at the financial statement date.

During testing, Kearney and the Forest Service determined that there are data quality issues in the actual payroll expenditures. The Forest Service received notification that pay period 19 payroll corrections were still being posted in pay period 23 to the GL. Without complete payroll information, the Forest Service currently does not have the ability to validate the payroll accrual. Additionally, the Forest Service's efforts to validate the accrual did not identify inaccuracies in payroll data.

Subsequent to Kearney's initial testing, the Forest Service recalculated the pay period 19 payroll expenditures and noted a $16M difference between the accrual and the actual expenditures. Further observations and details of the testing are summarized below.

Kearney determined that the weakness in the payroll data is considered to be a significant deficiency, as summarized below.

- Kearney performed an analysis of actual pay period 19 expenditures and compared them to the payroll accrual posted. Based on the accrual analysis, Kearney noted that the accrual amount posted for the fourth quarter of FY 2013 was $73M and the actual amount for the pay period covered by the accrual was $57M, which equates to a variance of $16M, or 22%. The variance is due to the data integrity issue with the pay period 19 data. The actual pay period 19 expenditures did not load correctly from the NFC Time and Attendance Validation System (TIME). TIME loaded pay period 19 into FY 2014 instead of FY 2013. Therefore, the payroll expenditures for pay period 19 in the amount of $57M were incorrect.

  The Forest Service sets the parameters for the formulation and calculation of the payroll accrual, which is then executed and posted by NFC. Quarterly, the Forest Service's Internal Quality Assurance (IQA) Branch performs a review of the payroll accrual amounts posted as well as a comparison to actual payroll expenditures. Historically, variances have been noted. A large variance was noted between the accrual amount and the actual expenditures, leading to an overstatement of estimated liabilities as of the FY 2013 Balance Sheet date. Once the variance in question was brought to its attention, the Forest Service was not able to confirm the accuracy of the variance due to ongoing pay period 19 corrections.

  The weakness in the accuracy of payroll data may increase the risk that liabilities are misstated on the financial statements.

  <u>Recommendation Number 9</u>: Kearney recommends that the Forest Service implement a process to identify payroll data integrity issues and ensure that the payroll accrual is within an acceptable range of actual payroll expenditures.

APPENDIX A: STATUS OF PRIOR YEAR DEFICIENCIES

In the Independent Auditor's Report on Internal Control on the United States Forest Service's fiscal year 2012 financial statements,[1] two 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	2012 Status	2013 Status
Information Technology Internal Control Environment	Significant Deficiency	Significant Deficiency
Property, Plant, and Equipment	Significant Deficiency	Significant Deficiency

[1] *Independent Auditor's Report on the U.S. Forest Service 2012 and 2011 Financial Statements*.

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE PROVISIONS OF LAWS, REGULATIONS, CONTRACT, AND GRANT AGREEMENTS

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

We have audited the accompanying consolidated financial statements of the United States Forest Service (Forest Service), which comprise the consolidated balance sheets as of and for the year ended September 30, 2013, the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the year then ended, and have issued our report thereon, dated December 5, 2013. 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. 14-02, *Audit Requirements for Federal Financial Statements*.

Compliance with Applicable Provisions of Laws, Regulations, Contract, and Grant Agreements

As part of obtaining reasonable assurance about whether the Forest Service's consolidated financial statements are free from material misstatement, we tested its compliance with certain provisions of laws, regulations, contract, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02, including the provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contract, and grant agreements applicable to the Forest Service. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and are described in the accompanying Schedule of Findings.

The results of our tests of compliance with FFMIA disclosed that the Forest Service's financial management systems substantially complied with applicable Federal accounting standards and application of the United States Standard General Ledger at the transaction level. However, we noted a certain instance, described in the Schedule of Findings below, in which the Forest Service's financial management systems and related controls were not in compliance with certain Federal financial management systems requirements.

KEARNEY&
COMPANY

Forest Service's Response to Findings

The Forest Service's management has provided its response to our findings in a separate memorandum attached to this report. The Forest Service's response was not subject to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 14-02 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
December 5, 2013

Schedule of Findings

Noncompliance and Other Matters

I. Noncompliance with the Antideficiency Act (New Condition)

As noted in its Assurance Letter, the Forest Service disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 14-02. This instance is summarized in the following paragraphs.

The Forest Service identified an Antideficiency Act (ADA) – 31 United States Code (U.S.C.) 1517(a) violation. The Forest Service is subject to the ADA, which prohibits Federal agencies from obligating or expending Federal funds in advance or in excess of an appropriation, apportionment, or similar funding. On December 31, 2012, the Forest Service's management identified Energy Policy Act Pilot (EPAP) obligations/expenditures, totaling $6,782, that were in excess of available funding. Partial funding of this Department of the Treasury (Treasury) Account Fund Symbol consisted of transfers from the United States Department of the Interior (DOI), Bureau of Land Management (BLM) to the Forest Service. The Forest Service expended more than the fiscal year (FY) 2012 carryover and had not formally received the FY 2013 DOI BLM transfers. Reports indicated that the Forest Service spent $6,782 in excess of the $72,000 carried over from FY 2012. Although several actions had transpired between the Forest Service and BLM to obtain the funding needed for FY 2013 work, the Forest Service did not receive the warrant for additional funding until after December 31, 2012. This noncompliance is being reported to Congress and the President; estimated delivery of this letter is unknown, as the Forest Service is working with the Office of the General Council and the United States Department of Agriculture on the final letter.

Failure to maintain effective controls and/or compensating controls to ensure compliance with the ADA could:

- Increase the risk of fraud, waste, and mismanagement of funds
- Affect the Government's ability to effectively monitor budget execution
- Affect the Government's ability to accurately measure the full cost of its programs.

Federal employees and/or agencies violating the ADA may be subject to appropriate administrative discipline, including suspension from duty without pay or removal from office. Employees and/or agencies may also be subject to fines, imprisonment, or both.

