

## **Financial Section**



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## Message From the Chief Financial Officer

As the newly designated Chief Financial Officer of U.S. Department of Agriculture (USDA) Forest Service, I present the consolidated financial statements of the USDA Forest Service for fiscal year (FY) 2004 and 2003. For the third consecutive year, the Forest Service has received an unqualified, “clean,” opinion on its statements. I want to extend my appreciation to all individuals and organizations whose dedication and resolve made the FY 2004 unqualified opinion possible. Receiving an unqualified opinion verifies that the Forest Service’s financial statements are fairly presented and demonstrates accountability in the execution of our responsibilities.

During FY 2004, the Forest Service continued agencywide improvement efforts to effectively and efficiently manage public funds and property through “Sustainable Financial Management” activities. Strategic goals for financial management continue to be focused on creating an effective, efficient, and economic financial management organization; establishing financial management performance accountability; sustaining financial management improvements; resolving open audit recommendations and material weaknesses; and integrating financial processes and systems.

For FY 2005, our goals will center on maintaining an unqualified audit opinion; eliminating new and existing material weaknesses, reportable conditions, and compliance issues; and improving our ability to provide timely, accurate, and useful financial information. The Forest Service is aggressively pursuing business process reforms that will be implemented at the newly realigned Albuquerque Service Center beginning the second quarter of FY 2005 to ensure that the financial position of the agency remains solid over the long term.



JESSE L. KING  
Chief Financial Officer



## Report of the Office of Inspector General



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: NOV 10 2004

REPLY TO

ATTN OF: 08401-4-FM

SUBJECT: Forest Service's Financial Statements for Fiscal Years 2004 and 2003

TO: Dale Bosworth  
Chief  
Forest Service

ATTN: Sandy Coleman  
Agency Liaison Officer  
Forest Service

This report presents the auditors' opinion on the Forest Service's (FS) principal financial statements for the fiscal years ending September 30, 2004, and 2003. The report also includes an assessment of FS' internal control structure and compliance with laws and regulations.

KPMG, LLP (KPMG), an independent certified public accounting firm, conducted the audits. KPMG is responsible for the auditors' report, dated November 10, 2004. We monitored the progress of the audit at all key points, reviewed KPMG's report and selected working papers, and performed other procedures, as we deemed necessary. Our review, as differentiated from an audit in accordance with the Government Auditing Standards, was not intended to enable us to express, and we do not express, an opinion on FS' financial statements, conclusions about the effectiveness of internal controls, conclusions on whether FS' financial management systems substantially complied with the three requirements of the Federal Financial Management Improvement Act of 1996, or conclusions on compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with the Government Auditing Standards.

It is the opinion of KPMG, that the financial statements present fairly, in all material aspects, the FS' financial position as of September 30, 2004, and 2003; and its net costs, changes in net position, budgetary resources, and reconciliation of net cost to budgetary obligations for the years then ended, in conformity with generally accepted accounting principles. KPMG's report on FS' internal control structure over financial reporting identified five material internal control weaknesses. Specifically, KPMG identified material weaknesses in FS':

- Accountability for undelivered orders (new material weakness);
- financial management and accountability (repeat material weakness);
- yearend accrual methodology (repeat material weakness);
- controls in its purchasing applications over data input, reconciliation, integrity, and segregation of duties (repeat material weakness); and
- general controls environment (repeat material weakness).

KPMG's report on FS' laws and regulations contains instances of noncompliance with appropriations law and instances of noncompliance with the Federal Financial Management Improvement Act of 1996.

These weaknesses in controls over the financial reporting process resulted in FS not (1) being able to prepare timely and reliable financial statements without extensive manual procedures and (2) having current and reliable ongoing information to support management decisions. Also, the weaknesses in computer security controls resulted in an increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary FS programs and electronic data. These material weaknesses in internal controls may adversely affect any decision by FS' management and other decision makers that is based, in whole or in part, on information that is inaccurate because of these weaknesses.

Most of the issues identified by KPMG are longstanding and pervasive weaknesses impacting the FS' ability to accurately and timely report to the Congress and the public what it accomplishes with appropriated funds and to be fully accountable for those funds. As discussed in Note 12 to the financial statements, FS restated its prior year financial statements as a result of errors in the underlying accounting records. This is the third consecutive year that FS has had to restate its prior year financial statements. The FS corrected its fiscal year 2003 financial statements to:

- Properly align budgetary and proprietary account relationships and correct certain related budgetary and proprietary posting errors;
- clear accumulated unsupported balances in various suspense and deposit clearing funds;
- correct an overstatement in Fund Balance with Treasury and associated custodial liability;
- correct erroneous revenue transactions; and
- correct offsetting receipts.

During fiscal year 2004, FS initiated much needed improvements in its internal control structure. For example, FS embarked on a long-term financial management improvement project that included an aggressive plan to centralize finance, accounting, and budget execution functions. In addition, FS initiated a short-term internal control monitoring program to ensure internal control policies and procedures were adequate and operating effectively. Finally, FS focused attention on financial data quality through general ledger analysis and account relationship testing. We believe that these efforts need to continue and improve in order for FS to become an effective, sustainable, and accountable financial management organization. These changes in FS' financial management infrastructure are essential and critical for FS and the U.S. Department of Agriculture to continue to meet the mandatory accelerated reporting deadlines and also to

provide agency managers with meaningful and accurate financial data throughout the year when it is needed to administer its programs and operations.

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

  
ROBERT W. YOUNG  
Assistant Inspector General  
for Audit





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## Independent Auditors' Report



**KPMG LLP**  
2001 M Street, NW  
Washington, DC 20036

### Independent Auditors' Report

Chief, USDA Forest Service and  
Office of Inspector General, United States Department of Agriculture:

We have audited the accompanying consolidated balance sheets of the United States Department of Agriculture (USDA) Forest Service as of September 30, 2004 and 2003 and the related consolidated statements of net costs, changes in net position, and financing and the combined statements of budgetary resources for the years then ended, hereinafter referred to as the "financial statements". The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our audits, we also considered the USDA Forest Service's internal control over financial reporting and tested the USDA Forest Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its financial statements.

#### SUMMARY

As stated in our opinion on the financial statements, we concluded that the USDA Forest Service's financial statements as of and for the years ended September 30, 2004 and 2003 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the USDA Forest Service restated its fiscal year 2003 financial statements.

Our consideration of internal control over financial reporting resulted in the following new reportable conditions. The first one is considered a material weakness.

- Accountability for Undelivered Orders (UDOs) is Lacking
- A Segregation of Duties Policy related to Electronic Data Processing Must be Developed and Implemented
- The Review of Purchase Card Transactions Needs Improvement
- The Internal Controls Related to Recording, Classification and Accounting for Information Related to Leases Need Improvement
- The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue Related Transactions Need Improvement

We also consider the following reportable conditions identified in our report dated December 18, 2003 to be open. The first four are considered material weaknesses.



- The USDA Forest Service Needs to Improve its Financial Management and Accountability
- Implementation of the USDA Forest Service Accrual Methodology Needs Strengthening
- Controls Over Purchase Order System (PRCH) Data Access, Input, Integrity, and Segregation of Duties Need Improvement
- The USDA Forest Service Needs to Improve Its General Controls Environment
- The USDA Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balance with Treasury
- The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement
- Posting of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions
- Compilation of the USDA Forest Service's Required Supplementary Information and Required Supplementary Stewardship Information Needs Improvement
- The USDA Forest Service Application System Controls Need Improvement

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, disclosed instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*:

- The USDA Forest Service does not Obligate all Transactions as Required by Appropriations Law
- Instances of Non-compliance with Federal Financial Management Improvement Act (FFMIA) were Identified that related to Federal Accounting Standards

The following sections discuss our opinion on the USDA Forest Service's financial statements, our consideration of the USDA Forest Service's internal control over financial reporting, our tests of the USDA Forest Service's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements and management's and our responsibilities.

#### **OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of the USDA Forest Service as of September 30, 2004 and 2003 and the related consolidated statements of net costs, changes in net position, and financing and the combined statements of budgetary resources for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USDA Forest Service as of September 30, 2004 and 2003 and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the financial statements, the USDA Forest Service restated its fiscal year 2003 financial statements.



The information in the Management Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We did not audit this information and, accordingly, express no opinion on it. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the Required Supplementary Stewardship Information and the Required Supplementary Information related to deferred maintenance may not be reliable since preparation controls have not been effectively designed to ensure the existence, completeness, accuracy and timeliness of the reported information.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the USDA Forest Service's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2004 audit we noted certain matters, described in Exhibits I and II, involving internal control over financial reporting and its operation that we consider to be new reportable conditions. We believe that the reportable condition presented in Exhibit I is a material weakness. Exhibit II presents the other reportable conditions.

A summary of the status of prior year reportable conditions, including those open conditions on which we are making no further recommendations in this report, is included as Exhibit III.

We also noted other matters involving internal control over financial reporting and its operation that we will report to the management of USDA Forest Service in a separate letter.

### **INTERNAL CONTROL OVER REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION**

We noted certain significant deficiencies in internal control over Required Supplementary Stewardship Information that, in our judgment, could adversely affect the USDA Forest Service's ability to collect, process, record, and summarize Required Supplementary Stewardship Information. Specifically, preparation controls have not been effectively designed to ensure the existence, completeness, accuracy and timeliness of the reported information.

### **COMPLIANCE AND OTHER MATTERS**

Our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.



The results of our tests of compliance with certain provisions of other laws and regulations, exclusive of those referred to in FFMIA, disclosed instances of noncompliance with appropriations law, described in Exhibit IV, that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed instances, described in Exhibits IV and V, where the USDA Forest Service's financial management systems did not substantially comply with Federal financial management systems requirements or applicable Federal accounting standards. The results of our tests of FFMIA disclosed no instances in which the USDA Forest Service's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

## **RESPONSIBILITIES**

### ***Management's Responsibilities***

*The Government Management Reform Act of 1994 (GMRA)* requires each Chief Financial Officer (CFO) Act agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. GMRA also authorizes the Office of Management and Budget to identify additional agencies to prepare financial statements. To meet the GMRA reporting requirements, the USDA Forest Service prepares annual financial statements.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal controls over financial reporting, and preparation of the Management's Discussion and Analysis (including the performance measures), required supplementary information, and required supplementary stewardship information; and
- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

### ***Auditors' Responsibilities***

Our responsibility is to express an opinion on the fiscal year 2004 and 2003 financial statements of the USDA Forest Service based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.



In planning and performing our fiscal year 2004 audit, we considered the USDA Forest Service's internal control over financial reporting by obtaining an understanding of the USDA Forest Service's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

OMB Bulletin No. 01-02 requires auditors to consider the USDA Forest Service's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the USDA Forest Service's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did not perform these procedures on the Required Supplementary Stewardship Information because preparation controls have not been effectively designed to ensure the existence, completeness, accuracy and timeliness of the reported information.

As further required by OMB Bulletin No. 01-02 with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the USDA Forest Service's fiscal year 2004 financial statements are free of material misstatement, we performed tests of the USDA Forest Service's compliance with certain provisions of laws, regulations, contracts, 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. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the USDA Forest Service. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the USDA Forest Service's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

#### **DISTRIBUTION**

This report is intended for the information and use of USDA's Forest Service's management, USDA Office of the Inspector General, OMB, the Government Accountability Office and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

November 10, 2004

## INTRODUCTION

The internal control weaknesses discussed in this report are discussed in the context of the USDA Forest Service's existing decentralized organizational structure. Although the USDA Forest Service has progressed in correcting certain prior year weaknesses under this structure, it has recognized that the decentralized nature of the existing organizational structure makes it difficult to implement sustainable corrective action for certain weaknesses due to the large number of separate reporting units. As a result, the USDA Forest Service has begun a project whereby, upon completion, many of the accounting processes will be centralized. The project is scheduled for completion in late fiscal year 2005.

For each weakness identified, we believe we have performed appropriate substantive procedures as applicable to enable us to issue our unqualified opinion. In addition, we continue to recognize that certain recommended information technology (IT) control enhancements pertaining to the USDA Forest Service's operations cannot be implemented solely by the USDA Forest Service, because the USDA Forest Service's applications are in many cases hosted on systems managed by the USDA. As a result, several of the IT control weaknesses identified in this report will require the combined effort of USDA and the USDA Forest Service management.

Exhibits I and II describe the new material weakness and reportable conditions, respectively, as of and for the year ended September 30, 2004, and our recommendations. Exhibit III summarizes prior year reportable conditions, including those open conditions on which we are making no further recommendations in this report. Exhibit IV describes new instances of noncompliance with laws and regulations and other matters. Exhibit V describes prior year instances of noncompliance with laws and regulations, including those open instances on which we are making no further recommendations in this report. USDA Forest Service management's response is presented in Exhibit VI.

## MATERIAL WEAKNESS

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### **Material Weakness Number 1: Accountability for Undelivered Orders (UDOs) is Lacking**

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During fiscal year 2004, the USDA Forest Service experienced sporadic lack of compliance with its policies and procedures to review and certify the accuracy of UDOs. In addition, the USDA Forest Service was in its first full year of implementation with its new accrual (i.e., accounts payable) policy. During fiscal year 2004, it became apparent that field offices were not correctly recording accruals, which ultimately had an impact on the UDO balance as well. All of the above noted conditions led to an audit adjustment to increase the UDO balance by \$105 million as of September 30, 2004.

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### ***The Review and Certification of UDOs Needs Improvement and the Frequency of UDO Reviews Needs to be Revised***

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During our audit, we noted that:

- Certain locations did not properly comply with USDA Forest Service's semiannual certification policy related to the review of UDOs. Certain UDOs were not reviewed as required and certain questionable UDOs were not researched at all.
- The semiannual review and certification policy is as of March 31 and September 30 each year. The September 30 review may not be timely enough for the new reporting deadlines.
- In addition to the semiannual reviews and certifications, the USDA also requires monthly reviews and certifications, which may not be an efficient use of resources.

CFO Bulletin 2004-001, *Review of Undelivered Orders*, requires all obligations that exceed the threshold of \$10,000 or are 120 days or older be reviewed as of the end of March and September. All obligation amounts determined no longer valid shall be deobligated.

Treasury Financial Manual 2004-05, *Yearend Closing*, paragraph 19. Reconciliation of Obligations, states that before the yearend closing, agencies that have not reviewed their unliquidated obligations during the year should do so. This ensures agencies properly record transactions meeting the criteria of valid obligations set forth in 31 U.S.C. 1501. Agencies should retain work papers and records on verifications to facilitate future audits.

Also, USDA requires monthly “cookbook” certifications from its components.

The semiannual review and certification requirement was not fully complied with due to lack of resources and the large number of transactions required to be reviewed.

As a result of the competing UDO review requirements, USDA Forest Service personnel did not always complete the semi-annual UDO review or complete it accurately. The following table summarizes the types of exceptions noted during our July 31 and September 30 testing.

| <b>July 31 Testwork</b>                 |                       | <b>September 30 Testwork</b>            |                       |
|---|-----------------------|---|-----------------------|
| Number of Exceptions<br>(Sample of 170) | Type of Error         | Number of Exceptions<br>(Sample of 180) | Type of Error         |
| 9                                       | Invalid UDO           | 9                                       | Invalid UDO           |
| 4                                       | Overstatement of UDO  | 5                                       | Overstatement of UDO  |
| 3                                       | Understatement of UDO | 6                                       | Understatement of UDO |

**Recommendation Number 1:**

We recommend that USDA Forest Service management:

- Require all locations to fully comply with review and certification requirements and follow up to resolve questionable items.
- Work with USDA to begin performing quarterly reviews and certifications as of November, February, May, and August to both save the resources needed to perform the monthly certifications and help ensure that the UDO balances are properly adjusted in time for the quarterly and annual reporting deadlines.

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**Inaccuracies Existed in the Year-end UDO Balance**

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During our year-end testwork over UDO transactions, 34 of 180 sample items were noted as having abnormal balances. The abnormal balances caused the overall UDO balance to be understated and required an audit adjustment.

These abnormal balances occurred because the USDA Forest Service did not have adequate controls and procedures in place to prevent the over-accruing of UDOs when field offices used accrual documents that did not reference the original obligation document. For example, when a UDO contains an accrual transaction that not referenced, it decreases the UDO balance, but the transaction does not appear on the general ledger inquiry history screen. On the other hand, if the accrual transaction is referencing, it decreases the UDO balance and also appears on the general ledger inquiry history screen.

Specifically with regards to the above condition, the UDOs contained accruals using a non-referencing standard voucher document (SV) that was either subsequently paid and not removed from the general ledger or the UDO contained the same accrual twice, which was erroneously recorded using another SV document during a subsequent closing period that required USDA Forest Service personnel to review and update its accruals. These two actions caused certain ULOs to have abnormal debit balances.<sup>1</sup>

Treasury Financial Manual 2004-05, *Yearend Closing*, paragraph 19. Reconciliation of Obligations, states that before the yearend closing, agencies that have not reviewed their unliquidated obligations during the year should do so. This ensures agencies properly record transactions meeting the criteria of valid obligations set forth in 31 U.S.C. 1501. Retain work papers and records on verifications to facilitate future audits.

In addition, CFO Bulletin 2004-001, *Review of Undelivered Orders*, requires that all FS obligations that exceed the threshold of \$10,000 or are 120 days or older shall be reviewed by end of March 31, and by September 30. All obligation amounts determined no longer valid shall be deobligated.

**Recommendation Number 2:**

We recommend that USDA Forest Service management:

- Require the use of only referencing SV documents to accrue or modify UDO balances.
- Review its entire UDO transaction population to ensure that all improper SV accruals are removed and all abnormal balances are corrected.

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<sup>1</sup> Note that although this finding is related to accrual issues, accrual implications are not discussed herein as they are addressed in the open FY 2003 Material Weakness number 2 in Exhibit III.



## REPORTABLE CONDITIONS

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### **Reportable Condition Number 1: A Segregation of Duties Policy related to Electronic Data Processing (EDP) must be Developed and Implemented**

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During our audit, we noted that, although a number of the controls around segregation of duties related to EDP were in place, we found at least one of the following conditions at the sites we visited:

- No segregation of duties policy;
- No clearly defined operating procedures for data center operations;
- The same individual may perform distinct systems support functions;
- No segregation of duties training;
- No active management review of staff functions; and
- No controls in place to ensure financial management reporting data accuracy.

Although USDA Forest Service has an interim directive in place, no formal enterprise-wide policy or procedures have been developed or implemented.

Without proper controls or segregation of duties in place, unauthorized personnel can have the ability to access, edit or delete critical data or files, thus compromising data integrity and accuracy.