II. Noncompliance with the Prompt Payment Act (New Condition)

The Forest Service is subject to Title 5 of the Code of Federal Regulations (CFR), Section 1315, "The Prompt Payment Act (PPA)." The PPA generally requires that Federal agencies pay commercial vendors within 7, 10, or 30 days of receipt of a proper invoice, depending on the nature of the product or service being provided. When timely payments are not made, the PPA requires that agencies calculate and include interest penalties in the vendor payments. Interest penalties represent additional and avoidable costs that decrease the amount of funds available for other needs.

We conducted a process overview walkthrough with Forest Service personnel, including individuals responsible for monitoring transactions requiring payment of PPA interest penalties. We noted during the walkthrough that violations of the PPA occurred in the form of untimely payments to vendors, in which the incorrect interest penalty amount was calculated and disbursed. We also noted instances in which the vendors were not paid interest penalties when, in accordance with PPA, they were due to the vendors. The Forest Service was unable to quantify the total amount of PPA interest due.

By not complying with the PPA, the Forest Service incurred additional and avoidable costs in the form of interest penalties. This decreases the amount of funds available for other needs.

III. Noncompliance with Grants Management Pre-Award Requirements (Repeat Condition)

As noted in its Assurance Letter, the Forest Service disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 14-02. This instance is summarized in the following paragraphs.

The Forest Service was not in compliance with grants management pre-award requirements of Title 2 of the CFR, Section 225.35, "Agencies responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units shall issue regulations to implement the provisions of this part and its appendices," and Title 7 of the CFR, Section 3016.20 (b), "The financial management systems of other grantees and subgrantees must meet the following standards: (1) Financial reporting; (2) Accounting records; (3) Internal control; (4) Budget control; (5) Allowable cost; (6) Source documentation; and (7) Cash management."

By not complying with the grants management pre-award requirements, the Forest Service is unable to determine if the recipient of the funding has adequate procedures in place to ensure the purpose, time, and extent of the funding is executed appropriately, and if the funding is used in accordance with the provisions set forth in the agreement.

IV. FFMIA Noncompliance (Repeat Condition)

Federal Financial Management Systems Requirements

- User access, authorization, and password controls were not in compliance with Forest Service policy and Federal financial management systems requirements in some cases. In addition, adequate segregation of duties was not maintained in one financial system. For a detailed account of the FFMIA Federal financial management systems requirements noncompliance, see the *Independent Auditor's Report on Internal Control Over*

Financial Reporting, Schedule of Findings, Significant Deficiencies, II. Information Technology (Repeat Modified Condition), pages B-14–16.

Applicable Federal Accounting Standards

- No issues noted.

Standard General Ledger at the Transaction Level

- No issues noted.

USDA United States Department of Agriculture | Forest Service | Washington Office | 1400 Independence Avenue, SW Washington, DC 20250

File Code: 1430
Date: DEC - 5 2013

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

Dear Mr. Kubistal:

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

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

Sincerely,

Thelma J Strong
THELMA J. STRONG
Chief Financial Officer

cc: Kelli R Smith, Dianna Capshaw, Erica Y Banegas, Jennifer McGuire

U.S. Department of Agriculture
Forest Service
CONSOLIDATED BALANCE SHEETS
As of September 30, 2013 and 2012
(in millions)

	2013	2012
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$3,305	$3,684
Accounts Receivable, net (Note 3)	22	16
Total Intragovernmental	3,327	3,700
Cash and Other Monetary Assets	0	1
Accounts Receivable, net (Note 3)	204	280
General Property, Plant, and Equipment (PP&E), net (Note 4)	1,338	1,392
Other (Note 1D)	24	25
Total Assets	$4,893	$5,398
Stewardship PP&E (Note 5)		
Liabilities:		
Intragovernmental:		
Accounts Payable	$1	$0
Federal Employee Benefits (Notes 6 & 7)	71	71
Other (Note 9)	46	159
Total Intragovernmental	118	230
Accounts Payable	52	32
Federal Employee Benefits (Notes 6 & 7)	420	399
Environmental and Disposal Liabilities (Note 8)	120	2
Other (Note 9)	1,659	1,732
Total Liabilities (Note 6)	2,369	2,395
Commitments and Contingencies (Note 9)		
Net Position:		
Unexpended Appropriations - All Other funds	1,043	1,510
Cumulative Results of Operations - Funds from Dedicated Collections (Note 11)	669	803
Cumulative Results of Operations - All Other funds	812	690
Total Net Position	2,524	3,003
Total Liabilities and Net Position	$4,893	$5,398

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, 2013 and 2012
(in millions)

	2013	2012
Program Costs (Note 12):		
Total Gross Costs	$6,541	$6,940
Less: Total Earned Revenue	761	839
Net Cost of Operations	$5,780	$6,101

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
Forest Service
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2013 and 2012
(in millions)

	2013			2012		
	Funds from Dedicated Collections (Note 11)	All Other Funds	Consolidated Total	Funds from Dedicated Collections (Note 11)	All Other Funds	Consolidated Total
Cumulative Results of Operations:						
Beginning Balance	$803	$690	$1,493	$1,002	$759	$1,761
Adjustment						
Change in Accounting Principle (Note 1T)	0	(118)	(118)	0	0	0
Beginning Balance, as Adjusted	$803	$572	$1,375	$1,002	$759	$1,761
Budgetary Financing Sources:						
Appropriations Used	0	5,509	5,509	0	5,264	5,264
Non-Exchange Revenue	0	0	0	0	1	1
Donations and Forfeitures of Cash	1	0	1	1	0	1
Transfers - In/Out without Reimbursement	27	110	137	(219)	355	136
Other Financing Sources (Non-Exchange):						
Transfers without Reimbursement	(188)	1	(187)	(18)	18	0
Imputed Financing	0	348	348	0	372	372
Other	80	(2)	78	76	(17)	59
Total Financing Sources	(80)	5,966	5,886	(160)	5,993	5,833
Net Cost of Operations	(54)	(5,726)	(5,780)	(39)	(6,062)	(6,101)
Net Change	(134)	240	106	(199)	(69)	(268)
Cumulative Results of Operations	**669**	**812**	**1,481**	**803**	**690**	**1,493**
Unexpended Appropriations:						
Beginning Balance	0	1,510	1,510	0	2,056	2,056
Budgetary Financing Sources:						
Appropriations Received	0	5,303	5,303	0	4,728	4,728
Appropriation Transfers - In/Out	0	(4)	(4)	0	(1)	(1)
Other Adjustments	0	(257)	(257)	0	(9)	(9)
Appropriations Used	0	(5,509)	(5,509)	0	(5,264)	(5,264)
Total Budgetary Financing Sources	0	(467)	(467)	0	(546)	(546)
Total Unexpended Appropriations	**0**	**1,043**	**1,043**	**0**	**1,510**	**1,510**
Net Position	**$669**	**$1,855**	**$2,524**	**$803**	**$2,200**	**$3,003**

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, 2013 and 2012
(in millions)

	2013	2012
Budgetary Resources:		
Unobligated Balance, Brought Forward, October 1	$1,392	$1,907
Unobligated Balance Brought Forward, October 1, as Adjusted	1,392	1,907
Recoveries of Prior Year Unpaid Obligations	21	131
Other Changes in Unobligated Balance (+ or -)	0	(2)
Unobligated Balance from Prior Year Budget Authority, net	1,413	2,036
Appropriations (Discretionary & Mandatory)	5,653	5,296
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	713	758
Total Budgetary Resources (Note 15)	$7,779	$8,090
Status of Budgetary Resources:		
Obligations Incurred (Note 14)	$6,692	$6,698
Unobligated Balance, End of Period:		
Apportioned (Note 2)	816	800
Unapportioned (Note 2)	271	592
Total Unobligated Balance, End of Period	1,087	1,392
Total Status of Budgetary Resources (Note 15)	$7,779	$8,090
Change in Obligated Balance:		
Unpaid Obligations, Brought Forward, October 1	$2,557	$2,771
Obligations Incurred	6,692	6,698
Outlays (Gross) (-)	(6,877)	(6,781)
Recoveries of Prior Year Unpaid Obligations (-)	(21)	(131)
Unpaid Obligations, End of Year	2,351	2,557
Uncollected Payments:		
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 (-)	(531)	(485)
Change in Uncollected Customer Payments, Federal Sources (+ or -)	72	(46)
Uncollected Payments, Federal Sources, End of Year (-)	(459)	(531)
Memorandum (non-add) Entries:		
Obligated Balance, Start of Year (+ or -)	2,026	2,286
Obligated Balance, End of Year (+ or -)	1,892	2,026
Budget Authority and Outlays, Net:		
Budget Authority, Gross (Discretionary and Mandatory)	$6,366	$6,054
Actual Offsetting Collections (Discretionary and Mandatory)	(785)	(712)
Change in Uncollected Customer Payments from Federal sources (Discretionary and Mandatory) (+ or -)	72	(46)
Budget Authority, net (Discretionary and Mandatory)	$5,653	$5,296
Outlays, Gross (Discretionary and Mandatory)	$6,877	$6,781
Actual Offsetting Collections (Discretionary and Mandatory)	(785)	(712)
Outlays, net (Discretionary and Mandatory)	6,092	6,069
Distributed Offsetting Receipts (-)	(693)	(530)
Agency Outlays, net (Discretionary and Mandatory)	$5,399	$5,539

The accompanying notes are an integral part of these statements.

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 area office, five Research and Development stations, the Forest Products Laboratory, and the International Institute of Tropical Forestry. The Forest Service functions 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 include 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, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, 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 October 21, 2013. 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 accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

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

C: FUND BALANCE WITH TREASURY

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

D: OTHER ASSETS

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

E: GENERAL PROPERTY, PLANT, AND EQUIPMENT

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

See Note 5 for specific disclosures related to multiuse 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.

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

G: LIABILITIES

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

H: ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and Disposal Liabilities

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

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

Asbestos Abatement Liabilities

In accordance with the Financial Accounting Standards Advisory Board's (FASAB) Technical Bulletin 2006-1, issued September 28, 2006, the Forest Service implemented new reporting requirements for estimated abatement liabilities for nonfriable asbestos. Prior to this technical bulletin, Forest Service recognized liabilities for the removal of asbestos that posed an immediate health threat (i.e., friable asbestos), but had not prepared an estimate of cleanup costs for the future removal of asbestos that did not pose an immediate health threat (i.e., nonfriable asbestos). The new reporting requirement is effective for reporting periods beginning after September 30, 2012. The amount of the asbestos liability shall be shown as a "change in accounting principle" in the Statement of Changes in Net Position for fiscal year 2013.

See Note 8 for specific disclosures related to asbestos abatement liabilities.

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.

See Note 9 for specific disclosures related to commitments and contingencies.

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 nonvested. 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 nonvested 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. The Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and 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, multiyear, and no-year appropriations that are used, within statutory limits, for operating and capital expenditures. Other funding sources are derived through reimbursements for services performed for other Federal and non-Federal entities, sale of goods to the public, gifts from donors, cost-share contributions, and interest on invested amounts.

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

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

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

N: IMPUTED FINANCING

The Forest Service recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the Forest Service are also recognized as imputed financing. Imputed financing for the years ended September 30, 2013 and 2012 was $348 million and $372 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 U.S. Department of the Interior (DOI), Department of the Army, Department of the Navy, Department of the Air Force, and the U.S. Corps of Engineers, Civil. The Forest Service receives allocation transfers, as the child, from the DOL, Department of Transportation, 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: FUNDS FROM DEDICATED COLLECTIONS

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

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

For further information see Note 11.

R: INTER-ENTITY COST IMPLEMENTATION

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

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

S: RECLASSIFICATIONS

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

T: CHANGE IN ACCOUNTING PRINCIPLE

Effective for FY 2013, the Forest Service implemented a change in accounting principle to comply with the Federal Accounting Standards Advisory Board's Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs.* This change requires (1) estimation of both friable and nonfriable asbestos-related cleanup costs and (2) recognition of a liability and related expense for those costs that are both probable and reasonably estimable, consistent with the current guidance in Statement of Federal Financial Accounting Standard (SFFAS) 5, *Accounting for Liabilities of the Federal Government*; SFFAS 6, *Accounting for Property, Plant, and Equipment*, Chapter 4: Cleanup Costs, and Technical Release (TR) 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*. The liability for FY 2013 is recognized as an adjustment to the beginning balance of Cumulative Results of Operations in the Statement of Changes in Net Position.