#### **Recommendation Number 3:**

We recommend that USDA Forest Service management develop and implement a formal enterprise-wide segregation of duties policy that encompasses the weaknesses identified above.

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### **Reportable Condition Number 2: The Review of Purchase Card Transactions Needs Improvement**

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During our audit, we noted that:

- 5 of 20 quarterly supervisory reviews of purchase card transactions were not accomplished as required.
- Certain purchase card transactions were not reconciled within 30 days as required.

OMB Circular A-123, *Management Accountability and Control* requires:

- Transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls and other significant events must be clear and readily available for examinations.
- Managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

Departmental Regulation 5013-6 requires that supervisors of purchase cardholders monitor the purchasing activity of cardholders in their units. On April 19, 2004, the Director of Acquisition Management reminded the various USDA Forest Service activities of the emphasis placed on the supervisor's review of purchase cardholders. A supervisory review checklist was provided to document the reviews starting with the second quarter review (January – March 2004). Documentation of these reviews should be maintained for 3 years.

The reviews were not performed and the transactions were not reconciled because of lack of adherence to the criteria described above.

Without effective review and reconciliation of these transactions, the USDA Forest Service could pay for inappropriate purchases.

**Recommendation Number 4:**

We recommend that USDA Forest Service management reinforce its policies in this area and incorporate procedures to test the reviews of purchased transactions in its Acquisition Management reviews.

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**Reportable Condition Number 3: The Internal Controls Related to Recording, Classification and Accounting for Information Related to Leases Need Improvement**

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The USDA Forest Service has not implemented automatic posting models for proper recording of leases. The requirement for lease reporting and disclosure in the financial statements is met by periodically compiling information from the regions based on data calls. This method is prone to errors. The USDA Forest Service plans to implement programming changes and new procedures in FY 05, which should result in better reporting and data quality.

In a sample of 15 real property and 15 personal property capital leases, we identified the following errors:

- 13 real property leases did not have acceptable support for their value and/or their estimated economic life.
- 3 personal property leases did not have acceptable support for their value.

We also tested the mathematical accuracy of certain calculations to determine if capital lease assets should be capitalized and determined that capitalized leases were understated by at least \$8 million at September 30, 2004.

These errors could cause an overstatement or an understatement of asset values. These errors can be attributed to the of lack of policy and procedures, lack of training and/or lack of monitoring of reporting units for compliance with USDA Forest Service lease transaction recording policies.

**Recommendation Number 5:**

We recommend that USDA Forest Service management establish policies and procedures for the accurate recording of leases, appropriately train reporting unit personnel on such policies and procedures, and monitor reporting units for compliance with its policies and procedures.

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**Reportable Condition Number 4: The Design and/or Implementation of Controls Related to the Accurate Recording of Revenue Related Transactions Need Improvement**

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During our audit, we noted various exceptions related to revenue transactions including:

- Failure to appropriately record prior year transactions or corrections to them;
- Failure to recognize revenue in the correct month and/or year;
- Insufficient or no documentation supporting amounts recorded;
- Failure to reduce unbilled receivables upon the issuance of actual billings; and
- Erroneous receivable balances caused by systemlinking problems.

OMB Circular No. A-123, *Management Accountability and Control*, states that transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and

### **Exhibit III**

other reports. The documentation for transactions, management controls, and other significant events must be clear and readily available for examination. This condition can be attributed to a lack of policies or procedures and/or lack of trained personnel and/or lack of monitoring of reporting units for compliance with the policies and procedures.

The effect of these deficiencies results in an over or understatement of revenue.

#### **Recommendation Number 6:**

We recommend that USDA Forest Service management review and update its policies and procedures for the accurate recording of revenue, appropriately train reporting unit personnel on such policies and procedures, and monitor reporting units for compliance with its policies and procedures.

**STATUS OF PRIOR YEAR’S REPORTABLE CONDITIONS**

As required by *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of the prior years’ reportable conditions. The following table summarizes these issues and provides our assessment of the progress USDA Forest Service made in correcting these reported conditions. We have also provided the Office of the Inspector General (OIG) report where the issue is monitored for audit follow-up. This table contains only those reports that are open.

| <b>All Reported Conditions In this Table are Referenced<br/>to the USDA OIG Audit Report No. 08401-3-FM January 2004</b> |  |               |
|--|--|---------------|
| <b>Reported Condition</b>  | <b>Recommendation</b>  | <b>Status</b> |
| Material Weakness #1:<br>The USDA Forest Service Needs to Improve its Financial Management and Accountability            | 1. We recommend that the USDA Forest Service provide Standard General Ledger (SGL) training to selected employees and appoint them to be “resident” SGL experts responsible for preparing as well as reviewing and approving the adjusting journal vouchers (AJVs).  | Open          |
|  | 2. We recommend that the USDA Forest Service modify its AJV form to specifically identify management personnel responsible for reviewing and approving certain aspects of each AJV.  | Closed        |
|  | 3. We recommend that the USDA Forest Service identify those business processes that are causing irregularities in the general ledger and develop an expedited corrective action plan to resolve and correct any deficiencies identified.   | Open          |
|  | 4. We recommend that the USDA Forest Service strive to limit the use of AJVs to only those accounting situations that require their use.   | Closed        |
|  | 5. We recommend that the USDA Forest Service analyze the composition of its budget clearing accounts and make proper disposition at least on a quarterly basis.  | Closed        |
|  | 6. We recommend that the USDA Forest Service identify all revenue generating business processes that are currently maintained in the budget clearing accounts and work with OMB and U.S. Department of the Treasury to establish a separate receipt and expenditure Treasury symbol so that revenue collections will not reside in the 12F3875 clearing account. | Open          |

| All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004 |  |        |
|---|--|--------|
| Reported Condition  | Recommendation   | Status |
|   | 7. We recommend that the USDA Forest Service revise its posting model for special and non-revolving trust funds to appropriately recognize these resources as transfers-in instead of appropriations received, in accordance with SGL guidance.  | Closed |
|   | 8. We recommend that the USDA Forest Service follow its procedures in order to perform monthly review, identification, research and correction of all abnormal balances and report the status of all abnormal balances of \$5 million or more to the USDA Office of the Chief Financial Officer. | Open   |
|   | 9. We recommend that the USDA Forest Service ensure proper entries, especially AJV's, at the Treasury Symbol level for all adjustments so as not to cause abnormal balances in related general ledger accounts.  | Open   |
|   | 10. We recommend that the USDA Forest Service institute an effective management review of the USDA Forest Service identified and corrected abnormal balances.  | Open   |
|   | 11. We recommend that the USDA Forest Service implement an effective monthly process to review general ledger account relationships. The process must include the research, reconciliation, and resolution of all significant differences in a timely manner.                                    | Open   |
|   | 12. We recommend that the USDA Forest Service require an effective documented manager review and quality assurance review of the account relationship analysis.  | Open   |

| All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004 |   |        |
|---|---|--------|
| Reported Condition  | Recommendation  | Status |
| Material Weakness #2: Implementation of the USDA Forest Service Accrual Methodology Needs Strengthening       | 13. We recommend that the USDA Forest Service’s Washington Office (WO) Office of Finance revise the accrual spreadsheet to prevent the USDA Forest Service units from changing data fields or recording “negative” accruals.  | Closed |
|   | 14. We recommend that the USDA Forest Service WO Office of Finance provide adequate communication and/or training of the accrual methodology, as well as, a summary of lessons learned from the fiscal year 2003 audit to all of the USDA Forest Service reporting units.   | Open   |
|   | 15. We recommend that the USDA Forest Service WO Office of Finance perform management oversight of the accrual methodology through analysis and follow up on large or unusual items, as well as the USDA Forest Service units that do not report any data.  | Open   |
|   | 16. We recommend that the USDA Forest Service WO Office of Finance establish and implement policies and procedures to perform period end reviews of rejected transactions to ensure that all transactions that are in reject status are corrected, recorded, and properly reflected in the general ledger.        | Closed |
|   | 17. We recommend that the USDA Forest Service WO Office of Finance and the USDA Forest Service reporting units perform a comprehensive review of its accrual implementation efforts during the second quarter of fiscal year 2004 to identify and resolve any additional deficiencies in the accrual methodology. | Open   |

| All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004      |   |        |
|--|---|--------|
| Reported Condition   | Recommendation  | Status |
| Material Weakness #3: Controls Over PRCH Data Access, Input, Integrity, and Segregation of Duties Need Improvement | 18. USDA Forest Service management has acknowledged the weakness of the PRCH system, and the USDA plans to migrate to a new department-wide Integrated Acquisition System (IAS). We recommend that USDA Forest Service work with the USDA to implement an appropriate information technology capital planning strategy and acquire IAS in a timely manner. In planning for the acquisition, USDA Forest Service and USDA should take steps to ensure the information technology architecture that will replace the PRCH system remedies these control weaknesses. Until completion of the IAS acquisition and migration away from legacy applications, USDA Forest Service management should take steps to ensure the existence and operating effectiveness of compensatory controls to mitigate the effects of noted application control weaknesses. | Open   |

| All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004 |  |        |
|---|--|--------|
| Reported Condition  | Recommendation   | Status |
| Material Weakness #4:<br>The USDA Forest Service Needs to Improve Its General Controls Environment            | <p>19. For USDA Forest Service-managed systems, it is recommended that FS management immediately perform Certification and Accreditation processes for all application and general support systems material to the USDA Forest Service financial statements or at least give remediation of this situation one of its highest priorities for IT resources with the objective of achieving at least interim authority to process for all its major application and general support systems within FY 2004. Management must then address the lack of controls in place to ensure compliance.</p> <p>For USDA-managed systems, recommendations regarding certification and accreditation of financial management systems used by USDA Forest Service have been issued to USDA management by OIG. USDA Forest Service should follow-up with USDA management on planned actions regarding accreditation of these application systems and their general support systems and monitor progress on these actions. Appropriate compensatory controls must be put in place by FS management, until accreditation of USDA-managed application and general support systems.</p> | Open   |
|   | <p>20. We recommend that USDA Forest Service management develop and implement a structured risk assessment policy and process for use by all regions and offices within USDA Forest Service. The risk assessment process should address milestones such as:</p> <p>A. Assignment of roles and responsibilities for undertaking assessment of security-related risks, reporting results to appropriate stakeholders, developing plans for remedial action, and following up on plans for remedial action.</p> <p>B. Documentation and analysis of threats and vulnerabilities that expose FS to risk.</p>   | Open   |



| All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004 |   |        |
|---|---|--------|
| Reported Condition  | Recommendation  | Status |
|   | <p>C. Development of steps to mitigate risks and improve controls.</p> <p>D. Definition of action plans for carrying out steps to mitigate risks and improve controls.</p> <p>E. Linkage of steps to mitigate risks and improve controls with a mechanism for monitoring the effectiveness of information security management.</p>  |        |
|   | <p>21. USDA Forest Service management should develop and implement entity-wide policy and procedures for IT security planning for all offices. The policy should state that the management of regional offices and National Forests must ensure that their IT security plans are updated to reflect current conditions and include incident response procedures, are approved and reviewed at least once a year with appropriate adjustments made based on changing conditions and risks, and that they comply with all enterprise-wide guidance.</p>   | Open   |
|   | <p>22. USDA Forest Service management should develop and implement enterprise-wide system architecture standards for Internet-facing services. These standards should ensure agency compliance with USDA regulations and should address firewall configuration, proper use of demilitarized zones, and limiting the use of unsecured services to ensure protection of internet-accessible data. USDA Forest Service management should also eliminate access to all unnecessary services from the Internet and implement strong authenticated access control to those services that are necessary.</p> | Open   |

| All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004 |  |        |
|---|--|--------|
| Reported Condition  | Recommendation   | Status |
|   | <p>23. It is recommended that management develop and implement enterprise-wide policies and procedures regarding software management. These policies and procedures should address:</p> <ul style="list-style-type: none"> <li>■ Installation of the latest software versions, service packs, and security patches (and removal of out-dated versions)</li> <li>■ Software configuration standards (with defined images that specify what software applications should be in use and on what kinds of machines these applications should be installed on)</li> <li>■ Use of automated tools to detect and eliminate unused or unauthorized applications (including the use of ISS Internet Scanner in accordance with USDA Cyber Security Policy CS-007).</li> <li>■ System software access controls</li> <li>■ System software change controls</li> </ul> | Open   |

| All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004 |  |        |
|---|--|--------|
| Reported Condition  | Recommendation   | Status |
|   | <p>24. It is recommended USDA Forest Service management to develop and implement enterprise-wide policies and procedures for contingency planning, business resumption, and disaster recovery and ensure that all data processing support facilities:</p> <ul style="list-style-type: none"> <li>■ Identify the criticality and sensitivity of USDA Forest Service information, systems, and facilities</li> <li>■ Implement consistent backup and recovery procedures (including off site storage of key documentation and frequent offsite data rotation based on the criticality of data being stored on backup media)</li> <li>■ Implement mandatory training on and periodic testing of recovery procedures</li> <li>■ Implement adequate controls at key data processing support facilities, e.g., automated alert systems to notify data center employees about system and environmental control failures</li> <li>■ Have documented and executed service level agreements with a backup data center(s)</li> <li>■ Develop, test and maintain comprehensive continuity of operations and Critical Infrastructure Protection Plans for its critical information system operations</li> <li>■ Periodically review and update all related procedures and documentation at each site</li> </ul> | Open   |

| <b>All Reported Conditions In this Table are Referenced<br/>to the USDA OIG Audit Report No. 08401-3-FM January 2004</b>  |   |        |
|---|---|--------|
| Reported Condition  | Recommendation  | Status |
|   | <p>25. USDA Forest Service management must sign a memorandum of understanding (MOU) with USDA to address the service levels and controls to be provided by NITC. Included in the MOU should be controls to prevent the recurrence of conditions noted in this finding. Recommendations for these conditions have been issued to USDA management by OIG.</p> | Open   |
|   | <p>26. USDA Forest Service management must sign a memorandum of understanding (MOU) with USDA to address the service levels and controls to be provided by NFC. Included in the MOU should be controls to prevent the recurrence of conditions noted in this finding. Recommendations for these conditions have been issued to USDA management by OIG.</p>  | Open   |
| <p>Reportable Condition #1: The USDA Forest Service Needs to Continue to Improve its Internal Controls over its Reconciliation and Management of Fund Balance with Treasury</p> | <p>27. We recommend that the USDA Forest Service perform complete and timely resolution of reconciling items for all FBWT accounts within 60 days of report receipt.</p>  | Open   |
|   | <p>28. We recommend that the USDA Forest Service establish a system of controls to accurately and timely record Treasury warrants.</p>  | Open   |

| <b>All Reported Conditions In this Table are Referenced<br/>to the USDA OIG Audit Report No. 08401-3-FM January 2004</b>                                   |   |        |
|--|---|--------|
| Reported Condition   | Recommendation  | Status |
| Reportable Condition #2: The Design and/or Implementation of Controls Related to the Accurate Recording of Personal Property Transactions Need Improvement | 29. We recommend that the USDA Forest Service continue to train reporting unit personnel on accurate property transaction recording.  | Open   |
|  | 30. We recommend that the USDA Forest Service WO improve its monitoring of reporting units for compliance with the USDA Forest Service property transaction recording policies. | Open   |
|  | 31. We recommend that the USDA Forest Service ensure the continued, timely performance and refinement of WO compensating controls procedures                                    | Closed |
| Reportable Condition #3: Controls Related to Physical Inventories of Capitalized Assets Need Improvement   | 32. We recommend that the USDA Forest Service implement the proper physical inventory procedures.   | Closed |
|  | 33. We recommend that the USDA Forest Service monitor reporting units for compliance with the USDA Forest Service written physical inventory instructions.                      | Closed |

| <p style="text-align: center;"><b>All Reported Conditions In this Table are Referenced<br/>to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p>                                   |  |        |
|---|--|--------|
| Reported Condition  | Recommendation   | Status |
| <p>Reportable Condition #4: Postings of Certain Transactions Needs to Contain the Proper Reference Data to Link Related Transactions</p>  | <p>34. We recommend that the USDA Forest Service develop a methodology to link transactions that are currently in the financial systems.</p>   | Open   |
|   | <p>35. We recommend that the USDA Forest Service work with the USDA and FFIS contractor to incorporate edit checks that would disallow processing of transactions that do not provide the required data.</p>   | Open   |
|   | <p>36. We recommend that the USDA Forest Service establish direction and quality assurance protocols to ensure that appropriate data be entered in the system.</p>   | Open   |
| <p>Reportable Condition #5: Compilation of the USDA Forest Service's Required Supplementary Information (RSI) and Required Supplementary Stewardship Information (RSSI) Needs Improvement</p> | <p>37. We recommend that the USDA Forest Service revise its current control structure for data collection and reporting of RSI and RSSI to ensure the timeliness and accuracy of the reported information.</p> | Open   |

| <p style="text-align: center;"><b>All Reported Conditions In this Table are Referenced<br/>to the USDA OIG Audit Report No. 08401-3-FM January 2004</b></p> |   |             |
|---|---|-------------|
| Reported Condition  | Recommendation  | Status      |
| <p>Reportable Condition #6: The USDA Forest Service Application Systems Controls Need Improvement</p>   | <p>38. We recommend that USDA Forest Service management complete the System Security Plan (SSP) for the Automated Timber Sale Accounting (ATSA) system. SSP should include finalized USDA Forest Service security policies; and be approved by management and reviewed and updated at least annually to reflect any changes to the current environment and the risks associated with those changes. USDA Forest Service management should incorporate in the ATSA SSP required management review of activity logs. Currently, the Security Plan identifies that audit trails exist but does not indicate the frequency with which they should be reviewed and who should review them. These reviews should be performed on a consistent basis regardless of whether potential unusual activity is detected. USDA Forest Service should also take steps to ensure required management reviews of ATSA activity logs are carried out and according to the updated security plan.</p> <p>ATSA should be modified to distinguish duplicate entries from legitimate, separate accounting events with the same data. Alternatively, the ATSA system could incorporate the capability to identify and print transactions with the same exact values. This would allow field units to perform error checks on these entries. KPMG realizes there is occasionally a business need for transactions with duplicate entries/values, but having a list of possible erroneous transactions would serve as a sufficient compensatory control.</p> | <p>Open</p> |

| All Reported Conditions In this Table are Referenced to the USDA OIG Audit Report No. 08401-3-FM January 2004 |   |        |
|---|---|--------|
| Reported Condition  | Recommendation  | Status |
|   | <p>USDA Forest Service management should develop and implement procedures for conducting risk assessments of the ATSA application system. This risk assessment approach should take into consideration key risk factors to include: determining the value of the application, exposures, threats, vulnerabilities, and the effectiveness of current or proposed alternatives and safeguards. The National TSA staff should be timely in finalizing the ATSA Administrator’s User Guide. This handbook should become official policy and contain all administrative functions in a centralized location. We recommend that the National TSA staff develop and implement a policy regarding a central repository of key system documentation and an off-site storage plan.</p> <p>ATSA should be modified to distinguish duplicate entries from legitimate, separate accounting events with the same data. Alternatively, the ATSA system could incorporate the capability to identify and print transactions with the same exact values. This would allow field units to perform error checks on these entries. KPMG realizes there is occasionally a business need for transactions with duplicate entries/values, but having a list of possible erroneous transactions would serve as a sufficient compensatory control.</p> |        |



## COMPLIANCE AND OTHER MATTERS

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### **The USDA Forest Service does not Obligate all Transactions as Required by Appropriations Law**

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Obligation testwork performed over approximately 160 transactions disclosed that the following transactions were not obligated as required by appropriation law:

- 19 transactions were not obligated prior to payment. The transactions that were not obligated included temporary travel, GSA automobile leases, and utility type transactions.
- 1 transaction was not obligated until 6 months after the acquisition occurred.