See Note 8 for specific disclosures related to asbestos abatement liabilities.

NOTE 2: FUND BALANCE WITH TREASURY

Funds with the U.S. Department of Treasury (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.

Fund Balance with Treasury as of September 30, 2013 and 2012 (in millions)

	2013	2012
A. Fund Balances:		
(1) Trust Funds	$207	$236
(2) Special Funds	774	909
(3) Revolving Funds	179	185
(4) General Funds	1,993	2,235
(5) Other Fund Types	152	119
Total	**$3,305**	**$3,684**
B. Status of Funds:		
(1) Unobligated Balance		
(a) Available	$816	$800
(b) Unavailable	271	592
(2) Obligated Balance not yet Disbursed	1,892	2,026
(3) Non-Budgetary FBWT Accounts	326	266
Total	**$3,305**	**$3,684**

NOTE 3: ACCOUNTS RECEIVABLE, NET

Intragovernmental Accounts Receivable represent amounts due under reimbursable and cooperative agreements with Federal entities for services provided by the Forest Service. An Allowance for Uncollectible Accounts is not established for these amounts because monies due from other Federal entities are considered fully collectible. As of September 30, 2013 and 2012, the Intragovernmental Accounts Receivable balances were $22 million and $16 million, respectively.

Nonintragovernmental 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.

Nonintragovernmental Accounts Receivable as of September 30, 2013 and 2012 (in millions)

	2013	2012
Accounts Receivable	$217	$300
Allowance for Uncollectible Accounts	(13)	(20)
Accounts Receivable, Net	**$204**	**$280**

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

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

General Property, Plant, and Equipment as of September 30, 2013 (in millions)

Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property				
Equipment	5 - 20	$698	$(446)	$252
Internal Use Software	5	108	(98)	10
Internal Use Software in Development	n/a	76	0	76
Total Personal Property		**882**	**(544)**	**338**
Real Property				
Land and Land Rights	n/a	52	0	52
Improvements to Land	10	747	(681)	66
Construction in Progress	n/a	91	0	91
Buildings, Improvements, and Renovations	15 - 30	1,106	(656)	450
Other Structures and Facilities	15 - 50	1,742	(1,420)	322
Assets Under Capital Lease	5 - 30	57	(41)	16
Leasehold Improvements	10	12	(9)	3
Total Real Property		**3,807**	**(2,807)**	**1,000**
Total		**$4,689**	**$(3,351)**	**$1,338**

General Property, Plant, and Equipment as of September 30, 2012 (in millions)

Property Class	Estimated Useful Life (Years)	Cost	Accumulated Depreciation	Book Value
Personal Property				
Equipment	5 - 20	$686	$(438)	$248
Internal Use Software	5	107	(91)	16
Internal Use Software in Development	n/a	68	0	68
Total Personal Property		**861**	**(529)**	**332**
Real Property				
Land and Land Rights	n/a	52	0	52
Improvements to Land	10	745	(662)	83
Construction in Progress	n/a	138	0	138
Buildings, Improvements, and Renovations	15 - 30	1,058	(631)	427
Other Structures and Facilities	15 - 50	1,720	(1,382)	338
Assets Under Capital Lease	5 - 30	58	(39)	19
Leasehold Improvements	10	12	(9)	3
Total Real Property		**3,783**	**(2,723)**	**1,060**
Total		**$4,644**	**$(3,252)**	**$1,392**

NOTE 5: STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT

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

Stewardship PP&E

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

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

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

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

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

Heritage Assets

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

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

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

Some heritage assets may also be classified as multiuse 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 “multiuse” heritage asset. Multiuse heritage assets are capitalized as General PP&E. Multiuse heritage assets are reported as Stewardship PP&E.

Heritage Asset categories can include the following:

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

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

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

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

Addition and Deletion of Heritage Assets

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

Heritage Assets Site by Management Area as of September 30, 2013

Heritage Asset Sites by Management Area	2012 Final Sites	Additions	Deletions	2013 Final Sites
National Forests				
Region 1 - Northern Region	15	0	0	15
Region 2 - Rocky Mountain Region	17	0	0	17
Region 3 - Southwestern Region	12	0	0	12
Region 4 - Intermountain Region	18	0	0	18
Region 5 - Pacific Southwest Region	18	0	0	18
Region 6 - Pacific Northwest Region	21	0	0	21
Region 8 - Southern Region	34	0	0	34
Region 9 - Eastern Region	17	0	0	17
Region 10 - Alaska Region	2	0	0	2
Subtotal	154	0	0	154

Heritage Asset Sites by Management Area	2012 Final Sites	Additions	Deletions	2013 Final Sites
National Grasslands				
Region 1 - Northern Region	4	0	0	4
Region 2 - Rocky Mountain Region	7	0	0	7
Region 3 - Southwestern Region	4	0	0	4
Region 4 - Intermountain Region	1	0	0	1
Region 5 - Pacific Southwest Region	1	0	0	1
Region 6 - Pacific Northwest Region	1	0	0	1
Region 8 - Southern Region	2	0	0	2
Subtotal	20	0	0	20
Non-Forest Service Sites	168	7	(7)	168
TOTAL SITES	**342**	**7**	**(7)**	**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.

National Forests

The national forests are formally established and permanently set aside and reserved for national forest purposes. The following categories of National Forest System (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 are 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 NFS. The program coordinates with a variety of partners, including State, local, and tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

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

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

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

NFS Sites Reported by Major Category as of September 30, 2013

Stewardship Land Asset Sites	2012 Final Sites	Additions	Deletions	2013 Final Sites
National Forests	154	0	0	154
National Grasslands	20	0	0	20
Research and Experiment Areas	3	0	0	3
National Preserves and Other Areas	3	0	0	3
TOTAL SITES	**180**	**0**	**0**	**180**

NOTE 6: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. Liabilities not covered by budgetary resources as of September 30, 2013 and 2012, consisted of the following:

Liabilities Not Covered by Budgetary Resources as of September 30, 2013 and 2012 (in millions)

	2013	2012
Intragovernmental:		
Treasury Judgment Fund	$23	$21
Other Unfunded Employment Related Liability (Note 9)	19	22
Federal Employee Benefits (Note 7)	71	71
Total Intragovernmental Not Covered by Budgetary Resources	113	114
Federal Employee Benefits (Note 7)	420	399
Environmental and Disposal Liabilities (Note 8)	120	0
Annual Leave Liability (Note 9)	201	209
Contingent Liabilities (Note 9)	40	43
Accrued Liability for Payments to States & Counties (Note 9)	325	346
Total Liabilities Not Covered by Budgetary Resources	1,219	1,111
Total Liabilities Covered by Budgetary Resources	1,150	1,284
Total Liabilities	**$2,369**	**$2,395**

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.

NOTE 7: FEDERAL EMPLOYEE BENEFITS

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

Workers' compensation benefits include the current and expected future liability for death, disability, medical, and other approved costs. The U.S. Department of Labor (DOL) actuarially determines the expected future liability for the USDA as a whole, including the Forest Service. The Forest Service is billed annually as its claims are paid by the DOL. Payments to the DOL are deferred for 2 years so that the bills may be funded through the budget. The amounts of unpaid FECA billings constitute the accrued FECA payable.

Accrued FECA Payable as of September 30, 2013 and 2012 (in millions)

	2013	2012
Intragovernmental Federal Employee Benefits (Note 6)	$71	$71
Federal Employee Benefits (Note 6)	420	399
Total	**$491**	**$470**

NOTE 8: ENVIRONMENTAL AND DISPOSAL LIABILITIES

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

Government-related events are nontransaction-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 the 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 nontransaction 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 nonexchange 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, the U.S. 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, Financial Accounting Standards Advisory Board publication Technical Bulletin 2006-1, including the Comprehensive Environmental Response Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act, 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. Estimated asbestos abatement liabilities also include expected future cleanup costs and the cost of preabatement inspection surveys. These surveys are used to determine the extent and type of asbestos-containing building materials requiring removal and disposal during asset renovation or demolition.

Environmental and Disposal Liabilities

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 clean up any contaminated PP&E. Professional judgment and prior experience is often the basis for cost estimates. If the agency has no previous similar experience, the staff performs other comparable technical reviews or derives estimates using standard cost estimating guides.

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

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

The Forest Service estimated liability for Government-related events as of September 30, 2013 and 2012, was $2 million for both fiscal years.

Asbestos Abatement Liabilities

The Forest Service reports the cleanup of free-floating asbestos that is an immediate threat to human health as a Government-related Environmental and Disposal Liability. However, the asbestos contained in building materials, such as wall board and ceiling tiles, is undisturbed and presents no immediate threat to human health. Recognizing the financial liability for asbestos abatement costs is a change in accounting principle, recorded and reported for the first time in FY 2013, as required by the FASAB. The amount of the adjustment shall be shown as a “change in accounting principle” on the Statement of Changes in Net Position.

The asbestos-related cleanup costs are recorded as a prior period adjustment in FY 2013. The total estimated asbestos abatement costs relates to prior period operations since the PP&E has been in service for a substantial portion of its estimated useful life. Estimates are calculated for buildings and structures constructed in years prior to 1981, per EPA and USDA Office of the Chief Financial Officer (OCFO) guidance. No asbestos abatement costs will be recovered through user charges.

The USDA OCFO developed a Department-wide estimation methodology and calculated an abatement cost factor that is applied to the Forest Service square footage of asset groups expected to have asbestos. The “Construction Date” was used to identify the Forest Service assets built before 1981 to determine the assets expected to have asbestos. A “Building Type” indicator is used to identify Forest Service asset groups. The asset groups are broken out between “Complex” and “Basic” building structures: “Complex” buildings and structures are those with electrical, plumbing, and heating, ventilation, and air conditioning (HVAC) systems; “Basic” buildings and structures are those without electrical, plumbing, and HVAC systems. “Basic” buildings and structures were examined further to identify assets that are not expected to have asbestos, such as amphitheaters or picnic pavilions. Forest Service total square footage for complex assets are multiplied times the Department cost rate, in recognition of the high probability, on average, that asbestos was present. For basic assets expected to contain asbestos (such as a cabin or barn), 50 percent of the square footage is multiplied times the Department cost rate, in recognition of the lower probability, on average, that asbestos was present. A liability amount was not calculated for “Basic” buildings and structures that are not expected to contain asbestos.

In addition to the estimate for asbestos abatement, Forest Service estimates preabatement inspection costs for each building over 4,999 square feet. These larger buildings are generally “central features” in a group of smaller buildings on one site or compound. An asbestos inspection generally includes all structures on the site, which is an economical approach because inspectors often must travel from larger cities to remote Forest Service locations. A construction industry standard publication for estimating the cost of construction jobs, R.S. Means Building Construction Cost Data, is used to determine the preabatement inspection cost for buildings over 4,999 square.

The only unrecognized portion of estimated asbestos abatement costs is the small segment of PP&E in which the presence of asbestos-containing materials is probable but not reasonably estimable. It is probable that numerous water and wastewater systems contain asbestos building materials, but sufficient information is not available to determine a reasonable estimate of abatement costs. Water and wastewater systems constructed prior to 1981 include underground lengths of “transite pipe” (cement mixed with asbestos fibers), the linear footage of which cannot be estimated.

The Forest Service initial recognition of estimated liability for asbestos abatement costs as of September 30, 2013, is $118 million.