It is USDA Forest Service policy not to obligate for temporary travel related transactions because of limitations within USDA's travel system. For all other transactions not obligated, several USDA Forest Service offices did not obligate for GSA automobile leases and utility type transactions because of the variability in determining the estimated cost for these types of transactions.

The Government Accountability Office (GAO), publication GAO/OGC-92-13, *Appropriations Law*, defines an obligation in very general terms as, "an action that creates a liability or definite commitment on the part of the government to make a disbursement at some later time. The obligation takes place when the definite commitment is made, even though the actual payment may not take place until the following fiscal year." Furthermore, GAO's *Appropriations Law* cites 9 criteria for recording obligations. When one criterion is met, the agency not only may, but also must record that transaction as an obligation. Criterion 7 addresses travel expenses. With regard to the timing, *Appropriation Law* states that, "the obligation is not incurred until the travel is actually performed or until the ticket is purchased." While the precise amount of the liability should be recorded, the precise amount is not always known immediately. When this takes place, "the obligation should be recorded on the basis of the agency's best estimate."

Without obligating all required transactions, obligations are understated at any one point in time. Also as existing obligations are used in determining accruals, these types of unobligated transactions are not considered in the accrual determination process.

#### **Recommendation Number 8:**

We recommend that the USDA Forest Service management develop policy and procedures to obligate funds for transactions as required by Appropriations Law.

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### **Instances of Non-Compliance with FFMIA were Identified related to Federal Accounting Standards**

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In addition to the open FFMIA recommendation noted in Exhibit V, instances of FFMIA non-compliance relating to compliance with applicable Federal accounting standards were identified during the fiscal year 2004 audit.

The following table lists those *Statements of Federal Financial Accounting Concepts* (SFFAC) and *Statements of Federal Financial Accounting Standards* (SFFAS) that the USDA Forest Service did not comply with during the audit period.

| FFMIA Non-compliance with Federal Accounting Standards |   |
|--|---|
| SFFAS/SFFAC Number                                     | Accounting Deficiencies Noted   |
| SFFAC 2  | <ul style="list-style-type: none"> <li>■ Unliquidated Obligation errors</li> <li>■ Problems with preparing proper note disclosures (e.g., dedicated collections, custodial revenue, SBR to Presidents Budget reconciliation, and restatement)</li> <li>■ Not assessing the impact of remaining abnormal balances</li> </ul> |
| SFFAS 5  | <ul style="list-style-type: none"> <li>■ Incorrect accruals</li> </ul>  |
| SFFAS 6  | <ul style="list-style-type: none"> <li>■ Improper accounting for leases</li> <li>■ Improper accounting for internal use software</li> </ul>   |
| SFFAS 7  | <ul style="list-style-type: none"> <li>■ Errors with recording timber and non-timber revenue</li> </ul>   |
| SFFAS 8  | <ul style="list-style-type: none"> <li>■ Improper stewardship reporting</li> </ul>  |
| SFFAS 21   | <ul style="list-style-type: none"> <li>■ Incorrect conclusions regarding treatment of prior period adjustments</li> <li>■ Variances existed in Cumulative Results of Operations that were not detected</li> </ul>   |

Although the USDA Forest Service continues to improve its accounting operations, deficiencies still exist in the processing of various transactions. The deficiencies noted in the above table resulted in additional time and effort of the USDA Forest Service to research and resolve the deficiency.

**Recommendation Number 9:**

We recommend that the USDA Forest Service management identify the business process causes for the noted instances of non-compliance, develop adequate policies and procedures, and if necessary, modify existing policies and procedures to ensure that transactions are processed and reported in accordance with Federal accounting standards.

**Recommendation Number 10:**

We recommend that the USDA Forest Service management develop a remediation plan within the required time frames that includes extensive training of personnel specifically addressing the deficiencies noted above.

**STATUS OF PRIOR YEAR’S NONCOMPLIANCE FINDINGS AND OTHER MATTERS**

| <b>All Reported Conditions In this Table are Referenced<br/>to the USDA OIG Audit Report No. 08401-3-FM January 2004</b> |   |               |
|--|---|---------------|
| <b>Reported Condition</b>  | <b>Recommendation</b>   | <b>Status</b> |
| The USDA Forest Service Systems are Not Compliant with Federal Financial Management System Requirements                  | 1. We recommend that the USDA Forest Service, working with the NFC, as necessary, take steps to certify and accredit the PONTIUS, ATSA, and Paycheck 7 systems and their general support environment or replace these legacy systems. | Open          |
| The USDA Forest Service Revenue Collections from Certain Business Processes Are Not Recognized As Revenue When Earned    | 2. We recommend that the USDA Forest Service develop a posting model to ensure that revenue is recognized when earned.  | Closed        |
|  | 3. We recommend that the USDA Forest Service notify and train the USDA Forest Service personnel on the new revenue-posting model.   | Closed        |
| Improper Accounting for Budgetary Resources in Special and Non-Revolving Trust Funds                                     | 4. We recommend that the USDA Forest Service revise its posting model for special and non-revolving trust funds to appropriately recognize a transfer-in instead of appropriations received in accordance with SGL guidance.          | Closed        |
| Other Accounting Errors and Lack of Budgetary/Proprietary Synchronization  | 5. We recommend that the USDA Forest Service revise its posting models to properly record transactions initially and avoid excessive AJVs.  | Closed        |
|  | 6. We recommend that the USDA Forest Service analyze its business data to determine the nature of, and if necessary correct, transactions that are causing out of balance conditions between budgetary and propriety accounts.        | Closed        |



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## Management's Response to Audit Report



United States  
Department of  
Agriculture

Forest  
Service

Washington  
Office


1400 Independence Avenue, SW  
Washington, DC 20250

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NOV 10 2004

TO: Wanda Philippi  
Regional Inspector General, Office of Inspector General

Patrick Boyce  
Senior Partner  
Kylveld Peat Marwick Goerdeler (KPMG)

FROM: Jesse L. King   
Deputy Chief for Business Operations/CFO

SUBJECT: Response to the Draft Combined Independent Auditor's Report on the  
Forest Service's (FS) Fiscal Year 2004 Comparative Financial Statements

FILE CODE: 6500

We have reviewed KPMG's Draft Combined Independent Auditor's Report dated November 10, 2004, and agree with its contents. USDA 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 KPMG and the Office of the Inspector General in identifying the specific actions that will assist us in successfully addressing the recommendations.

If you have any questions or require additional information, please contact Jesse L. King at (703) 605-4938.

cc: Mr. Pat Boyce, Senior Partner, Kylveld Peat Marwick Goerdeler (KPMG)



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## Limitations of Financial Statements

The Forest Service has prepared its financial statements to report its financial position and results of operations pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

The Forest Service statements have been prepared from its books and records in accordance with the formats prescribed by OMB. The statements, however, are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress. The Federal Government can abrogate the payment of all liabilities, other than for contracts.





## Consolidated and Combined Financial Statements

### U.S. Department of Agriculture Forest Service Consolidated Balance Sheets As of September 30, 2004 and 2003 (in millions)

|  | <u>2004</u>            | <u>2003 (As Restated)</u> |
|--|------------------------|---------------------------|
| <b>Assets:</b>                                       |                        |                           |
| Intragovernmental:                                   |                        |                           |
| Fund Balance with Treasury (Note 3)                  | \$ 3,506               | \$ 3,263                  |
| Investments  | 4                      | 3                         |
| Accounts Receivable (Note 4)                         | 62                     | 36                        |
| Total Intragovernmental                              | 3,572                  | 3,302                     |
| Accounts Receivable, Net (Note 4)                    | 101                    | 110                       |
| General Property, Plant, and Equipment, Net (Note 5) | 3,807                  | 3,851                     |
| Advances   | 10                     | 12                        |
| <b>Total Assets (Note 2)</b>                         | <b><u>\$ 7,490</u></b> | <b><u>\$ 7,275</u></b>    |
| <b>Liabilities:</b>                                  |                        |                           |
| Intragovernmental (Note 7):                          |                        |                           |
| Accrued Liabilities                                  | \$ 118                 | \$ 69                     |
| Treasury Judgment Fund                               | 7                      | 192                       |
| Deposit Liabilities                                  | 90                     | 201                       |
| Other Liabilities                                    | 152                    | 98                        |
| Total Intragovernmental                              | 367                    | 560                       |
| Accounts Payable                                     | 47                     | 112                       |
| Federal Employee Benefits (Note 7)                   | 343                    | 390                       |
| Environmental and Disposal Liabilities               | 8                      | 8                         |
| Other (Note 7)                                       |                        |                           |
| Accrued Liabilities                                  | 859                    | 820                       |
| Annual Leave Liability                               | 194                    | 178                       |
| Other Liabilities                                    | 70                     | 170                       |
| Total Liabilities (Note 6)                           | 1,888                  | 2,238                     |
| Commitments and Contingencies (Note 7)               |                        |                           |
| <b>Net Position:</b>                                 |                        |                           |
| Unexpended Appropriations                            | 1,511                  | 1,350                     |
| Cumulative Results of Operations                     | 4,091                  | 3,687                     |
| Total Net Position                                   | 5,602                  | 5,037                     |
| <b>Total Liabilities and Net Position</b>            | <b><u>\$ 7,490</u></b> | <b><u>\$ 7,275</u></b>    |

The accompanying notes are an integral part of the financial statements.

**U.S. Department of Agriculture  
Forest Service  
Consolidated Statements of Net Cost  
For the years ended September 30, 2004 and 2003  
(in millions)**

|   | <u>2004</u>     | <u>2003 (As Restated)</u> |
|---|-----------------|---------------------------|
| <b>Program Costs</b>                    |                 |                           |
| Intragovernmental Gross Cost:           |                 |                           |
| Benefit Program Costs                   | \$ 350          | \$ 326                    |
| Imputed Costs                           | 244             | 229                       |
| Reimbursable Costs                      | 613             | 392                       |
| Total Intragovernmental Gross Cost      | 1,207           | 947                       |
| Less: Intragovernmental Earned Revenues | 121             | 315                       |
| Intragovernmental Net Costs             | 1,086           | 632                       |
| Gross Costs With the Public:            |                 |                           |
| Grants and Indemnities                  | 887             | 681                       |
| Stewardship Land Acquisition (Note 10)  | 87              | 191                       |
| Other:                                  |                 |                           |
| Operating Costs                         | 3,212           | 3,962                     |
| Depreciation Expense                    | 286             | 306                       |
| Reimbursable Costs                      | 240             | 259                       |
| Total Other                             | 3,738           | 4,527                     |
| Total Gross Costs with the Public       | 4,712           | 5,399                     |
| Less: Earned Revenues from the Public   | 538             | 482                       |
| Net Costs with the Public               | 4,174           | 4,917                     |
| <b>Net Cost of Operations (Note 9)</b>  | <b>\$ 5,260</b> | <b>\$ 5,549</b>           |

The accompanying notes are an integral part of the financial statements.

**U.S. Department of Agriculture  
Forest Service  
Consolidated Statements of Changes in Net Position  
For the years ended September 30, 2004 and 2003  
(in millions)**

|  | 2004                                |                              | 2003 (As Restated)                  |                              |
|--|-------------------------------------|------------------------------|-------------------------------------|------------------------------|
|  | Cumulative Results<br>of Operations | Unexpended<br>Appropriations | Cumulative Results<br>of Operations | Unexpended<br>Appropriations |
| <b>Beginning Balances</b>                          | \$ 3,473                            | \$ 1,517                     | \$ 2,899                            | \$ 1,762                     |
| Prior Period Adjustments (Note 12)                 | 214                                 | (167)                        | 258                                 | (154)                        |
| Beginning Balances, as adjusted                    | 3,687                               | 1,350                        | 3,157                               | 1,608                        |
| <b>Budgetary Financing Sources:</b>                |                                     |                              |                                     |                              |
| Appropriations Received                            | -                                   | 5,368                        | -                                   | 5,036                        |
| Appropriations Transfer - in/out                   | -                                   | 88                           | -                                   | 65                           |
| Other Adjustments (recissions, etc.)               | -                                   | (56)                         | -                                   | (22)                         |
| Appropriations Used                                | 5,239                               | (5,239)                      | 5,337                               | (5,337)                      |
| Donations and Forfeitures of Cash                  | 1                                   | -                            | 1                                   | -                            |
| Transfers -in/out without Reimbursement            | 172                                 | -                            | 511                                 | -                            |
| <b>Other Financing Sources:</b>                    |                                     |                              |                                     |                              |
| Donations and Forfeitures of Property              | 4                                   | -                            | 1                                   | -                            |
| Transfers In (Out) without Reimbursement           | 4                                   | -                            | -                                   | -                            |
| Imputed Financing from Costs Absorbed<br>by Others | 244                                 | -                            | 229                                 | -                            |
| Total Financing Sources                            | 5,664                               | 161                          | 6,079                               | (258)                        |
| Net Cost of Operations                             | (5,260)                             | -                            | (5,549)                             | -                            |
| <b>Ending Balances</b>                             | <b>\$4,091</b>                      | <b>\$1,511</b>               | <b>\$3,687</b>                      | <b>\$1,350</b>               |

The accompanying notes are an integral part of the financial statements.

**U.S. Department of Agriculture  
Forest Service  
Combined Statements of Budgetary Resources  
For the years ended September 30, 2004 and 2003  
(in millions)**

|  | <u>2004</u>     | <u>2003 (As Restated)</u> |
|--|-----------------|---------------------------|
| <b>Budgetary Resources:</b>                                  |                 |                           |
| Budget Authority:  |                 |                           |
| Appropriations Received                                      | \$ 5,923        | \$ 5,845                  |
| Net Transfers  | (12)            | 70                        |
| Unobligated Balance:   |                 |                           |
| Beginning of Period  | 1,256           | 834                       |
| Net Transfers, Actual  | 4               | (129)                     |
| Spending Authority from Offsetting Collections:              |                 |                           |
| Earned:  |                 |                           |
| Collected  | 428             | 710                       |
| Receivable from Federal Sources                              | (13)            | 100                       |
| Change in Unfilled Customer Orders:                          |                 |                           |
| Advances Received  | (10)            | (1)                       |
| Without Advance from Federal Sources                         | 20              | (46)                      |
| Subtotal   | <u>425</u>      | <u>763</u>                |
| Recoveries of prior year obligations                         | 97              | 113                       |
| Permanently/Temporarily Not Available Pursuant to Public Law | (54)            | (26)                      |
| Total Budgetary Resources                                    | <u>\$ 7,639</u> | <u>\$ 7,470</u>           |
| <b>Status of Budgetary Resources:</b>                        |                 |                           |
| Obligations Incurred: (Note 11)                              |                 |                           |
| Direct   | \$ 5,632        | \$ 5,583                  |
| Reimbursable   | 269             | 631                       |
| Subtotal   | <u>5,901</u>    | <u>6,214</u>              |
| Unobligated Balance:   |                 |                           |
| Apportioned  | 1,262           | 823                       |
| Exempt from Apportionment                                    | -               | 28                        |
| Unobligated Balances not Available                           | 476             | 405                       |
| Total Status of Budgetary Resources                          | <u>\$ 7,639</u> | <u>\$ 7,470</u>           |
| <b>Relation of Obligations to Outlays:</b>                   |                 |                           |
| Obligated Balance, Net, Beginning of Period                  | \$ 1,597        | \$ 1,401                  |
| Obligated Balance, Net, End of Period:                       |                 |                           |
| Accounts Receivable  | (213)           | (227)                     |
| Unfilled Customer Orders from Federal Sources                | (120)           | (100)                     |
| Undelivered Orders   | 1,232           | 1,099                     |
| Accounts Payable   | 594             | 825                       |
| Outlays:   |                 |                           |
| Disbursements  | 5,900           | 5,851                     |
| Collections  | (418)           | (710)                     |
| Subtotal   | <u>5,482</u>    | <u>5,141</u>              |
| Less: Offsetting Receipts                                    | 384             | 438                       |
| Net Outlays  | <u>\$ 5,098</u> | <u>\$ 4,703</u>           |

The accompanying notes are an integral part of the financial statements.