NOTE 9: OTHER LIABILITIES

Other Liabilities as of September 30, 2013 and 2012 (in millions)

	2013			2012		
	Non-Current	Current	Total	Non-Current	Current	Total
Intragovernmental						
Employer Contributions & Payroll Tax	$0	15	$15	$0	37	$37
Accrued Liabilities	23	14	37	21	34	55
Advances from Others	0	18	18	0	44	44
Deposit Liabilities	0	(43)	(43)	0	1	1
Other Unfunded Employment Related Liability (Note 6)	0	19	19	0	22	22
Total Intragovernmental	$23	23	$46	$21	138	$159
Other						
Accrued Liabilities	0	763	763	0	906	906
Advances from Others	0	89	89	0	86	86
Deposit Liabilities	0	215	215	0	119	119
Purchaser Road Credits	0	1	1	0	1	1
Accrued Liability for Payments to States & Counties (Note 6)	0	325	325	0	346	346
Annual Leave Liability (Note 6)	0	201	201	0	209	209
Contingent Liabilities (Note 6)	0	40	40	0	43	43
Custodial Liabilities	0	7	7	0	1	1
Capital Leases (Note 10)	13	3	16	16	3	19
Other	0	2	2	0	2	2
Total Other	$13	1,646	$1,659	$16	1,716	$1,732
Total Other and Intragovernmental Liabilities	**$36**	**1,669**	**$1,705**	**$37**	**1,854**	**$1,891**

As of September 30, 2013 and 2012, 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 and the Forest Service are also included. A portion of the accrued liabilities total is calculated by a mathematical model based on a regression between open obligation balances and subsequent payments.

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

Accrued Liability for Payments to States and Counties: The Twenty-Five Percent Fund Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States Program. This program requires revenue generated by the sale of goods and services on the national forests to be shared with the States for public schools and public roads in the county or counties in which the national forests are located. The Secure Rural School and Community Self Determination Act of 2000, reauthorized on October 2, 2013, for FY 2013 as part of Public Law 113-40, also provides for roads and schools, Forest Service projects and emergency services. In addition, the Payments to Counties, Bankhead-Jones Farm Tenant Act of 1937 requires 25 percent of the net revenues from each national grassland or land utilization project to be paid to the counties in which such lands are located.

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

Contingent Liabilities and Commitments: Forest Service reports contingent liabilities and commitments based on cases that are provided by OGC (see Note 1I). 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 that may require future financial obligations.

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

The accrued and potential contingent liabilities as of September 30, 2013 and 2012, are summarized as follows:

Accrued and Potential Contingent Liabilities as of September 30, 2013 (in millions)

	Accrued Liabilities	Estimated Range of Loss Lower End	Estimated Range of Loss Upper End
Contingent Liabilities			
Probable	$40	$40	$593
Reasonably Possible		72	295

Accrued and Potential Contingent Liabilities as of September 30, 2012 (in millions)

	Accrued Liabilities	Estimated Range of Loss Lower End	Estimated Range of Loss Upper End
Contingent Liabilities			
Probable	$43	$43	$567
Reasonably Possible		41	185

NOTE 10: LEASE LIABILITIES

The Forest Service enters into leasing agreements through leasing authority delegated by U.S. General Services Administration for general facilities (buildings and office space), equipment, and land. Leases may include renewal options for periods of 1 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, 2013 and 2012, and future capital and operating lease agreement payments as of September 30, 2013, consisted of the following:

Summary of Assets Under Capital Leases as of September 30, 2013 and 2012 (in millions)

Summary of Assets Under Capital Leases	2013	2012
Land, Buildings, Machinery, and Equipment	$57	$58
Accumulated Amortization	(41)	(39)
Total	**$16**	**$19**

Capital Lease Future Payment Schedule as of September 30, 2013 (in millions)

Fiscal Year	Land and Buildings, Machinery, and Equipment
Year 1 (2014)	$9
Year 2 (2015)	8
Year 3 (2016)	7
Year 4 (2017)	5
Year 5 (2018)	5
After 5 Years	15
Total Future Lease Payments	$49
Less: Imputed Interest	(24)
Less: Executory Costs	(9)
Subtotal	16
Lease Liabilities Covered by Budgetary Resources	**$16**

Operating Lease Future Payment Schedule as of September 30, 2013 (in millions)

Fiscal Year	Land and Buildings, Machinery, and Equipment
Year 1 (2014)	$47
Year 2 (2015)	41
Year 3 (2016)	35
Year 4 (2017)	31
Year 5 (2018)	27
After 5 Years	126
Total Future Lease Payments	**$307**

NOTE 11: FUNDS FROM DEDICATED COLLECTIONS

In accordance with U.S. GAAP, the Forest Service administers certain funds from dedicated collections, which are specifically identified revenues, provided to the Government by non-Federal sources, 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 funds from dedicated collections 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	Titles
5004	Land Acquisition
5005	Land and Water Conservation Fund
5008	National Forest Fund Receipts
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	Midewin National Tallgrass Prairie 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
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

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

Funds from Dedicated Collections as of and for the year ended September 30, 2013 (in millions)

	Cooperative Work *	State, Private, and International Forestry Land and Water Conservation Fund*	Payments to States National Forests Fund*	Other Funds	Total
ASSETS					
Fund Balance with Treasury	$181	$118	$108	$574	$981
Accounts Receivable, Net	8	0	0	29	37
Advances To Others	0	0	0	0	0
General Property, Plant & Equipment, Net	15	0	2	98	115
TOTAL ASSETS	**$204**	**$118**	**$110**	**$701**	**$1,133**
LIABILITIES					
Accounts Payable	$1	$ 0	$0	$4	$5
Other Liabilities	82	36	302	39	459
TOTAL LIABILITIES	83	36	302	43	464
Total Net Position	121	82	(192)	658	669
TOTAL LIABILITIES AND NET POSITION	**$204**	**$118**	**$110**	**$701**	**$1,133**
CHANGE IN NET POSITION					
Beginning Balances, as adjusted	$147	$99	$(130)	$687	$803
Budgetary Financing Sources:					
Donations and Forfeitures of Cash	0	0	0	1	1
Transfers -in/out without Reimbursement	(10)	46	3	(12)	27
Other Financing Sources:					
Transfers-in/out without Reimbursement	0	0	(1)	(187)	(188)
Other	0	0	0	80	80
Total Financing Sources	(10)	46	2	(118)	(80)
Revenue	87	0	48	355	490
Expenses	(103)	(63)	(112)	(266)	(544)
Net Cost of Operations	(16)	(63)	(64)	89	(54)
ENDING BALANCES	**$121**	**$82**	**$(192)**	**$658**	**$669**

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

Funds from Dedicated Collections as of and for the year ended September 30, 2012 (in millions)

	Cooperative Work *	Payments to States National Forests Fund*	Payments to Counties, National Grasslands*	Restoration of Forest Lands and Improvements*	State, Private, and International Forestry Land and Water Conservation Fund*	Other Funds	Total
ASSETS							
Fund Balance with Treasury	$213	$186	$138	$135	$131	$343	$1,146
Accounts Receivable, Net	2	0	0	2	0	12	16
Advances To Others	0	1	0	0	0	0	1
General Property, Plant & Equipment, Net	17	2	0	0	0	109	128
TOTAL ASSETS	**$232**	**$189**	**$138**	**$137**	**$131**	**$464**	**$1,291**
LIABILITIES							
Accounts Payable	$1	$0	$0	$0	$0	$3	$4
Other Liabilities	84	318	0	1	31	50	484
TOTAL LIABILITIES	85	318	0	1	31	53	488
Total Net Position	147	(129)	138	136	100	411	803
TOTAL LIABILITIES AND NET POSITION	**$232**	**$189**	**$138**	**$137**	**$131**	**$464**	**$1,291**
CHANGE IN NET POSITION							
Beginning Balances, as adjusted	$313	$(123)	$62	$170	$94	$486	$1,002
Budgetary Financing Sources:							
Donations and Forfeitures of Cash	0	0	0	0	0	1	1
Transfers -in/out without Reimbursement	(160)	0	0	(80)	53	(32)	(219)
Other Financing Sources:							
Transfers-in/out without Reimbursement	0	0	0	0	0	(18)	(18)
Other	0	0	77	0	0	(1)	76
Total Financing Sources	(160)	0	77	(80)	53	(50)	(160)
Revenue	92	107	(1)	64	0	248	510
Expenses	(98)	(113)	0	(18)	(47)	(273)	(549)
Net Cost of Operations	(6)	(6)	(1)	46	(47)	(25)	(39)
ENDING BALANCES	**$147**	**$(129)**	**$138**	**$136**	**$100**	**$411**	**$803**

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

Descriptions of the significant funds from dedicated collections 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 July 31, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

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

The FY 2004 DOI and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from DOI 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, 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.

Payments to States, National Forests Fund

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

Payments to Counties, National Grasslands

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

Restoration of Forest Lands and Improvements

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579c) states any monies received by the United States with respect to lands under the administration of the Forest Service (a) as a result of the forfeiture of a bond or deposit by a permittee or timber purchaser for failure to complete performance of improvement, protection, or rehabilitation work required under the permit or timber sale contract or (b) as a result of a judgment, compromise, or settlement of any claim, involving present or potential damage to lands or improvements, shall be deposited into the Restoration of Forest Lands and Improvements Account—12X5215. The monies are then 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.

NOTE 12: SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

The Forest Service reflects costs through four primary responsibility segments: National Forests and Grasslands, Forest and Rangeland Research, State and Private Forestry, and Wildland Fire Management. A USDA Forest Service Strategic Plan FY 2013-2017 is being developed. The document will identify strategic goals for the agency.

The following tables illustrate program costs by segment for the years ended September 30, 2013 and 2012.

Program Costs by Segment for the year ended September 30, 2013 (in millions)

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	$321	$38	$13	$258	$630
Imputed Costs	348	0	0	0	348
Reimbursable Costs	152	20	12	197	381
Total Intragovernmental Gross Costs	821	58	25	455	1,359
Less: Intragovernmental Earned Revenue	134	16	51	26	227
Intragovernmental Net Costs	687	42	(26)	429	1,132
Gross Costs With the Public:					
Grants and Indemnities	308	12	256	47	623
Stewardship Land Acquisition (Note 13)	45	0	0	0	45
Other:					
Operating Costs	1,754	238	93	1,997	4,082
Depreciation Expense	118	2	0	27	147
Reimbursable Costs	97	19	37	132	285
Total Other	1,969	259	130	2,156	4,514
Total Gross Costs with the Public	2,322	271	386	2,203	5,182
Less: Earned Revenues from the Public	459	4	0	71	534
Net Costs with the Public	1,863	267	386	2,132	4,648
Net Cost of Operations	**$2,550**	**$309**	**$360**	**$2,561**	**$5,780**

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

	National Forests and Grasslands	Forest and Rangeland Research	State and Private Forestry	Wildland Fire Management	Total
Intragovernmental Gross Costs:					
Benefit Program Costs	$350	$42	$15	$240	$647
Imputed Costs	372	0	0	0	372
Reimbursable Costs	175	23	13	180	391
Total Intragovernmental Gross Costs	897	65	28	420	1,410
Less: Intragovernmental Earned Revenue	47	19	56	10	132
Intragovernmental Net Costs	850	46	(28)	410	1,278
Gross Costs With the Public:					
Grants and Indemnities	368	6	231	90	695
Stewardship Land Acquisition (Note 13)	51	0	0	0	51
Other:					
Operating Costs	1,798	246	97	2,105	4,246
Depreciation Expense	117	2	0	27	146
Reimbursable Costs	146	23	32	191	392
Total Other	2,061	271	129	2,323	4,784
Total Gross Costs with the Public	2,480	277	360	2,413	5,530
Less: Earned Revenues from the Public	559	4	0	144	707
Net Costs with the Public	1,921	273	360	2,269	4,823
Net Cost of Operations	**$2,771**	**$319**	**$332**	**$2,679**	**$6,101**

NOTE 13: COST OF STEWARDSHIP PP&E

Stewardship PP&E acquired in FYs 2013 and 2012 amounted to $45 and $51 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 is excluded from General PP&E. Examples of stewardship land include land used for forests, grazing, and wildlife.