**U.S. Department of Agriculture  
Forest Service  
Consolidated Statements of Financing  
For the years ended September 30, 2004 and 2003  
(in millions)**

|  | <u>2004</u>         | <u>2003 (As Restated)</u> |
|--|---------------------|---------------------------|
| <b>Resources Used to Finance Activities:</b>   |                     |                           |
| Budgetary Resources Obligated:   |                     |                           |
| Obligations Incurred   | \$ 5,901            | \$ 6,214                  |
| Less: Spending Authority from Offsetting<br>Collections and Recoveries                                   | 522                 | 876                       |
| Obligations Net of Offsetting Collections<br>and Recoveries  | 5,379               | 5,338                     |
| Less Offsetting Receipts   | 384                 | 438                       |
| Net Obligations  | <u>4,995</u>        | <u>4,900</u>              |
| Other Resources:   |                     |                           |
| Donations and Forfeitures of Property  | 4                   | 1                         |
| Transfers in/out without reimbursement   | 4                   | -                         |
| Imputed Financing from Costs Absorbed by Others  | 244                 | 229                       |
| Net Other Resources Used to Finance Activities   | <u>252</u>          | <u>230</u>                |
| <b>Total Resources Used to Finance Activities</b>  | <b><u>5,247</u></b> | <b><u>5,130</u></b>       |
| <b>Resources Used to Finance Items not Part of<br/>the Net Cost of Operations:</b>                       |                     |                           |
| Change in Budgetary Resources Obligated for Goods,<br>Services and Benefits Ordered but not yet Provided | 131                 | 184                       |
| Resources that Fund Expenses Recognized<br>in Prior Periods  | 244                 | 29                        |
| Budgetary Offsetting Collections and Receipts that<br>do not Affect Net Cost of Operations               | -                   | (223)                     |
| Resources that Finance the Acquisition of Assets   | 214                 | 220                       |
| Total Resources Used to Finance Items not Part of the<br>Net Cost of Operations                          | <u>589</u>          | <u>210</u>                |
| <b>Total Resources Used to Finance<br/>the Net Cost of Operations</b>                                    | <b><u>4,658</u></b> | <b><u>4,920</u></b>       |

**U.S. Department of Agriculture  
Forest Service  
Consolidated Statements of Financing  
For the years ended September 30, 2004 and 2003  
(in millions) (continued)**

|   | <u>2004</u>            | <u>2003<br/>(As Restated)</u> |
|---|------------------------|-------------------------------|
| <b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>  |                        |                               |
| Components Requiring or Generating Resources in Future Periods (Note 15):   |                        |                               |
| Increase in Annual Leave Liability  | 16                     | 8                             |
| Increase in Environmental and Disposal Liability  | -                      | 1                             |
| Decrease (Increase) in Exchange Revenue   |                        |                               |
| Receivable from the Public  | 10                     | (56)                          |
| Increase in Accrued Liability for Payments to States  | 92                     | 180                           |
| Other   | 70                     | 94                            |
| Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods                | <u>188</u>             | <u>227</u>                    |
| Components not Requiring or Generating Resources:   |                        |                               |
| Depreciation and Amortization   | 286                    | 306                           |
| Revaluation of Assets or Liabilities  | (6)                    | 17                            |
| Allocation of Transfers and Other (Note 16)   | 134                    | 79                            |
| Total Components of Net Cost of Operations that will not Require or Generate Resources                              | <u>414</u>             | <u>402</u>                    |
| <b>Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b> | <u>602</u>             | <u>629</u>                    |
| <b>Net Cost of Operations</b>   | <u><b>\$ 5,260</b></u> | <u><b>\$ 5,549</b></u>        |

The accompanying notes are an integral part of the financial statements.

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## Notes to the Consolidated and Combined Financial Statements

For the Years Ended September 30, 2004 and 2003

### Note 1. Significant Accounting Policies

#### A. Reporting Entity

The USDA Forest Service was established on February 1, 1905, as an agency of the United States Federal Government within the U.S. Department of Agriculture (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. The USDA Forest Service policy is implemented through nine regional offices, six research offices, one State and Private Forestry area office, the Forest Products Laboratory, and the International Institute of Tropical Forestry, with 868 administrative units functioning in 46 States, Puerto Rico, and the Virgin Islands.

The USDA Forest Service's mission includes the four major segments described below.

- National Forests and Grasslands—Protection and management of approximately 192.5 million acres (unaudited) of National Forest System (NFS) land that includes 34.8 million acres (unaudited) of designated wilderness areas. In addition, the USDA 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 1.6 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; and
- Wildland Fire Management—Protection of life, property, and natural resources on the 192.5 million acres (unaudited) of NFS lands, and extending to an additional 20 million acres (unaudited) of adjacent State and private lands.

The accompanying financial statements of the USDA Forest Service account for all funds under the USDA Forest Service's control.

#### B. Basis of Presentation and Accounting

The financial statements were prepared to report the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of the USDA Forest Service. The financial statements have been prepared from the books and records of the USDA Forest Service in accordance with generally accepted accounting principles (GAAP) and in accordance with the Office of Management and Budget (OMB) Bulletin 01-09, *Form and Content of Agency Financial Statements*. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis in accordance with OMB Bulletin 01-09.

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.

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**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

The USDA Forest Service recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through the U.S. Department of Treasury General Fund warrants and other transfers. In addition to appropriated funds, the USDA 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 USDA Forest Service earned revenues are monies collected from timber sales or recreation use fees. The USDA Forest Service, pursuant to OMB directives, prepares additional financial reports that are used to monitor and control the USDA Forest Service's use of budgetary resources.

- C. Fund Balance with the U.S. Treasury** The U.S. Department of the Treasury processes cash receipts and disbursements on behalf of the USDA Forest Service. Funds on deposit with the U.S. Department of the 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. Advances** Payments made by the USDA 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. Inventory and Related Property** Costs associated with nursery stock are expensed as incurred.
- F. General Property, Plant and Equipment** General property, plant, and equipment (PP&E) includes real and personal property used in ordinary business operations. Real and personal property is recorded at cost or estimated fair market value and must have a useful life of 2 years or more. The USDA Forest Service capitalization threshold for acquisition of real property is \$25 thousand or more, effective fiscal year (FY) 2002. The capitalization threshold for personal property is \$25 thousand or more, effective FY 2003. The capitalization threshold for both real and personal property was \$5 thousand prior to these changes. Effective FY 2001, internal use software is capitalized in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*, if the value meets or exceeds \$100 thousand. Prior to that period, software was not capitalized. Effective FY 2003, USDA Forest Service reported the liability at lease inception, present value or fair market value, for capital leases in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*.
- G. Liabilities** Liabilities represent the amount of monies or other resources that are likely to be paid by the USDA Forest Service as a result of a transaction or event that has occurred. However, the USDA 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** The USDA Forest Service's estimated Government related environmental liabilities are principally associated with the future remediation of certain landfills, buildings, and other related sites in accordance with all applicable Federal, State and local laws. Such estimates do not consider the effect of future inflation, new technology, laws, or regulations.
- I. Commitments and Contingencies** The USDA Forest Service is a party in various administrative proceedings, legal actions, environmental lawsuits, and claims. In the opinion of the USDA Forest Service management and its legal counsel, the ultimate resolution of most of these proceedings is currently indeterminable. Where determinable, the full value of probable amounts related to unsettled litigation and other claims against the USDA Forest Service is recognized as a liability and expense. Expected amounts related to litigation and other claims include amounts to be paid



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**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

by the Department of the Treasury on behalf of the USDA Forest Service from a permanent appropriation for judgments and from other appropriations.

- J. Workers' Compensation Liability** The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to Federal civilian employees injured on the job, employees who have incurred a work related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Benefit claims incurred for the USDA Forest Service's employees under FECA are administered by the U.S. Department of Labor (DOL) and are ultimately paid by the U.S. Department of Agriculture. Consequently, the USDA Forest Service recognizes a liability for this compensation comprised of: (1) an accrued liability that represents money owed for claims paid by USDA through the current fiscal year and (2) an actuarial liability that represents the expected liability for USDA 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** USDA 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 USDA Forest Service's matching contribution, equal to 7 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 to remain in CSRS. FERS offers a savings plan to which the USDA Forest Service automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For FERS participants, the USDA Forest Service also contributes the employer's matching share for Social Security.
- The USDA Forest Service recognizes the imputed cost of pension and other health and life insurance retirement benefits during the employees' active years of service. Office of Personnel Management (OPM) actuaries determine 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 USDA Forest Service for current period expense reporting.
- M. Revenues and Other Financing Sources** The USDA Forest Service is funded principally through Congressional appropriations and other authorizations from the Budget of the United States. The USDA Forest Service receives annual, multi-year, and no year appropriations that are used, within statutory limits, for operating and capital expenditures. Other funding sources are derived through reimbursements for services performed for other Federal and non-Federal entities, sale of goods to the public, gifts from donors, cost-share contributions, and interest on invested amounts.
- Appropriations are used at the time the related program or administrative expenses are incurred or when the appropriations are expended for capital property and equipment. Other revenues are recognized as earned when goods have been delivered or services rendered.

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**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

In accordance with Federal Government accounting guidance, the USDA 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 USDA Forest Service is required to remit exchange revenue receipts to the U.S. Department of the Treasury. In other instances the USDA 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. An example of non-exchange revenue is the cash donations received from private citizens and organizations.

The USDA 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 SFFAS No.7, *Accounting for Revenue and Other Financing Sources*, the USDA 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.

**N. Imputed Financing**

The USDA 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, the OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the USDA Forest Service and claims paid for workers’ compensation under the Federal Employees Compensation Act (FECA) are also recognized as imputed financing. Imputed financing for the years ended September 30, 2004 and 2003, was \$244 million and \$229 million, respectively.

**O. Combined Statements of Budgetary Resources**

The USDA Forest Service receives two transfer allocations from appropriations of other agencies—the Department of Labor, Job Corps Civilian Conservation, and the Department of Transportation, Federal Aid to Highways. Job Corps Civilian Conservation is a Department of Labor residential training program for unemployed and under-employed young people. The training programs are conducted on campuses on national forest land and supervised by USDA Forest Service employees. Federal Aid to Highways provides emergency funding for the repair of National Forest System roads damaged by natural disaster. In accordance with OMB Bulletin number 01-09, *Form and Content of Agency Financial Statements*, the USDA Forest Service does not include these allocation transfers in its Combined Statement of Budgetary Resources. However, as the transfer allocations are considered material, the financial activity is reported in the Consolidated Statements of Net Cost and as a reconciling item in the Consolidated Statement of Financing.

**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, environmental and disposal liabilities, and Federal Employee Benefits liabilities.

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Note 2. Non-Entity Assets**

Total assets consist of both entity and non-entity. Non-entity assets are those assets not available for use in the operations of the USDA Forest Service and consist primarily of contractors' performance bonds, amounts held for others in the Fund Balance with Treasury suspense accounts and fines and penalties recorded as General Fund Proprietary Receipts that will be transferred to the U.S. Treasury at fiscal year-end. These business transactions occur primarily from the USDA Forest Service's timber operations and its law enforcement activities. As of September 30, 2004 and 2003, total non-entity assets consisted of:

|                                 | (in millions)  |                    |
|---------------------------------|----------------|--------------------|
|                                 | 2004           | 2003 (As Restated) |
| Intragovernmental:              |                |                    |
| Fund Balance with Treasury:     |                |                    |
| a) Balance in Receipt Accounts  | \$168          | \$171              |
| b) Balance in Clearing Accounts | 61             | 168                |
| Total Intragovernmental         | 229            | 339                |
| Accounts Receivable             | 10             | 27                 |
| Total Non-Entity Assets         | 239            | 366                |
| Total Entity Assets             | 7,251          | 6,909              |
| Total Assets                    | <u>\$7,490</u> | <u>\$7,275</u>     |

**Note 3. Fund Balance With Treasury**

Funds with the U.S. Department of the Treasury are primarily appropriated (general and special funds) and trust funds that are available to pay current liabilities and finance authorized purchase commitments. The category of other fund types includes deposit and clearing accounts. Fund balances with the U.S. Department of the Treasury include both entity and non-entity fund balances. It is the USDA Forest Service's policy to ensure the Fund Balance with Treasury reported on the Consolidated Balance Sheets are consistent with the records of the U.S. Department of the Treasury.

Fund Balance with Treasury as of September 30, 2004 and 2003, consisted of the following:

|   | (in millions)  |                    |
|---|----------------|--------------------|
|   | 2004           | 2003 (As Restated) |
| A. Fund Balances:                       |                |                    |
| (1) Trust Funds                         | \$533          | \$400              |
| (2) Revolving Funds                     | 139            | 134                |
| (3) Appropriated Funds                  | 2,757          | 2,575              |
| (4) Other Fund Types                    | 77             | 154                |
| Total                                   | <u>\$3,506</u> | <u>\$3,263</u>     |
| B. Status of Funds:                     |                |                    |
| (1) Unobligated Balance                 |                |                    |
| (a) Available                           | \$1,262        | \$851              |
| (b) Unavailable                         | 476            | 405                |
| (2) Obligated Balance not yet Disbursed | 1,493          | 1,597              |
| (3) Other Balances                      | 275            | 410                |
| Total                                   | <u>\$3,506</u> | <u>\$3,263</u>     |

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Note 4. Accounts Receivable**

Intragovernmental accounts receivable represent amounts due under reimbursable and cooperative agreements with Federal entities for services provided by the USDA Forest Service. An allowance for receivables deemed uncollectible is not established for these amounts because monies due from other Federal entities are considered fully collectible. As of September 30, 2004 and 2003, the intragovernmental accounts receivable balances were \$62 million and \$36 million (as restated), respectively.

Non-intragovernmental accounts receivable are comprised primarily of timber harvest and reimbursements and refunds owed to the USDA Forest Service for fire prevention and suppression activities. An allowance for receivables deemed uncollectible is established at 20 percent or 80 percent, depending upon the age of the receivable. The allowance for receivables transferred to an outside agency for collection (e.g., Department of Justice, Department of the Treasury, etc.) is established at 100%. Non-intragovernmental accounts receivable as of September 30, 2004 and 2003, consisted of the following:

|                                 | (in millions) |                    |
|---------------------------------|---------------|--------------------|
|                                 | 2004          | 2003 (As Restated) |
| Accounts Receivable             | \$ 212        | \$ 202             |
| Allowance for Doubtful Accounts | (111)         | (92)               |
| Accounts Receivable, Net        | <u>\$ 101</u> | <u>\$ 110</u>      |

**Note 5. General Property, Plant and Equipment, Net**

Depreciation of general property, plant and equipment (PP&E) for the USDA Forest Service is recorded on the straight-line method based on the useful lives listed below. Capitalization thresholds are provided in Note 1, Section F.

As of September 30, 2004 and 2003, the USDA Forest Service's PP&E consisted of the following:

| September 30, 2004 (in millions) |                        |                 |                             |                 |
|----------------------------------|------------------------|-----------------|-----------------------------|-----------------|
| Property Class                   | Useful Life<br>(Years) | Cost            | Accumulated<br>Depreciation | Book Value      |
| Personal Property                | 4-20                   | \$ 974          | (\$673)                     | \$ 301          |
| Real Property                    | 10-50                  | 7,474           | (3,968)                     | 3,506           |
| <b>Total</b>                     |                        | <u>\$ 8,448</u> | <u>(\$4,641)</u>            | <u>\$3,807</u>  |
| September 30, 2003 (in millions) |                        |                 |                             |                 |
| Property Class                   | Useful Life<br>(Years) | Cost            | Accumulated<br>Depreciation | Book Value      |
| Personal Property                | 4-20                   | \$ 1,024        | (\$696)                     | \$ 328          |
| Real Property                    | 10-50                  | 7,345           | (3,822)                     | 3,523           |
| <b>Total</b>                     |                        | <u>\$ 8,369</u> | <u>(\$4,518)</u>            | <u>\$ 3,851</u> |

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Note 6. Liabilities Not Covered by Budgetary Resources**

Liabilities not covered by budgetary resources as of September 30, 2004 and 2003, consisted of the following:

|  | (in millions)   |                    |
|--|-----------------|--------------------|
|  | 2004            | 2003 (As Restated) |
| Intragovernmental:                                   |                 |                    |
| Treasury Judgment Fund                               | \$ 7            | \$ 192             |
| Unfunded FECA (Note 7)                               | 65              | 66                 |
| <b>Total Intragovernmental</b>                       | <b>72</b>       | <b>258</b>         |
| Federal Employee Benefits                            | 343             | 390                |
| Annual Leave Liability                               | 194             | 178                |
| Contingent Liabilities (Note 7)                      | 1               | 8                  |
| Accrued Liability for Payments to States (Note 7)    | 380             | 288                |
| Environmental and Disposal Liabilities               | 8               | 8                  |
| Total Liabilities Not Covered by Budgetary Resources | 998             | 1,130              |
| Total Liabilities Covered by Budgetary Resources     | 890             | 1,108              |
| <b>Total Liabilities</b>                             | <b>\$ 1,888</b> | <b>\$ 2,238</b>    |

**Note 7. Intragovernmental and Other Liabilities**

The following table segregates other liabilities between those covered and not covered by budgetary resources and between intragovernmental and other as of September 30, 2004 and 2003.

| Other Liabilities Covered by Budgetary Resources              | (in millions) |               |               |                    |               |               |
|---|---------------|---------------|---------------|--------------------|---------------|---------------|
|   | 2004          |               |               | 2003 (As Restated) |               |               |
|   | Non-Current   | Current       | Total         | Non-Current        | Current       | Total         |
| <b>Intragovernmental</b>                                      |               |               |               |                    |               |               |
| Employer Contributions & Payroll Tax                          | -             | \$ 12         | \$ 12         | -                  | \$ 8          | \$ 8          |
| Accrued Liabilities   | -             | 118           | 118           | -                  | 69            | 69            |
| Advances from Others  | -             | 17            | 17            | -                  | 25            | 25            |
| Deposit Liabilities   | -             | 90            | 90            | -                  | 201           | 201           |
| Custodial Liabilities   | -             | 58            | 58            | -                  | (1)           | (1)           |
| <b>Total Intragovernmental</b>                                | <b>-</b>      | <b>295</b>    | <b>295</b>    | <b>-</b>           | <b>302</b>    | <b>302</b>    |
| Accrued Liabilities   | -             | 479           | 479           | -                  | 532           | 532           |
| Advances from Others  | -             | 30            | 30            | -                  | 30            | 30            |
| Deposit Liabilities   | -             | (2)           | (2)           | -                  | (25)          | (25)          |
| Purchaser Road Credits  | -             | 16            | 16            | -                  | 21            | 21            |
| Capital Leases (Note 8)                                       | -             | 23            | 23            | -                  | 23            | 23            |
| Custodial Liabilities   | -             | 2             | 2             | -                  | 113           | 113           |
| <b>Total Other Liabilities Covered by Budgetary Resources</b> | <b>-</b>      | <b>\$ 843</b> | <b>\$ 843</b> | <b>-</b>           | <b>\$ 996</b> | <b>\$ 996</b> |

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

| Other Liabilities Not Covered by Budgetary Resources              | (in millions) |                 |                |                    |                 |                |
|---|---------------|-----------------|----------------|--------------------|-----------------|----------------|
|   | 2004          |                 |                | 2003 (As Restated) |                 |                |
|   | Non-Current   | Current         | Total          | Non-Current        | Current         | Total          |
| <b>Intragovernmental</b>  |               |                 |                |                    |                 |                |
| Treasury Judgment Fund  | \$ 7          | -               | \$ 7           | -                  | \$ 192          | \$ 192         |
| Unfunded FECA   | 36            | 29              | 65             | 39                 | 27              | 66             |
| <b>Total Intragovernmental</b>                                    | <b>43</b>     | <b>29</b>       | <b>72</b>      | <b>39</b>          | <b>219</b>      | <b>258</b>     |
| Accrued Liability for Payments to States                          | -             | 380             | 380            | -                  | 288             | 288            |
| Annual Leave Liability  | 18            | 176             | 194            | 14                 | 164             | 178            |
| Contingent Liabilities  | 1             | -               | 1              | 8                  | -               | 8              |
| <b>Total Other Liabilities Not Covered by Budgetary Resources</b> | <b>62</b>     | <b>585</b>      | <b>647</b>     | <b>61</b>          | <b>671</b>      | <b>732</b>     |
| <b>Total Intragovernmental and Other Liabilities</b>              | <b>\$ 62</b>  | <b>\$ 1,428</b> | <b>\$1,490</b> | <b>\$ 61</b>       | <b>\$ 1,667</b> | <b>\$1,728</b> |

As of September 30, 2004 and 2003, the USDA Forest Service's major components of other liabilities are as follows:

***Intragovernmental Other Accrued Liabilities Covered by Budgetary Resources:***

Intragovernmental accrued liabilities covered by budgetary resources consist primarily of accruals for receipt of goods and services.

***Advances from Others:*** Advances from others consist primarily of monies on deposit for cooperative work project agreements with the public.

***Deposit Liabilities:*** Deposit liabilities consist primarily of collections deposited in deposit funds and clearing accounts, including suspense accounts, awaiting disposition or reclassification.

***Custodial Liabilities:*** Custodial liabilities consist of amounts held in special receipt accounts that belong to non-USDA Forest Service entities.

***Accrued Liabilities Covered by Budgetary Resources:*** Accrued liabilities covered by budgetary resources consist primarily of accruals for payroll and for receipt of goods and services.

***Purchaser Road Credits:*** Under the terms of certain timber sales contracts, timber purchasers are required to construct roads to gain access to the timber sold under the contract. Each month as the road is being completed, the timber purchaser is given a credit (referred to as a purchaser road credit or PRC), based on an engineer's estimate of the percentage of the roads that have been completed. These PRCs may be used to offset above-base timber stumpage value or may be transferred to another timber sale to the same purchaser on the same proclaimed national forest. Unused PRC is reported on the financial statement as a liability. Effective April 1, 1999, in accordance with 16 U.S.C. § 535a, PRC's are prohibited on newly issued timber contracts.

***Treasury Judgment Fund:*** Consistent with the provisions of the Federal Tort Claims Act, the USDA Forest Service pays small tort claim awards (\$2.5 thousand or less) out of its own funds. Tort claim awards exceeding \$2.5 thousand, however, are paid from the Claims, Judgments, and Relief Acts Fund (Judgment Fund) maintained by the Department of the Treasury. Absent a specific statutory requirement, the USDA Forest Service is not required to record a liability or reimburse the Judgment Fund for tort claims paid on its behalf. These payments, however, are recognized as an expense and an imputed financing source in

**Notes to the Consolidated and Combined Financial Statements  
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the Consolidated Statements of Net Cost and Changes in Net Position. Payments reported from torts and court claims as of September 30, 2004 and 2003, amounted to \$2.4 and \$6.5 million, respectively.

The Contract Disputes Resolution Act (CDRA) governs litigation arising from contract disputes (such as those from timber sales contracts). Subsection 612(c) provides that CDRA payments made on behalf of Federal agencies by the Judgment Fund shall be reimbursed to the Fund. As of September 30, 2004 and 2003, the USDA Forest Service owed the Judgment Fund \$7 million and \$192 million, respectively, for such payments.

**Federal Employees' Compensation Act Liabilities:** Liabilities under the Federal Employees' Compensation Act (FECA) are incurred as a result of workers' compensation benefits that have accrued to employees but have not yet been paid by the USDA 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 U.S. Department of Agriculture as a whole, including the USDA Forest Service. The USDA 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. Payments to the DOL are also recognized as an expense when billed and recorded in the Statement of Net Cost. The amounts of unpaid FECA billings constitute the accrued FECA payable.

The total components of accrued FECA payable as of September 30, 2004 and 2003, consisted of the following:

|   | (in millions) |                    |
|---|---------------|--------------------|
|   | 2004          | 2003 (As Restated) |
| Not Covered by Budgetary Resources,<br>Intragovernmental Liability for FECA | \$ 65         | \$ 66              |
| Not Covered by Budgetary Resources,<br>Expected Future Liability for FECA   | 343           | 390                |
| <b>Total</b>  | <b>\$ 408</b> | <b>\$ 456</b>      |

**Accrued Liability for Payments to States:** The Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States, National Forest Fund 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.

**Pending Litigation and Unasserted Claims (Contingent Liabilities):** As of September 30, 2004, the USDA Forest Service had four legal actions pending. Based on information provided by legal counsel, management believes some adverse decisions are probable. The estimated loss for these claims is \$1 million.

No amounts have been accrued in the financial statements for claims where the amount or probability of judgment is uncertain. The USDA Forest Service's potential liability for these claims is approximately \$57 million.



**Notes to the Consolidated and Combined Financial Statements**  
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**Note 8. Lease Liabilities**

The USDA Forest Service enters into leasing agreements through the General Service Administration (GSA) and through leasing authority delegated by GSA 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 cancelable upon certain funding conditions. The USDA Forest Service's assets under capital leases as of September 30, 2004 and 2003, and future capital and operating lease agreement payments as of September 30, 2004, consisted of the following:

| <b>Capital Leases:</b>                 |  | <b>(in millions)</b> |                          |                      |
|--|--|----------------------|--------------------------|----------------------|
|  |  | <b>2004</b>          | <b>2003</b>              |                      |
| Summary of Assets Under Capital Leases |  |                      |                          |                      |
|  | Land, Building Machinery,<br>& Equipment                           | \$ 40                | \$ 40                    |                      |
|  | Accumulated Amortization   | <u>(17)</u>          | <u>(17)</u>              |                      |
|  | <b>Total</b>   | <b><u>\$ 23</u></b>  | <b><u>\$ 23</u></b>      |                      |
| Future Payments Due:                   |  |                      |                          |                      |
|  | Fiscal Year  | Land & Buildings     |                          |                      |
|  | 2005   | \$ 11                |                          |                      |
|  | 2006   | 11                   |                          |                      |
|  | 2007   | 11                   |                          |                      |
|  | 2008   | 11                   |                          |                      |
|  | 2009   | 10                   |                          |                      |
|  | After 5 Years  | 88                   |                          |                      |
| <hr/>                                  |  |                      |                          |                      |
|  | Total Future Lease Payments  | \$ 142               |                          |                      |
|  | Less: Imputed Interest   | 38                   |                          |                      |
|  | Less: Executory Costs  | <u>48</u>            |                          |                      |
|  | Subtotal   | \$ 56                |                          |                      |
|  | Less: Lease Renewal Options  | <u>33</u>            |                          |                      |
|  | <b>Net Capital Lease Liability, covered by Budgetary Resources</b> | <b><u>\$ 23</u></b>  |                          |                      |
| <b>Operating Leases:</b>               |  | <b>(in millions)</b> |                          |                      |
| Future Payments Due:                   |  |                      |                          |                      |
|  | Fiscal Year  | Land & Buildings     | Machinery &<br>Equipment |                      |
|  |  |                      | Total                    |                      |
|  | 2005   | \$ 66                | \$ 1                     | \$ 67                |
|  | 2006   | 61                   | 1                        | 62                   |
|  | 2007   | 56                   | 1                        | 57                   |
|  | 2008   | 50                   | -                        | 50                   |
|  | 2009   | 45                   | -                        | 45                   |
|  | After 5 Years  | 257                  | -                        | 257                  |
| <hr/>                                  |  |                      |                          |                      |
|  | <b>Total Future Lease Payments</b>                                 | <b><u>\$ 535</u></b> | <b><u>\$ 3</u></b>       | <b><u>\$ 538</u></b> |



**Notes to the Consolidated and Combined Financial Statements  
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**Note 9. Program Costs by Segment**

The USDA 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.

The following tables illustrate program costs by segment for the years ended September 30, 2004 and 2003. The 2003 presentation has been reclassified to eliminate the previously reported Working Capital Fund and incorporates the restatement disclosed in Note 12.

**USDA Forest Service Program Costs by Segment for the year ended September 30, 2004 (in millions)**

|  | National<br>Forests and<br>Grasslands | Forest and<br>Rangeland<br>Research | State and<br>Private<br>Forestry | Wildland Fire<br>Management | Total           |
|--|---------------------------------------|-------------------------------------|----------------------------------|-----------------------------|-----------------|
| Intragovernmental Gross Costs:             |                                       |                                     |                                  |                             |                 |
| Benefit Program Costs                      | \$ 338                                | \$ 1                                | \$ -                             | \$ 11                       | \$ 350          |
| Imputed Costs                              | 244                                   | -                                   | -                                | -                           | 244             |
| Reimbursable Costs                         | 308                                   | 35                                  | 121                              | 149                         | 613             |
| <b>Total Intragovernmental Gross Costs</b> | <b>890</b>                            | <b>36</b>                           | <b>121</b>                       | <b>160</b>                  | <b>1,207</b>    |
| Less: Intragovernmental Earned Revenue     | 80                                    | 24                                  | 7                                | 10                          | 121             |
| <b>Intragovernmental Net Costs</b>         | <b>810</b>                            | <b>12</b>                           | <b>114</b>                       | <b>150</b>                  | <b>1,086</b>    |
| Gross Costs With the Public :              |                                       |                                     |                                  |                             |                 |
| Grants and Indemnities                     | 699                                   | 2                                   | 169                              | 17                          | 887             |
| Stewardship Land Acquisition               | 87                                    | -                                   | -                                | -                           | 87              |
| Other:                                     |                                       |                                     |                                  |                             |                 |
| Operating Costs                            | 1,401                                 | 274                                 | 126                              | 1,411                       | 3,212           |
| Depreciation Expense                       | 255                                   | 4                                   | 1                                | 26                          | 286             |
| Reimbursable Costs                         | 112                                   | 26                                  | 1                                | 101                         | 240             |
| <b>Total Other</b>                         | <b>1,768</b>                          | <b>304</b>                          | <b>128</b>                       | <b>1,538</b>                | <b>3,738</b>    |
| <b>Total Gross Costs with the Public</b>   | <b>2,554</b>                          | <b>306</b>                          | <b>297</b>                       | <b>1,555</b>                | <b>4,712</b>    |
| Less: Earned Revenues from the Public      | 458                                   | 5                                   | 1                                | 74                          | 538             |
| <b>Net Costs with the Public</b>           | <b>2,096</b>                          | <b>301</b>                          | <b>296</b>                       | <b>1,481</b>                | <b>4,174</b>    |
| <b>Net Cost of Operations</b>              | <b>\$ 2,906</b>                       | <b>\$ 313</b>                       | <b>\$ 410</b>                    | <b>\$ 1,631</b>             | <b>\$ 5,260</b> |

**Notes to the Consolidated and Combined Financial Statements  
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**USDA Forest Service Program Costs by Segment for the year ended September 30, 2003 (in millions)**

|  | National<br>Forests and<br>Grasslands | Forest and<br>Rangeland<br>Research | State and<br>Private<br>Forestry | Wildland Fire<br>Management | Total           |
|--|---------------------------------------|-------------------------------------|----------------------------------|-----------------------------|-----------------|
| Intragovernmental Gross Costs:         |                                       |                                     |                                  |                             |                 |
| Benefit Program Costs                  | \$ 316                                | \$ 1                                | \$ -                             | \$ 9                        | \$ 326          |
| Imputed Costs                          | 229                                   | -                                   | -                                | -                           | 229             |
| Reimbursable Costs                     | 201                                   | 21                                  | 12                               | 158                         | 392             |
| Total Intragovernmental Gross Costs    | 746                                   | 22                                  | 12                               | 167                         | 947             |
| Less: Intragovernmental Earned Revenue | 129                                   | 48                                  | 10                               | 128                         | 315             |
| Intragovernmental Net Costs            | 617                                   | (26)                                | 2                                | 39                          | 632             |
| Gross Costs With the Public:           |                                       |                                     |                                  |                             |                 |
| Grants and Indemnities                 | 431                                   | 6                                   | 237                              | 7                           | 681             |
| Stewardship Land Acquisition           | 191                                   | -                                   | -                                | -                           | 191             |
| Other:                                 |                                       |                                     |                                  |                             |                 |
| Operating Costs                        | 1,904                                 | 258                                 | 126                              | 1,674                       | 3,962           |
| Depreciation Expense                   | 270                                   | 3                                   | 1                                | 32                          | 306             |
| Reimbursable Costs                     | 96                                    | 26                                  | 6                                | 131                         | 259             |
| Total Other                            | 2,270                                 | 287                                 | 133                              | 1,837                       | 4,527           |
| Total Gross Costs with the Public      | 2,892                                 | 293                                 | 370                              | 1,844                       | 5,399           |
| Less: Earned Revenues from the Public  | 328                                   | 29                                  | 2                                | 123                         | 482             |
| Net Costs with the Public              | 2,564                                 | 264                                 | 368                              | 1,721                       | 4,917           |
| <b>Net Cost of Operations</b>          | <b>\$ 3,181</b>                       | <b>\$ 238</b>                       | <b>\$ 370</b>                    | <b>\$ 1,760</b>             | <b>\$ 5,549</b> |

**Note 10. Cost of Stewardship Property Plant and Equipment**

Stewardship assets acquired through purchase in fiscal years 2004 and 2003 amounted to \$87 and \$191 million, respectively, and consisted of land, easements, and rights-of-way. Stewardship land is all land that is not general-purpose land (i.e., land that does not have a general purpose building on it). Stewardship land costs include purchase costs and any salary costs, survey costs, title costs, closing costs, restoration costs, and any other expenses necessary to prepare the land for its intended use.

**Note 11. Apportionment Categories of Obligations Incurred**

The Office of Management and Budget (OMB) usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects, or a combination of these categories, a process called apportionments. Apportionments by fiscal quarters are classified as category A and all other apportionments are classified as category B. Presented below is the amount of direct and reimbursable obligations incurred by apportionment category for FY2004. All obligations incurred for FY2003 were category B apportionments.

**For the year ended September 30, 2004 (in millions)**

|                                     | Apportionment<br>Category A | Apportionment<br>Category B | Total           |
|-------------------------------------|-----------------------------|-----------------------------|-----------------|
| Obligations Incurred - Direct       | \$ 3,431                    | \$ 2,201                    | \$ 5,632        |
| Obligations Incurred - Reimbursable | 210                         | 59                          | 269             |
| <b>Total Obligations Incurred</b>   | <b>\$ 3,641</b>             | <b>\$ 2,260</b>             | <b>\$ 5,901</b> |

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**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Note 12. Restatements and Reclassifications**

***Restatements***

In fiscal year 2004, the USDA Forest Service corrected its fiscal year 2003 financial statements to:

- A. Properly align budgetary and proprietary account relationships and correct certain related budgetary and proprietary posting errors in:
  - The Wildland Fire Management Fund
  - The National Forest System Fund
  - The Roads and Trails Special Fund
  - The Land Between the Lakes Management Trust
  - Other various special and trust funds
- B. Correct errors in various suspense and deposit clearing funds.
- C. Correct an overstatement in Fund Balance with Treasury and associated custodial liability.
- D. Correct errors in recording certain revenue transactions.
- E. Correct offsetting receipts.

***Reclassifications***

The USDA Forest Service reclassified certain fiscal year 2003 amounts to conform to the fiscal year 2004 financial statement presentation primarily to provide more detail regarding liabilities and intragovernmental gross costs.

The following tables summarize the fiscal year 2003 restatements and reclassifications described above by financial statement.

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Consolidated Balance Sheet (Affected Line Items)**

| (dollars in millions)                     | As Originally<br>Reported | Restatements  | Ref. | Reclassifications | Restated<br>2003 |
|---|---------------------------|---------------|------|-------------------|------------------|
| <b>Assets:</b>                            |                           |               |      |                   |                  |
| Fund Balance with Treasury                | \$ 3,294                  | (\$31)        | C    | \$ -              | \$ 3,263         |
| Intragovernmental Accounts Receivable     | \$ 56                     | (\$20)        | A    | \$ -              | \$ 36            |
|   |                           | \$ 18         | D    |                   |                  |
|   |                           | (4)           | B    |                   |                  |
| Accounts Receivable, Net                  | \$ 96                     | \$ 14         |      | \$ -              | \$ 110           |
| <b>Total Assets</b>                       | <b>\$ 7,312</b>           | <b>(\$37)</b> |      | <b>\$ -</b>       | <b>\$ 7,275</b>  |
| <b>Liabilities:</b>                       |                           |               |      |                   |                  |
| Accrued Liabilities                       | \$ -                      | \$ -          |      | \$ 69             | \$ 69            |
| Treasury Judgement Fund                   | \$ -                      | \$ -          |      | \$ 192            | \$ 192           |
| Deposit Liabilities                       | \$ -                      | \$ -          |      | \$ 201            | \$ 201           |
|   |                           | (\$39)        | C    |                   |                  |
|   |                           | 15            | A    |                   |                  |
| Intragovernmental Other Liabilities       | \$ 584                    | (\$24)        |      | (\$462)           | \$ 98            |
| Federal Employee Benefits                 | \$ -                      | \$ -          |      | \$ 390            | \$ 390           |
| Accrued Liabilities                       | \$ -                      | \$ -          |      | \$ 820            | \$ 820           |
| Annual Leave Liability                    | \$ -                      | \$ -          |      | \$ 178            | \$ 178           |
|   |                           | (\$88)        | A    |                   |                  |
|   |                           | (1)           | B    |                   |                  |
|   |                           | 30            | C    |                   |                  |
| Other Liabilities                         | \$ 1,617                  | (\$59)        |      | (\$1,388)         | \$ 170           |
| <b>Total Liabilities</b>                  | <b>\$ 2,321</b>           | <b>(\$83)</b> |      | <b>\$ -</b>       | <b>\$ 2,238</b>  |
| <b>Net Position:</b>                      |                           |               |      |                   |                  |
| Unexpended Appropriations                 | \$ 1,517                  | (\$167)       | A    | \$ -              | \$ 1,350         |
|   |                           | \$ 221        | A    |                   |                  |
|   |                           | (3)           | B    |                   |                  |
|   |                           | (23)          | C    |                   |                  |
|   |                           | 18            | D    |                   |                  |
| Cumulative Results of Operations          | \$ 3,474                  | \$ 213        |      | \$ -              | \$ 3,687         |
| Total Net Position                        | \$ 4,991                  | \$ 46         |      | \$ -              | \$ 5,037         |
| <b>Total Liabilities and Net Position</b> | <b>\$ 7,312</b>           | <b>(\$37)</b> |      | <b>\$ -</b>       | <b>\$ 7,275</b>  |