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

NOTE 14: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

An apportionment is an Office of Management and Budget (OMB)-approved plan to use budgetary resources and limits the obligations that may be incurred for specified time periods, programs, activities, projects, objects, or any combination thereof. Apportionments received from OMB are categorized as Category A (by quarter), Category B (by project), or Category E (exempt from apportionment). The amounts of direct and reimbursable obligations incurred by apportionment category are shown below.

In FY 2012, the Forest Service had two treasury symbols that received Category A apportionments – 12X1106 (National Forest System) and 12X1115 (Wildland Fire Management). Per OMB direction, Forest Service changed the apportionment category for these treasury symbols to Category B. All Forest Service treasury symbols are receiving Category B apportionments in FY 2013.

Apportionment Categories of Obligations Incurred for the year ended September 30, 2013 (in millions)

	Apportionment Category A	Apportionment Category B	Total
Obligations Incurred - Direct	$0	$6,160	$6,160
Obligations Incurred - Reimbursable	0	532	532
Total Obligations Incurred	**$0**	**$6,692**	**$6,692**

Apportionment Categories of Obligations Incurred for the year ended September 30, 2012 (in millions)

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

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

The differences between the FY 2012 Statement of Budgetary Resources (SBR) and the FY 2012 actual numbers presented in the FY 2013 Budget of the U.S. Government (Budget) are summarized in the table below. The President's Budget with actual numbers for 2013 was published in February of 2014, and to be made available at http://www.whitehouse.gov. OMB Circular A-136 states that the note should "identify and explain material differences between amounts reported in the SBR and actual amounts reported in the Budget of the United States Government as required by U.S. GAAP." The Department's threshold for explaining material variances is $25 million and 10 percent. No variances meet this threshold.

Differences between the FY 2012 SBR and the FY 2012 actual numbers presented in the FY 2013 Budget of the U.S. Government (in millions)

SBR Line Description	SBR Amount	Budget Amount	Dollar Variance	Percentage Variance
Total Budgetary Resources/Status of Resources	8,090	8,079	11	0%
Total Status of Resources	8,090	8,079	11	0%
Unobligated Balance-Beginning of Year	1,907	1,898	9	0%
Recoveries of Prior Year Obligations	131	124	7	6%
New Budget Authority - Appropriations	5,296	5,299	(3)	0%
Spending Authority from Offsetting Collections	758	758	0	0%
Total New Obligations	6,698	6,694	4	0%
Unobligated Balance and Unobligated Balance not Available	1,392	1,385	7	1%
Obligated Balance - Beginning of Year	2,771	2,770	1	0%
Obligated Balance - End of Year	2,026	2,027	(1)	0%
Gross Outlays	6,781	6,781	0	0%
Less: Offsetting Collections	(712)	(713)	1	(1%)
Less: Distributed Offsetting Receipts	(530)	(533)	3	0%
Net Outlays	5,539	6,068	(529)	(9%)

NOTE 16: INCIDENTAL CUSTODIAL COLLECTIONS

Custodial collections represent miscellaneous general fund receipts such as collections on land leases for resource extraction, sale of timber and other products administered by the Forest Service, civil monetary penalties and interest, and commercial fines and penalties. Custodial collection activities are considered immaterial and incidental to the mission of the Forest Service. However, the custodial activity transfer for FY 2013 includes collections for multiple FY's, FY 2012 and prior, which should have been transferred to Treasury in previous years. Comparative presentation will begin in FY 2014.

Incidental Custodial Collections for the year ended September 30, 2013 (in millions)

Revenue Activity:	2013
Sources of Collections:	
Miscellaneous	$189
Total Cash Collections	$189
Accrual Adjustments	$6
Total Custodial Revenue	$195
Disposition of Collections:	
Transferred to Others:	
Treasury	$(195)
(Increase)/Decrease in Amounts Yet to be Transferred	$0
Net Custodial Activity	**$0**

NOTE 17: UNDELIVERED ORDERS AT THE END OF THE PERIOD

Unpaid Obligations and Undelivered Orders as of September 30, 2013 and 2012 (in millions)

	2013	2012
Unpaid Obligations	$2,351	$2,557
Undelivered Orders	$1,513	$1,559

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 nonmonetary 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, 2013 and 2012, the amount of marijuana on hand was 29,407 kg and 31,807 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.

NOTE 19: RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

Reconciliation of Net Cost of Operations to Budget for the years ended September 30, 2013 and 2012 (in millions)

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$6,692	$6,698
Less: Spending Authority from Offsetting Collections and Recoveries	734	889
Obligations Net of Offsetting Collections and Recoveries	5,958	5,809
Less: Offsetting Receipts	693	530
Net Obligations	5,265	5,279
Other Resources:		
Transfers in/out Without Reimbursement	(187)	0
Imputed Financing from Costs Absorbed by Others	348	372
Other	78	59
Net Other Resources Used to Finance Activities	239	431
Total Resources Used To Finance Activities	**5,504**	**5,710**
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	43	297
Resources that Fund Expenses Recognized in Prior Periods	(214)	(4)
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations		
Change in Unfilled Orders	36	23
Other	635	0
Resources that Finance the Acquisition of Assets	(95)	(133)
Other Resources or Adjustments to Net Obligated Resources that do not Affect the Net Cost of Operations	(41)	15
Total Resources Used to Finance Items not Part of the Net Cost of Operations	364	198
Total Resources Used to Finance the Net Cost of Operations	**5,868**	**5,908**
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	201	0
Increase in Environmental and Disposal Liability	2	1
Increase in Exchange Revenue Receivable from the Public	(440)	(2)
Other	20	37
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(217)	36
Components not Requiring or Generating Resources:		
Depreciation and Amortization	147	146
Revaluation of Assets or Liabilities	(13)	2
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(7)	13
Other	2	(4)
Total Components of Net Cost of Operations that will not Require or Generate Resources	129	157
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(88)	193
Net Cost of Operations	**$5,780**	**$6,101**

This note is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. This

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 nonbudgetary resources, (2) the budgetary and nonbudgetary resources used by an agency may finance activities that are not components of the net cost of operations, and (3) the net cost of operations may contain components that do not use or generate resources in the period.