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Consolidated Statement of Net Cost (Affected Line Items)**

| (dollars in millions)               | As Originally<br>Reported | Restatements | Ref. | Reclassifications | Restated<br>2003 |
|-------------------------------------|---------------------------|--------------|------|-------------------|------------------|
| <b>Program Costs</b>                |                           |              |      |                   |                  |
| Intragovernmental Gross Costs       | \$ 955                    | \$ -         |      | (\$955)           | \$ -             |
| Benefit Program Costs               | \$ -                      | \$ -         |      | \$ 326            | \$ 326           |
| Imputed Costs                       | \$ -                      | \$ -         |      | \$ 229            | \$ 229           |
| Reimbursable Costs                  | \$ -                      | \$ -         |      | \$ 392            | \$ 392           |
| Total Intragovernmental Gross Costs | \$ 955                    | \$ -         |      | (\$8)             | \$ 947           |
| Intragovernmental Earned Revenues   | \$ 331                    | (\$16)       | A    | \$ -              | \$ 315           |
| Intragovernmental Net Costs         | \$ 624                    | \$ 16        | A    | (\$8)             | \$ 632           |
| <b>Gross Costs With the Public:</b> |                           |              |      |                   |                  |
| Grants                              | \$ 670                    | \$ -         |      | (\$670)           | \$ -             |
| Indemnities                         | \$ 11                     | \$ -         |      | (\$11)            | \$ -             |
| Grants and Indemnities              | \$ -                      | \$ -         |      | \$ 681            | \$ 681           |
|                                     |                           | \$ 49        | A    |                   |                  |
|                                     |                           | (9)          | C    |                   |                  |
| Operating Costs                     | \$ 3,920                  | \$ 40        |      | \$ 2              | \$ 3,962         |
| Total Gross Costs with the Public   | \$ 5,357                  | \$ 40        |      | \$ 2              | \$ 5,399         |
|                                     |                           | (\$19)       | A    |                   |                  |
|                                     |                           | \$ 18        | D    |                   |                  |
| Earned Revenues from the Public     | \$ 489                    | (\$1)        |      | (\$6)             | \$ 482           |
| Net Costs with the Public           | \$ 4,868                  | \$ 41        |      | \$ 8              | \$ 4,917         |
| <b>Net Cost of Operations</b>       | <b>\$ 5,492</b>           | <b>\$ 57</b> |      | <b>\$ -</b>       | <b>\$ 5,549</b>  |

**Consolidated Statement of Changes in Net Positions (Affected Line Items)**

| (dollars in millions)                   | As Originally<br>Reported | Restatements   | Ref. | Restated<br>2003 |
|---|---------------------------|----------------|------|------------------|
| <b>Cumulative Results of Operations</b> |                           |                |      |                  |
| Beginning Balance                       | \$ 2,899                  | \$ 258         | A    | \$ 3,157         |
| <b>Budgetary Financing Sources:</b>     |                           |                |      |                  |
| Appropriations Used                     | \$ 5,323                  | \$ 14          | A    | \$ 5,337         |
| Net Cost of Operations                  | \$ 5,492                  | \$ 57          |      | \$ 5,549         |
| <b>Ending Balances</b>                  | <b>\$ 3,472</b>           | <b>\$ 215</b>  |      | <b>\$ 3,687</b>  |
| <b>Unexpended Appropriations</b>        |                           |                |      |                  |
| Beginning Balance                       | \$ 1,762                  | (\$154)        | A    | \$ 1,608         |
| <b>Budgetary Financing Sources:</b>     |                           |                |      |                  |
| Appropriations Used                     | (\$5,323)                 | (\$14)         | A    | (\$5,337)        |
| <b>Ending Balances</b>                  | <b>\$ 1,518</b>           | <b>(\$168)</b> |      | <b>\$ 1,350</b>  |

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Combined Statements of Budgetary Resources (Affected Line Items)**

| (dollars in millions)                           | As Originally<br>Reported | Restatements  | Ref. | Restated<br>2003 |
|---|---------------------------|---------------|------|------------------|
| <b>Budgetary Resources:</b>                     |                           |               |      |                  |
| Unobligated Balance:                            |                           |               |      |                  |
| Beginning of Period                             | \$ 842                    | (\$8)         | A    | \$ 834           |
| Net Transfers, Actual                           | (115)                     | (14)          | A    | (129)            |
| Spending Authority from Offsetting Collections: |                           |               |      |                  |
|   |                           | (\$12)        | A    |                  |
|   |                           | 18            | D    |                  |
| Receivable from Federal Sources                 | \$ 94                     | \$ 6          |      | \$ 100           |
| Recoveries of prior year obligations            | \$ 101                    | \$ 12         | A    | \$ 113           |
| <b>Total Budgetary Resources</b>                | <b>\$ 7,474</b>           | <b>(\$4)</b>  |      | <b>\$ 7,470</b>  |
| <b>Status of Budgetary Resources:</b>           |                           |               |      |                  |
| Obligations Incurred:                           |                           |               |      |                  |
| Direct  | \$ 5,438                  | \$ 145        | A    | \$ 5,583         |
| Reimbursable                                    | \$ 697                    | (\$66)        | A    | \$ 631           |
| Unobligated Balance:                            |                           |               |      |                  |
| Apportioned                                     | \$ 832                    | (\$9)         | A    | \$ 823           |
| Unobligated Balances not Available              | \$ 479                    | (\$74)        |      | 405              |
| <b>Total Status of Budgetary Resources</b>      | <b>\$ 7,474</b>           | <b>(\$4)</b>  |      | <b>\$ 7,470</b>  |
| <b>Relation of Obligations to Outlays:</b>      |                           |               |      |                  |
| Obligated Balance, Net, Beginning of Period     | \$ 1,378                  | \$ 23         | A    | \$ 1,401         |
| Obligated Balance, Net, End of Period           |                           | \$ 12         | A    |                  |
|   |                           | (18)          | D    |                  |
| Accounts Receivable                             | (221)                     | (\$6)         |      | (227)            |
| Undelivered Orders                              | \$ 962                    | \$ 137        | A    | \$ 1,099         |
| Accounts Payable                                | \$ 873                    | (\$48)        | A    | \$ 825           |
| Less: Offsetting Receipts                       | \$ 404                    | \$ 34         | E    | \$ 438           |
| <b>Net Outlays</b>                              | <b>\$ 4,737</b>           | <b>(\$34)</b> |      | <b>\$ 4,703</b>  |

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Consolidated Statement of Financing (Affected Line Items)**

| (dollars in millions)   | As Originally<br>Reported | Restatements  | Ref. | Reclassifications | Restated<br>2003 |
|---|---------------------------|---------------|------|-------------------|------------------|
| <b>Resources Used to Finance Activities:</b>  |                           |               |      |                   |                  |
| Obligations Incurred  | \$ 6,135                  | \$ 79         | A    | \$ -              | \$ 6,214         |
| Less: Spending Authority from Offsetting<br>Collections and Recoveries  | \$ 858                    | \$ 18         | A    | \$ -              | \$ 876           |
| Less Offsetting Receipts  | \$ 404                    | \$ 34         | E    | \$ -              | \$ 438           |
| <b>Total Resources Used to Finance Activities</b>   | <b>\$ 5,103</b>           | <b>\$ 27</b>  |      | <b>\$ -</b>       | <b>\$ 5,130</b>  |
| Change in Budgetary Resources Obligated for Goods,<br>Services and Benefits Ordered but not yet provided              | \$ 51                     | \$ 133        | A    | \$ -              | \$ 184           |
|   |                           | (\$5)         | A    |                   |                  |
|   |                           | (\$31)        | C    |                   |                  |
|   |                           | (\$34)        | E    |                   |                  |
| Budgetary Offsetting Collections and Receipts that do<br>not affect Net Cost of Operations                            | (\$153)                   | (\$70)        | A    | \$ -              | (\$223)          |
| <b>Total Resources Used to Finance the Net Cost<br/>of Operations</b>   | <b>\$ 4,956</b>           | <b>(\$36)</b> |      | <b>\$ -</b>       | <b>\$ 4,920</b>  |
| <b>Components of the Net Cost of Operations that will not<br/>Require or Generate Resources in the Current Period</b> |                           |               |      |                   |                  |
| Increase in Exchange Revenue Receivable from the Public   | (\$41)                    | (\$15)        | A    | \$ -              | (\$56)           |
| Increase in Accrued Liability for Payments to States  | \$ -                      | \$ -          |      | \$ 180            | \$ 180           |
|   |                           | \$ 97         | A    | (\$180)           |                  |
|   |                           | (\$9)         | C    | (\$77)            |                  |
|   |                           | \$ 18         | D    | \$ -              |                  |
| Other   | \$ 245                    | \$ 106        |      | (\$257)           | \$ 94            |
| <b>Total Components of Net Cost of Operations that will<br/>Require or Generate Resources in Future Periods</b>       |                           |               |      | <b>\$ 77</b>      | <b>\$ 79</b>     |
| Allocation Transfers and Other  | \$ -                      | \$ 2          |      | \$ 77             | \$ 79            |
| <b>Net Cost of Operations</b>   | <b>\$ 5,492</b>           | <b>\$ 57</b>  |      | <b>\$ -</b>       | <b>\$ 5,549</b>  |

**Notes to the Consolidated and Combined Financial Statements  
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**Note 13. Permanent Indefinite Appropriations**

The USDA Forest Service has permanent indefinite appropriations, authorized by specific legislative acts, to fund Recreation Fee Collection Costs, Brush Disposal, License Programs for Smokey Bear and Woodsy Owl, Restoration of Forest Lands and Improvements, Roads and Trails for States, National Forest Fund, Timber Roads Purchaser Elections, Timber Salvage Sale Operations, and Maintenance of Quarters. Each of these permanent indefinite appropriations is funded by receipts made available by law, and is available until expended.

**Note 14. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government**

The differences between the fiscal 2003 Statement of Budgetary Resources (SBR) as restated and the fiscal 2003 actual numbers presented in the fiscal 2005 Budget of the United States Government (Budget) are summarized below.

| SBR Line Description                          | (in millions) |               |                 |                     | Note |
|---|---------------|---------------|-----------------|---------------------|------|
|   | SBR Amount    | Budget Amount | Dollar Variance | Percentage Variance |      |
| Total Budgetary Resources/Status of Resources | \$ 7,470      | \$ 7,887      | (\$417)         | -5%                 |      |
| New Budget Authority                          | 5,845         | 5,838         | 7               | -                   |      |
| Net transfers, current year authority         | 70            | 52            | 18              | 35%                 |      |
| Offsetting Collections - Earned               | 810           | 708           | 102             | 14%                 | a    |
| Change in Unfilled Customer Orders            | (47)          | 66            | (113)           | -171%               | b    |
| Unobligated Balance-Beginning of Year         | 834           | 1,136         | (302)           | -27%                | c    |
| Net transfers, prior year balances, actual    | (129)         | 20            | (149)           | -745%               | d    |
| Recoveries of Prior Year Obligations          | 113           | 94            | 19              | 20%                 |      |
| Permanently not Available                     | (26)          | (27)          | 1               | -4%                 |      |
| Total New Obligations                         | 6,214         | 6,516         | (302)           | -5%                 | c    |
| Unobligated Balance-End of Year               | 1,256         | 1,371         | (115)           | -8%                 | c    |
| Obligated Balance-Beginning of Year           | 1,401         | 964           | 437             | 45%                 | c    |
| Obligated Balance-End of Year                 | 1,597         | 1,456         | 141             | 10%                 | c    |
| Outlays                                       | 5,141         | 5,149         | (8)             | -                   |      |

Certain amounts in the SBR as restated differ from those presented in the Budget primarily because the following items were not properly recorded in the accounting records at the time the USDA Forest Service completed its budget submission:

- a. An expenditure transfer for \$110 million to the Wildland Fire Management Fund.
- b. Reductions in new customer orders (i.e., reimbursable agreements) for the State and Private Forestry and National Forest System funds in the amount of \$45 and \$52 million, respectively.
- c. Obligations at the beginning and end of the fiscal year in the amount of \$437 and \$141 million, respectively. This also caused the beginning unobligated balance and total new obligations to be overstated by \$302 million and ending unobligated to be overstated by \$115 million.
- d. Transfer of \$115 million from a special fund receipt account to the Payments to States expenditure account.



**Notes to the Consolidated and Combined Financial Statements  
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Also, the SBR includes balances in expired accounts no longer available for obligations.

**Note 15. Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources and the Change in Components Requiring or Generating Resources in Future Periods**

The USDA Forest Service's fiscal year 2004 and 2003 differences between the liabilities not covered by budgetary resources and the change in components requiring or generating resources in future periods result from liabilities not covered by budgetary resources being recorded in current year to the Consolidated Statements of Net Cost; while liabilities not covered by budgetary resources are cumulative over fiscal years. The components of the Consolidated Statements of Net Cost that will require or generate resources in the future are as follows:

|  | (in millions) |                    |
|--|---------------|--------------------|
|  | 2004          | 2003 (As Restated) |
| Increase in Annual Leave Liability   | \$ 16         | \$ 8               |
| Increase in Environmental and Disposal Liability   | -             | 1                  |
| Decrease (Increase) in Exchange Revenue Receivable from the Public                                   | 10            | (56)               |
| Increase in Accrued Liability for Payments to States   | 92            | 180                |
| Other  | 70            | 94                 |
| Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods | \$ 188        | \$ 227             |

**Note 16. Description of Transfers That Appear as a Reconciling Item on the Consolidated Statement of Financing**

The USDA Forest Service has the following routine transfers without reimbursement that are reconciling items on the Consolidated Statement of Financing:

**Transfers In**

| Trading Partner              | Account Title                   | Purpose  |
|------------------------------|---------------------------------|--|
| Department of Labor          | Job Corps Civilian Conservation | Provide training for under-employed youths.                                  |
| Department of Transportation | Federal Highway Trust Fund      | Maintenance and upkeep of Federal highways traversing national forest lands. |

**Note 17. Dedicated Collections**

The USDA Forest Service recognizes the following funds as dedicated collections. These funds finance the enhancement and maintenance of National Forest System lands including reforestation. Donations are handled on the cash basis and all other collections are accounted for on the accrual basis. Financial information for all significant dedicated collections is shown below. Following the financial information is the related descriptive narrative for each of the significant dedicated collection funds.

**Notes to the Consolidated and Combined Financial Statements  
For the Years Ended September 30, 2004 and 2003**

**Dedicated Collections as of and for the Year Ended September 30, 2004 (in millions)**

|   | Cooperative Work | Land Acquisition | Payments to States, National Forest Fund | Timber Salvage Sales | Fee, Operations and Maintenance of Recreation Facilities | Timber Roads, Purchaser Election | Expenses, Brush Disposal | Recreation Fee Demonstration Program | Roads and Trails for States, National Forest Fund |             |             | Other Funds | Total          |
|---|------------------|------------------|--|----------------------|--|----------------------------------|--------------------------|--------------------------------------|---|-------------|-------------|-------------|----------------|
|   |                  |                  |  |                      |  |                                  |                          |                                      | Reforestation Trust Fund                          |             |             |             |                |
| <b>Assets</b>                             |                  |                  |  |                      |  |                                  |                          |                                      |   |             |             |             |                |
| Fund Balance with Treasury Investments    | \$472            | \$99             | \$131                                    | \$98                 | \$93   | \$61                             | \$56                     | \$42                                 | \$26  | \$26        | \$26        | \$59        | \$1,163        |
| Accounts Receivable, Net                  | 2                | -                | -  | 1                    | -  | -                                | -                        | 2                                    | -   | -           | -           | 9           | 14             |
| General Property, Plant & Equipment, Net  | 16               | 48               | 2  | 1                    | -  | 2                                | -                        | 3                                    | 15  | -           | -           | 3           | 90             |
| <b>Total Assets</b>                       | <b>\$490</b>     | <b>\$147</b>     | <b>\$133</b>                             | <b>\$100</b>         | <b>\$93</b>  | <b>\$63</b>                      | <b>\$56</b>              | <b>\$47</b>                          | <b>\$41</b>                                       | <b>\$26</b> | <b>\$26</b> | <b>\$75</b> | <b>\$1,271</b> |
| <b>Liabilities</b>                        |                  |                  |  |                      |  |                                  |                          |                                      |   |             |             |             |                |
| Accounts Payable                          | (\$1)            | \$-              | \$1                                      | (\$2)                | \$-  | \$-                              | \$-                      | \$1                                  | \$1   | \$-         | \$-         | \$-         | \$-            |
| Other Liabilities                         | 49               | 2                | 63                                       | 7                    | 12   | -                                | -                        | 2                                    | 2   | 3           | 3           | 5           | 145            |
| Total Liabilities                         | 48               | 2                | 64                                       | 5                    | 12   | -                                | -                        | 3                                    | 3   | 3           | 3           | 5           | 145            |
| Total Net Position                        | 442              | 145              | 69                                       | 95                   | 81   | 63                               | 56                       | 44                                   | 38  | 23          | 23          | 70          | 1,126          |
| <b>Total Liabilities and Net Position</b> | <b>\$490</b>     | <b>\$147</b>     | <b>\$133</b>                             | <b>\$100</b>         | <b>\$93</b>  | <b>\$63</b>                      | <b>\$56</b>              | <b>\$47</b>                          | <b>\$41</b>                                       | <b>\$26</b> | <b>\$26</b> | <b>\$75</b> | <b>\$1,271</b> |
| <b>Change in Net Position</b>             |                  |                  |  |                      |  |                                  |                          |                                      |   |             |             |             |                |
| Beginning Balances                        | \$300            | \$76             | \$53                                     | \$56                 | \$81   | \$28                             | \$35                     | \$28                                 | \$38  | \$26        | \$26        | \$44        | \$765          |
| Prior Period Adjustments                  | -                | -                | -  | -                    | -  | -                                | -                        | -                                    | 1   | -           | -           | 2           | 3              |
| Beginning Balances, as adjusted           | 300              | 76               | 53                                       | 56                   | 81   | 28                               | 35                       | 28                                   | 39  | 26          | 26          | 46          | 768            |
| Budgetary Financing Sources:              |                  |                  |  |                      |  |                                  |                          |                                      |   |             |             |             |                |
| Other Adjustments (rescissions, etc.)     | -                | (1)              | -  | -                    | -  | -                                | -                        | -                                    | -   | -           | -           | -           | (1)            |
| Donations and Forfeitures of Cash         | -                | -                | -  | -                    | -  | -                                | -                        | -                                    | -   | -           | -           | 1           | 1              |
| Transfers -in/out without Reimbursement   | 154              | 163              | 93                                       | 35                   | -  | 35                               | 20                       | 14                                   | 13  | 29          | 14          | 14          | 570            |
| Total Financing Sources                   | 154              | 162              | 93                                       | 35                   | -  | 35                               | 20                       | 14                                   | 13  | 29          | 29          | 15          | 570            |
| Net Cost of Operations                    | 12               | 93               | 77                                       | (4)                  | -  | -                                | (1)                      | (2)                                  | 14  | 32          | (9)         | 212         | 212            |
| <b>Ending Balances</b>                    | <b>\$442</b>     | <b>\$145</b>     | <b>\$69</b>                              | <b>\$95</b>          | <b>\$81</b>  | <b>\$63</b>                      | <b>\$56</b>              | <b>\$44</b>                          | <b>\$38</b>                                       | <b>\$23</b> | <b>\$23</b> | <b>\$70</b> | <b>\$1,126</b> |

**Notes to the Consolidated and Combined Financial Statements  
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**Dedicated Collections as of and for the Year Ended September 30, 2003 (in millions)**

|   | Cooperative Work | Land Acquisition | Payments to States, National Forest Fund | Timber Salvage Sales | Fee, Operations and Maintenance of Recreation Facilities | Timber Roads, Purchaser Election | Expenses, Brush Disposal | Recreation Fee Demonstration Program | Roads and Trails for States, National Forest Fund | Reforestation Trust Fund | Other Funds | Total        |
|---|------------------|------------------|--|----------------------|--|----------------------------------|--------------------------|--------------------------------------|---|--------------------------|-------------|--------------|
| <b>Assets</b>   |                  |                  |  |                      |  |                                  |                          |                                      |   |                          |             |              |
| Fund Balance with Treasury                                      | \$325            | \$32             | \$104                                    | \$52                 | \$89   | \$27                             | \$33                     | \$25                                 | \$29  | \$28                     | \$46        | \$790        |
| Investments   | -                | -                | -  | -                    | -  | -                                | -                        | -                                    | -   | -                        | 3           | 3            |
| Accounts Receivable, Net  | 8                | -                | -  | 6                    | -  | -                                | 1                        | 1                                    | -   | -                        | 3           | 19           |
| General Property, Plant & Equipment, Net                        | 13               | 48               | -  | 1                    | -  | 1                                | 1                        | 2                                    | 13  | -                        | 1           | 80           |
| <b>Total Assets</b>   | <b>\$346</b>     | <b>\$80</b>      | <b>\$104</b>                             | <b>\$59</b>          | <b>\$89</b>  | <b>\$28</b>                      | <b>\$35</b>              | <b>\$28</b>                          | <b>\$42</b>                                       | <b>\$28</b>              | <b>\$53</b> | <b>\$892</b> |
| <b>Liabilities</b>  |                  |                  |  |                      |  |                                  |                          |                                      |   |                          |             |              |
| Accounts Payable  | (\$1)            | \$2              | \$-                                      | (\$2)                | \$-  | \$-                              | \$-                      | \$-                                  | \$1   | \$-                      | \$2         | \$2          |
| Other Liabilities   | 47               | 2                | 51                                       | 5                    | 8  | -                                | -                        | -                                    | 2   | 2                        | 5           | 122          |
| Total Liabilities   | 46               | 4                | 51                                       | 3                    | 8  | -                                | -                        | -                                    | 3   | 2                        | 7           | 124          |
| Total Net Position  | 300              | 76               | 53                                       | 56                   | 81   | 28                               | 35                       | 28                                   | 39  | 26                       | 46          | 768          |
| <b>Total Liabilities and Net Position</b>                       | <b>\$346</b>     | <b>\$80</b>      | <b>\$104</b>                             | <b>\$59</b>          | <b>\$89</b>  | <b>\$28</b>                      | <b>\$35</b>              | <b>\$28</b>                          | <b>\$42</b>                                       | <b>\$28</b>              | <b>\$53</b> | <b>\$892</b> |
| <b>Change in Net Position</b>                                   |                  |                  |  |                      |  |                                  |                          |                                      |   |                          |             |              |
| Beginning Balances  | \$213            | \$59             | (\$116)                                  | \$90                 | \$81   | \$8                              | \$38                     | \$26                                 | \$2   | \$30                     | \$9         | \$440        |
| Prior Period Adjustments  | (16)             | (1)              | 116                                      | (14)                 | -  | -                                | (2)                      | (1)                                  | (11)  | (1)                      | 6           | 76           |
| Beginning Balances, as adjusted                                 | 197              | 58               | -  | 76                   | 81   | 8                                | 36                       | 25                                   | (9)   | 29                       | 15          | 516          |
| Budgetary Financing Sources:                                    |                  |                  |  |                      |  |                                  |                          |                                      |   |                          |             |              |
| Donations and Forfeitures of Cash                               | -                | -                | -  | -                    | -  | -                                | -                        | -                                    | -   | -                        | 1           | 1            |
| Transfers -in/out without Reimbursement                         | 129              | 176              | 107                                      | (5)                  | -  | 8                                | -                        | -                                    | 16  | 30                       | 21          | 482          |
| Other Financing Sources: Transfers-in/out without Reimbursement | -                | -                | -  | (1)                  | -  | -                                | -                        | -                                    | -   | -                        | (1)         | (2)          |
| Total Financing Sources   | 129              | 176              | 107                                      | (6)                  | -  | 8                                | -                        | -                                    | 16  | 30                       | 21          | 481          |
| Net Cost of Operations  | 26               | 158              | 54                                       | 14                   | -  | (12)                             | 1                        | (3)                                  | (32)  | 33                       | (10)        | 229          |
| <b>Ending Balances</b>  | <b>\$300</b>     | <b>\$76</b>      | <b>\$53</b>                              | <b>\$56</b>          | <b>\$81</b>  | <b>\$28</b>                      | <b>\$35</b>              | <b>\$28</b>                          | <b>\$39</b>                                       | <b>\$26</b>              | <b>\$46</b> | <b>\$768</b> |

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**Notes to the Consolidated and Combined Financial Statements  
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***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 USDA Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Act of June 30, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

***Land Acquisition***

Each fiscal year the USDA Forest Service's Treasury account 12X5004 receives a transfer of recreation user fees from the Department of the Interior's Land and Water Conservation Fund, to be used for the acquisition of land or waters, or interest therein, including administrative expenses, to carry out the provisions of the Land and Water Conservation Fund Act of 1965, as amended (16 U.S.C. 4601-4-11), pertaining to the preservation of watersheds. The Land Acquisition program is authorized by the Interior and Related Agencies Appropriations Act of December 30, 1982 (96 Stat. 1983, Public Law 97-394).

***Payments to States, National Forest Fund***

The Payments to States, National Forest Fund Treasury account 12X5201 receives amounts from receipt account 125008, the National Forest Fund. These monies are generated by the sale of goods and services on the national forests. Annually, revenue-sharing payments are made to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated. The Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States, National Forest Fund program.

***Timber Salvage Sales***

The Salvage Sale Fund, Treasury account 12X5204, was established to facilitate the timely removal of timber damaged by fire, wind, insects, diseases, or other events. Amounts collected from the sale of salvaged timber are used on other qualifying salvage sales to cover the cost of preparing and administering the sales. The Timber Salvage Sales program is authorized by 16 USC 472(a).

***Fees, Operations and Maintenance of Recreation Facilities***

This Treasury receipt account, 125072, accumulates a portion of deposits derived from fees authorized by the Land and Water Conservation Fund Act and is available for expenditure by the USDA Forest Service only upon appropriation by Congress. Funds deposited are not appropriated under this heading because Congressional intent is to not use the deposits for activities over and above those amounts already provided in the National Forest System appropriation. The Land and Water Conservation Fund Act (16 U.S.C. 4601 et. seq.) authorized the establishment of this special fund and regulates admission and special recreation user fees at certain recreational areas.

***Timber Roads, Purchaser Election***

The Timber Roads, Purchaser Election Treasury account 12X5202 receives deposits from small business timber purchasers who elect to pay the USDA Forest Service to construct or reconstruct any road or bridge required by their respective timber sale. These collections are used to finance only those forest development roads constructed or reconstructed under the terms and conditions of the timber sale contract(s) involved, and only to a standard necessary

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**Notes to the Consolidated and Combined Financial Statements  
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to harvest and remove the timber and other products covered by the particular sale(s). The Timber Roads, Purchaser Election program is authorized by 16 USC 472(I) (2).

***Expenses, Brush Disposal***

Deposits from timber purchasers are recorded in Treasury account 12X5206 and used to cover the cost required to dispose of slash, brush, and other debris resulting from timber cutting operations and for supplemental protection of the cutover areas in lieu of actual disposal. The Expenses, Brush Disposal program is authorized by 16 USC 490-498.

***Recreation Fee Demonstration Program***

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

***Roads and Trails for States, National Forest Fund***

The Roads and Trails for States, National Forest Fund Treasury account 12X5203 receives annual deposits equal to 10 percent of all revenues from receipt account 125008, the National Forest Fund. These amounts are then paid to the States, without regard to the State in which the amounts were derived, to repair or reconstruct roads, bridges, and trails on National Forest System lands or to carry out and administer projects to improve forest health conditions, which may include the repair or reconstruction of roads, bridges, and trails on National Forest System lands in the wildland-community interface where there is an abnormally high risk of fire. The Roads and Trails for States, National Forest Fund is authorized by the Act of March 4, 1913, as amended (16 USC 501).

***Reforestation Trust Fund***

The Reforestation Trust Fund Treasury account 12X8046 receives periodic transfers of funds from the U.S. Treasury of tariffs collected from exported timber. Such deposits may not exceed \$30 million dollars in a fiscal year. Amounts are invested and reinvested by the Washington Office, Financial Accounting and Operations Staff in United States Treasury interest-bearing Government securities. The interest income is added to the balance in the Reforestation Trust Fund for use by the Secretary of Agriculture for reforestation and timber-stand improvement activities. The Act of October 14, 1980, as amended (16 U.S.C. 1606 a(d)) established the Reforestation Trust Fund.

**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 USDA Forest Service does not legally own such property. Seized evidence includes cash, weapons, illegal drugs, and non-monetary valuables.

Pursuant to Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting On Non-Valued Seized and Forfeited Property* (Release No. 4), seized property with no legal resale market in the United States (e.g., weapons, chemicals, drug paraphernalia, gambling

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**Notes to the Consolidated and Combined Financial Statements  
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devices) is not included on the consolidated balance sheet. Also, the USDA Forest Service has not included financial and personal property in its consolidated balance sheets due to immateriality.

The USDA 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 major significant seized drug for the USDA Forest Service. As of September 30, 2004 and 2003, the amount of marijuana on hand was 32,685(kg) and 66,516(kg), respectively. The large decrease is primarily the result of an error in the FY2003 ending balance. The agency is unable to determine the amount of the error due to limitations of the legacy system in preparing a roll forward schedule with additions and deletions for seized property.

Additionally, the amount of marijuana seeds on hand as of September 30, 2004 was 48,330 units. The amount of seeds on hand as of September 30, 2003 was not available.

The USDA Forest Service implemented a new data base at the end of fiscal year 2004 to track by transaction the amount of seized and forfeited property. This data base will maintain the necessary data for compilation of a roll forward schedule in the future.

## Required Supplementary Information (Unaudited)

For the Years Ended September 30, 2004 and 2003

### Deferred Maintenance

#### Overview

Deferred maintenance is maintenance that was scheduled to be performed but was delayed until a future period. Deferred maintenance represents a cost that the Government has elected not to fund and, therefore, the costs are not reflected in the financial statements. Maintenance is defined to include preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended.

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

The USDA Forest Service uses condition surveys to estimate deferred maintenance on all major classes of PP&E. No deferred maintenance exists for fleet vehicles and computers that are managed through the agency's working capital fund (WCF). Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

Exhibit 9. *Deferred Maintenance Totals (in thousands) by Asset Class as of September 30, 2004*

| Asset Class  | Overall Condition (1) | Cost To Return to Acceptable Condition | Critical Maintenance (2) | Noncritical Maintenance (3) |
|--|-----------------------|--|--------------------------|-----------------------------|
| Buildings and admin. facilities <sup>2</sup>                       | Varies                | \$462,549                              | \$129,350                | \$333,199                   |
| Dams   | Varies                | 28,255                                 | 9,594                    | 18,661                      |
| Heritage Assets  | Varies                | 9,570                                  | 4,866                    | 4,704                       |
| Range improvements <sup>3</sup>                                    | Varies                | 464,462                                | 464,105                  | 357                         |
| Recreation facilities <sup>4</sup>                                 | Varies                | 178,115                                | 51,949                   | 126,166                     |
| Roads and bridges  | Varies                | 5,279,789                              | 773,999                  | 4,505,790                   |
| Trails <sup>5</sup>  | Varies                | 106,558                                | 36,459                   | 70,099                      |
| Wildlife, fish, and threatened and endangered species <sup>6</sup> | Varies                | 6,169                                  | 4,419                    | 1,750                       |
| <b>Totals*</b>   |                       | <b>\$6,535,467</b>                     | <b>\$1,474,741</b>       | <b>\$5,060,726</b>          |

\* Overall agency indirect cost of managing the program is 19 percent (not included in the figures above).

<sup>2</sup> Buildings and administrative facilities include buildings and 25 percent of water and wastewater systems.

<sup>3</sup> Range improvements include fences and stock handling facilities.

<sup>4</sup> Recreation facilities include developed recreation sites, general forest areas, and 75 percent of water and wastewater systems.

<sup>5</sup> Trails include trails and trail bridges.

<sup>6</sup> Wildlife, fish, threatened and endangered species also includes watershed and wilderness improvements.

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**Required Supplementary Information (Unaudited)  
For the Years Ended September 30, 2004 and 2003**

**(1) Overall Condition.** Condition of major classes of property range from poor to good depending on location, age, and type of property. Currently no comprehensive national assessment of Forest Service property exists. The current deferred maintenance estimates were based on regularly scheduled condition surveys and inspections. Condition surveys were performed on a statistical sample of closed and very low traffic volume roads.

**(2) Critical Maintenance.** This is a requirement that addresses a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization.

**(3) Noncritical Maintenance.** This is a requirement that addresses potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations), and potential adverse consequences to natural resources or mission accomplishment.

Condition of Administrative Facilities. The condition of administrative facilities ranges from poor to good. Approximately one-half of these buildings are obsolete or in poor condition needing major repairs or renovation. Approximately one-fourth of these buildings are in fair condition, and the remaining are in good condition.

Condition of Dams. The overall condition of dams is below acceptable. The condition of a dam is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public. Also, in order to be in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

The standards for acceptable operating condition for various classes of general PP&E, stewardship, and heritage assets are as follows:

- Buildings. Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. These requirements are found in Forest Service Manual (FSM) 7300.
- Dams. Managed according to FSM 7500, Water Storage and Transmission, and Forest Service Handbook (FSH) 7509.11, Dams Management, as determined by condition surveys.
- Heritage Assets. These assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function in the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.



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**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**

- **Range Structures.** The condition assessment was based on (1) a determination by knowledgeable range specialists or other district personnel of whether the structure would perform the originally intended function, and (2) a determination through the use of a protocol system to assess conditions based on age. A long-standing range methodology is used to gather this data.
- **Developed Recreation Sites.** This category includes campgrounds, trailheads, trails, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and regional- and forest-level user guides. Standards of quality for developed recreation sites were structured under the meaningful measures of system and established for the following categories: health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.
- **Roads and Bridges.** Conditions of the National Forest System (NFS) road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the Federal Highway Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency and the States to implement the nonpoint source provisions of the Clean Water Act, road management objectives developed through the forest planning process prescribed by the National Forest Management Act, and the requirements of the Forest Service manual and handbooks (FSM 7730, FSH 7709.56a, and FSH 7709.56b).
- **Trails.** Trails are managed according to Federal law and regulations (CFR 36). More specific direction is contained in FSM 2350—Trail, River, and Similar Recreation Opportunities—and the Forest Service Trails Management Handbook (FSH 2309.18).
- **Wildlife, Fish, and Threatened and Endangered Species Structures.** Field biologists at the forest used their professional judgment to determine deferred maintenance. Deferred maintenance was considered upkeep that had not occurred regularly. The amount was considered critical if resource damage or species endangerment would likely occur if maintenance were deferred much longer.

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Combined Statements of Budgetary Resources for the Year Ended September 30, 2004**  
(in millions)

|  | National Forest and Grasslands | Forest and Rangeland Research | State and Private Forestry | Capital Improvement and Maintenance | Wildland Fire Management | Permanent and Trust Funds | Working Capital Fund | Total          |
|--|--------------------------------|-------------------------------|----------------------------|-------------------------------------|--------------------------|---------------------------|----------------------|----------------|
| <b>Budgetary Resources</b>                             |                                |                               |                            |                                     |                          |                           |                      |                |
| <b>Budget Authority:</b>                               |                                |                               |                            |                                     |                          |                           |                      |                |
| 1a. Appropriations Received                            | \$1,657                        | \$270                         | \$333                      | \$562                               | \$2,369                  | \$732                     | \$-                  | \$5,923        |
| 1d. Net Transfers                                      | 85                             | 28                            | 105                        | 51                                  | (337)                    | 51                        | 5                    | (12)           |
| Subtotal   | 1,742                          | 298                           | 438                        | 613                                 | 2,032                    | 783                       | 5                    | 5,911          |
| <b>Unobligated Balance:</b>                            |                                |                               |                            |                                     |                          |                           |                      |                |
| 2a. Beginning of Period                                | 173                            | 43                            | 59                         | 78                                  | 311                      | 524                       | 68                   | 1,256          |
| 2b. Net Transfers, Actual                              | 66                             | 5                             | 34                         | 43                                  | (200)                    | 52                        | 4                    | 4              |
| Subtotal   | 239                            | 48                            | 93                         | 121                                 | 111                      | 576                       | 72                   | 1,260          |
| <b>Spending Authority from Offsetting Collections:</b> |                                |                               |                            |                                     |                          |                           |                      |                |
| 3a. Earned:  |                                |                               |                            |                                     |                          |                           |                      |                |
| 3a1. Collected   | 97                             | 33                            | 9                          | 10                                  | 44                       | -                         | 235                  | 428            |
| 3a2. Receivable from Federal                           | (6)                            | (20)                          | (10)                       | 1                                   | 20                       | (2)                       | 4                    | (13)           |
| 3b1. Advances Received                                 | -                              | (5)                           | (1)                        | -                                   | -                        | (4)                       | -                    | (10)           |
| 3b2. W/out Advance from Fed.                           | 18                             | 4                             | 1                          | 2                                   | (5)                      | -                         | -                    | 20             |
| 3e. Subtotal   | 109                            | 12                            | (1)                        | 13                                  | 59                       | (6)                       | 239                  | 425            |
| 4a. Recoveries of prior year obligations               | 9                              | 1                             | 11                         | 1                                   | 8                        | 64                        | 3                    | 97             |
| <b>Permanently/ Temporarily not Available</b>          | (19)                           | (3)                           | (3)                        | (7)                                 | (22)                     | -                         | -                    | (54)           |
| <b>Total Budgetary Resources</b>                       | <b>\$2,050</b>                 | <b>\$356</b>                  | <b>\$538</b>               | <b>\$741</b>                        | <b>\$2,188</b>           | <b>\$1,417</b>            | <b>\$319</b>         | <b>\$7,639</b> |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Combined Statements of Budgetary Resources for the Year Ended September 30, 2004**  
(in millions)

|   | National Forest and Grasslands | Forest and Rangeland Research | State and Private Forestry | Capital Improvement and Maintenance | Wildland Fire Management | Permanent and Trust Funds | Working Capital Fund | Total           |
|---|--------------------------------|-------------------------------|----------------------------|-------------------------------------|--------------------------|---------------------------|----------------------|-----------------|
| <b>Status of Budgetary Resources:</b>         |                                |                               |                            |                                     |                          |                           |                      |                 |
| <b>Obligations Incurred</b>                   |                                |                               |                            |                                     |                          |                           |                      |                 |
| 8a. Direct                                    | \$ 1,777                       | \$ 290                        | \$ 448                     | \$ 622                              | \$ 1,771                 | \$ 516                    | \$ 208               | \$ 5,632        |
| 8b. Reimbursable                              | 107                            | 37                            | 9                          | 13                                  | 103                      | (1)                       | 1                    | 269             |
| 8c. Subtotal                                  | 1,884                          | 327                           | 457                        | 635                                 | 1,874                    | 515                       | 209                  | 5,901           |
| <b>Unobligated Balance:</b>                   |                                |                               |                            |                                     |                          |                           |                      |                 |
| 9a. Apportioned                               | 179                            | 28                            | 76                         | 105                                 | 64                       | 768                       | 42                   | 1,262           |
| 10d. Unobligated Balances not Available       | 17                             | 1                             | 5                          | 1                                   | 250                      | 134                       | 68                   | 476             |
| 9+10. Subtotal                                | 196                            | 29                            | 81                         | 106                                 | 314                      | 902                       | 110                  | 1,738           |
| <b>Total Status of Budgetary Resources</b>    | <b>\$ 2,080</b>                | <b>\$ 356</b>                 | <b>\$ 538</b>              | <b>\$ 741</b>                       | <b>\$ 2,188</b>          | <b>\$ 1,417</b>           | <b>\$ 319</b>        | <b>\$ 7,639</b> |
| <b>Relation of Obligations to Outlays:</b>    |                                |                               |                            |                                     |                          |                           |                      |                 |
| <b>Obligated Balance, Net, Beg. of Period</b> | \$ 166                         | \$ 71                         | \$ 449                     | \$ 225                              | \$ 457                   | \$ 163                    | \$ 66                | \$ 1,597        |
| <b>Obligated Balance, Net, End of Period</b>  | (45)                           | (7)                           | (31)                       | (9)                                 | (109)                    | (9)                       | (3)                  | (213)           |
| 14a. Accounts Receivable                      | (73)                           | (26)                          | 1                          | (24)                                | 2                        | -                         | -                    | (120)           |
| 14b. Unfilled Orders from Fed.                | 216                            | 85                            | 445                        | 221                                 | 196                      | 47                        | 22                   | 1,232           |
| 14c. Undelivered Orders                       | 106                            | 34                            | 108                        | 58                                  | 240                      | 38                        | 10                   | 594             |
| 14d. Accounts Payable                         | 204                            | 86                            | 523                        | 246                                 | 329                      | 76                        | 29                   | 1,493           |
| <b>Outlays:</b>                               |                                |                               |                            |                                     |                          |                           |                      |                 |
| 15a. Disbursements                            | 1,825                          | 326                           | 382                        | 609                                 | 1,977                    | 540                       | 241                  | 5,900           |
| 15b. Collections                              | (97)                           | (28)                          | (8)                        | (9)                                 | (43)                     | 4                         | (237)                | (418)           |
| 15c. Subtotal                                 | 1,728                          | 298                           | 374                        | 600                                 | 1,934                    | 544                       | 4                    | 5,482           |
| <b>Less: Offsetting Receipts</b>              | 1                              | -                             | -                          | -                                   | -                        | 383                       | -                    | 384             |
| <b>Net Outlays</b>                            | <b>\$ 1,727</b>                | <b>\$ 298</b>                 | <b>\$ 374</b>              | <b>\$ 600</b>                       | <b>\$ 1,934</b>          | <b>\$ 161</b>             | <b>\$ 4</b>          | <b>\$ 5,098</b> |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Combined Statements of Budgetary Resources for the Year Ended September 30, 2003 (As Restated)**  
(in millions)

|  | National<br>Forest and<br>Grasslands | Forest and<br>Rangeland<br>Research | State and<br>Private<br>Forestry | Capital<br>Improvement<br>and<br>Maintenance | Wildland<br>Fire<br>Management | Permanent<br>and<br>Trust Funds | Working<br>Capital<br>Fund | Total           |
|--|--------------------------------------|-------------------------------------|----------------------------------|--|--------------------------------|---------------------------------|----------------------------|-----------------|
| <b>Budgetary Resources</b>                                 |                                      |                                     |                                  |  |                                |                                 |                            |                 |
| <b>Budget Authority:</b>                                   |                                      |                                     |                                  |  |                                |                                 |                            |                 |
| 1a. Appropriations Received                                | \$ 1,518                             | \$ 252                              | \$ 287                           | \$ 552                                       | \$ 2,298                       | \$ 938                          | \$ -                       | \$ 5,845        |
| 1d. Net Transfers  | 47                                   | 34                                  | 137                              | 30   | (216)                          | 8                               | 30                         | 70              |
| Subtotal   | 1,565                                | 286                                 | 424                              | 582  | 2,082                          | 946                             | 30                         | 5,915           |
| <b>Unobligated Balance:</b>                                |                                      |                                     |                                  |  |                                |                                 |                            |                 |
| 2a. Beginning of Period                                    | 230                                  | 20                                  | 29                               | 131  | 7                              | 363                             | 54                         | 834             |
| 2b. Net Transfers, Actual                                  | 2                                    | 5                                   | -                                | 10   | 13                             | (139)                           | (20)                       | (129)           |
| Subtotal   | 232                                  | 25                                  | 29                               | 141  | 20                             | 224                             | 34                         | 705             |
| <b>Spending Authority from<br/>Offsetting Collections:</b> |                                      |                                     |                                  |  |                                |                                 |                            |                 |
| 3a. Earned:  |                                      |                                     |                                  |  |                                |                                 |                            |                 |
| 3a1. Collected   | 133                                  | 29                                  | 12                               | 10   | 289                            | 1                               | 236                        | 710             |
| 3a2. Receivable from Federal                               | 52                                   | 53                                  | 45                               | 1  | (27)                           | (21)                            | (3)                        | 100             |
| 3b. Change in Unfilled Customer Orders:                    |                                      |                                     |                                  |  |                                |                                 |                            |                 |
| 3b1. Advances Received                                     | (1)                                  | (1)                                 | (1)                              | -  | -                              | 2                               | -                          | (1)             |
| 3b2. W/out Advance from Fed.                               | (24)                                 | (19)                                | (3)                              | 2  | (2)                            | -                               | -                          | (46)            |
| 3e. Subtotal   | 160                                  | 62                                  | 53                               | 13   | 260                            | (18)                            | 233                        | 763             |
| 4a. Recoveries of prior year obligations                   | 52                                   | 4                                   | 9                                | 4  | 32                             | 4                               | 8                          | 113             |
| <b>Permanently/ Temporarily not Available</b>              | (10)                                 | (2)                                 | (2)                              | (4)  | (8)                            | -                               | -                          | (26)            |
| <b>Total Budgetary Resources</b>                           | <b>\$ 1,999</b>                      | <b>\$ 375</b>                       | <b>\$ 513</b>                    | <b>\$ 736</b>                                | <b>\$ 2,386</b>                | <b>\$ 1,156</b>                 | <b>\$ 305</b>              | <b>\$ 7,470</b> |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Combined Statements of Budgetary Resources for the Year Ended September 30, 2003 (As Restated)**  
(in millions)

|   | National Forest and Grasslands | Forest and Rangeland Research | State and Private Forestry | Capital Improvement and Maintenance | Wildland Fire Management | Permanent and Trust Funds | Working Capital Fund | Total           |
|---|--------------------------------|-------------------------------|----------------------------|-------------------------------------|--------------------------|---------------------------|----------------------|-----------------|
| <b>Status of Budgetary Resources:</b>         |                                |                               |                            |                                     |                          |                           |                      |                 |
| <b>Obligations Incurred</b>                   |                                |                               |                            |                                     |                          |                           |                      |                 |
| 8a. Direct                                    | \$ 1,776                       | \$ 303                        | \$ 444                     | \$ 645                              | \$ 1,806                 | \$ 633                    | (\$24)               | \$ 5,583        |
| 8b. Reimbursable                              | 51                             | 29                            | 9                          | 13                                  | 269                      | -                         | 260                  | 631             |
| 8c. Subtotal                                  | 1,827                          | 332                           | 453                        | 658                                 | 2,075                    | 633                       | 236                  | 6,214           |
| <b>Unobligated Balance:</b>                   |                                |                               |                            |                                     |                          |                           |                      |                 |
| 9a. Apportioned                               | 57                             | 15                            | 36                         | 67                                  | 115                      | 475                       | 58                   | 823             |
| 9b. Exempt from Apportionment                 | -                              | -                             | -                          | -                                   | -                        | (4)                       | 32                   | 28              |
| 10d. Unobligated Balances not Available       | 115                            | 28                            | 24                         | 11                                  | 196                      | 52                        | (21)                 | 405             |
| 9+10. Subtotal                                | 172                            | 43                            | 60                         | 78                                  | 311                      | 523                       | 69                   | 1,256           |
| <b>Total Status of Budgetary Resources</b>    | <b>\$ 1,999</b>                | <b>\$ 375</b>                 | <b>\$ 513</b>              | <b>\$ 736</b>                       | <b>\$ 2,386</b>          | <b>\$ 1,156</b>           | <b>\$ 305</b>        | <b>\$ 7,470</b> |
| <b>Relation of Obligations to Outlays:</b>    |                                |                               |                            |                                     |                          |                           |                      |                 |
| <b>Obligated Balance, Net, Beg. of Period</b> | \$ 69                          | \$ 93                         | \$ 378                     | \$ 131                              | \$ 621                   | \$ 54                     | \$ 55                | \$ 1,401        |
| <b>Obligated Balance, Net, End of Period</b>  |                                |                               |                            |                                     |                          |                           |                      |                 |
| 14a. Accounts Receivable                      | (52)                           | (25)                          | (41)                       | (8)                                 | (89)                     | (11)                      | (1)                  | (227)           |
| 14b. Unfilled Orders from Fed.                | (55)                           | (22)                          | 2                          | (22)                                | (3)                      | -                         | -                    | (100)           |
| 14c. Undelivered Orders                       | 180                            | 85                            | 405                        | 210                                 | 133                      | 54                        | 32                   | 1,099           |
| 14d. Accounts Payable                         | 93                             | 33                            | 84                         | 44                                  | 417                      | 119                       | 35                   | 825             |
|   | 166                            | 71                            | 450                        | 224                                 | 458                      | 162                       | 66                   | 1,597           |
| <b>Outlays:</b>                               |                                |                               |                            |                                     |                          |                           |                      |                 |
| 15a. Disbursements                            | 1,649                          | 316                           | 332                        | 558                                 | 2,236                    | 540                       | 220                  | 5,851           |
| 15b. Collections                              | (132)                          | (28)                          | (11)                       | (10)                                | (290)                    | (3)                       | (236)                | (710)           |
| 15c. Subtotal                                 | 1,517                          | 288                           | 321                        | 548                                 | 1,946                    | 537                       | (16)                 | 5,141           |
| <b>Less: Offsetting Receipts</b>              | (187)                          | -                             | -                          | -                                   | -                        | 625                       | -                    | 438             |
| <b>Net Outlays</b>                            | <b>\$ 1,704</b>                | <b>\$ 288</b>                 | <b>\$ 321</b>              | <b>\$ 548</b>                       | <b>\$ 1,946</b>          | <b>(\$88)</b>             | <b>(\$16)</b>        | <b>\$ 4,703</b> |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Intragovernmental Trading Partners**

| <b>Consolidated Intragovernmental Assets (in millions) as of September 30, 2004</b> |                                       |                                |                    |
|---|---------------------------------------|--------------------------------|--------------------|
| <b>Trading Partner (Code)</b>   | <b>Fund Balance<br/>with Treasury</b> | <b>Accounts<br/>Receivable</b> | <b>Investments</b> |
| Unknown (00)  | \$ -                                  | \$ 6                           | \$ -               |
| Department of Agriculture (12)  | -                                     | 3                              | -                  |
| Department of Interior (14)   | -                                     | 25                             | -                  |
| Department of the Navy (17)   | -                                     | 1                              | -                  |
| Department of the Treasury (20)   | 3,506                                 | -                              | 4                  |
| Department of the Army (21)   | -                                     | 1                              | -                  |
| Department of Transportation (69)   | -                                     | 13                             | -                  |
| Department of Homeland Security (70)  | -                                     | 10                             | -                  |
| Agency for International Development (72)   | -                                     | 1                              | -                  |
| Department of Energy (89)   | -                                     | 2                              | -                  |
| <b>Total Assets</b>   | <b>\$ 3,506</b>                       | <b>\$ 62</b>                   | <b>\$ 4</b>        |

| <b>Consolidated Intragovernmental Assets (in millions) as of September 30, 2003</b> |                                       |                                |                    |
|---|---------------------------------------|--------------------------------|--------------------|
| <b>Trading Partner (Code)</b>   | <b>Fund Balance<br/>with Treasury</b> | <b>Accounts<br/>Receivable</b> | <b>Investments</b> |
| Unknown (00)  | \$ -                                  | \$ 4                           | \$ -               |
| Department of Agriculture (12)  | -                                     | 3                              | -                  |
| Department of Interior (14)   | -                                     | 7                              | -                  |
| Department of Labor (16)  | -                                     | 4                              | -                  |
| Department of the Treasury (20)   | 3,263                                 | -                              | 3                  |
| Department of the Army (21)   | -                                     | 4                              | -                  |
| Department of Transportation (69)   | -                                     | 2                              | -                  |
| Department of Homeland Security (70)  | -                                     | 6                              | -                  |
| Agency for International Development (72)   | -                                     | 1                              | -                  |
| Department of Energy (89)   | -                                     | 4                              | -                  |
| Office of the Secretary of Defense-Defense Agencies (97)                            | -                                     | 1                              | -                  |
| <b>Total Assets</b>   | <b>\$ 3,263</b>                       | <b>\$ 36</b>                   | <b>\$ 3</b>        |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Intragovernmental Trading Partners**

| <b>Liabilities (in millions) as of September 30, 2004</b> |               |
|---|---------------|
| <b>Trading Partner (Code)</b>                             | <b>Other</b>  |
| Unknown (00)  | \$ 192        |
| Department of Agriculture (12)                            | 14            |
| Department of Commerce (13)                               | 4             |
| Department of Interior (14)                               | 129           |
| Department of Justice (15)                                | 19            |
| Department of Labor (16)                                  | 69            |
| Department of the Treasury (20)                           | 9             |
| Department of the Army (21)                               | 1             |
| Office of Personnel Management (24)                       | 15            |
| General Services Administration (47)                      | 13            |
| Tennessee Valley Authority (64)                           | 1             |
| Environmental Protection Agency (68)                      | 1             |
| Agency for International Development (72)                 | 1             |
| Department of Health and Human Services (75)              | 28            |
| Department of Energy (89)                                 | 1             |
| U.S. Army Corps of Engineers (96)                         | (133)         |
| Office of the Secretary of Defense-Defense Agencies (97)  | 3             |
| <b>Total Liabilities</b>                                  | <b>\$ 367</b> |

| <b>Liabilities (in millions) as of September 30, 2003</b> |               |
|---|---------------|
| <b>Trading Partner (Code)</b>                             | <b>Other</b>  |
| Unknown (00)  | \$ 294        |
| Department of Agriculture (12)                            | 10            |
| Department of Commerce (13)                               | 1             |
| Department of Interior (14)                               | 18            |
| Department of Justice (15)                                | 20            |
| Department of Labor (16)                                  | 89            |
| Department of the Treasury (20)                           | 191           |
| Department of the Army (21)                               | 2             |
| Office of Personnel Management (24)                       | 10            |
| General Services Administration (47)                      | 20            |
| Agency for International Development (72)                 | 4             |
| U.S. Army Corps of Engineers (96)                         | (100)         |
| Office of the Secretary of Defense-Defense Agencies (97)  | 1             |
| <b>Total Liabilities</b>                                  | <b>\$ 560</b> |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Intragovernmental Trading Partners**

| <b>Earned Revenue Federal (in millions) as of September 30, 2004</b> |                               |
|--|-------------------------------|
| <b>Trading Partner (Code)</b>  | <b>Earned Revenue Federal</b> |
| Unknown (00)   | \$ (3)                        |
| Department of Agriculture (12)                                       | 12                            |
| Department of Interior (14)  | 51                            |
| Department of Justice (15)   | 6                             |
| Department of Labor (16)   | 19                            |
| Department of the Navy (17)  | 1                             |
| U.S. Postal Service (18)   | 1                             |
| Department of State (19)   | 1                             |
| Department of the Army (21)  | 7                             |
| Department of Transportation (69)                                    | 6                             |
| Department of Homeland Security (70)                                 | 4                             |
| Agency for International Development (72)                            | 10                            |
| Department of Energy (89)  | 3                             |
| U.S. Army Corps of Engineers (96)                                    | 2                             |
| Office of the Secretary of Defense-Defense Agencies (97)             | 1                             |
| <b>Total Earned Revenue Federal</b>                                  | <b>\$ 121</b>                 |

| <b>Earned Revenue Federal (in millions) as of September 30, 2003</b> |                               |
|--|-------------------------------|
| <b>Trading Partner (Code)</b>  | <b>Earned Revenue Federal</b> |
| Unknown (00)   | \$ 28                         |
| Department of Agriculture (12)                                       | 23                            |
| Department of Commerce (13)  | 1                             |
| Department of Interior (14)  | 70                            |
| Department of Labor (16)   | 27                            |
| U.S. Postal Service (18)   | 1                             |
| Department of the Army (21)  | 13                            |
| Department of the Air Force (57)                                     | (5)                           |
| Environmental Protection Agency (68)                                 | 1                             |
| Department of Homeland Security (70)                                 | 113                           |
| Department of Transportation (69)                                    | 8                             |
| Agency for International Development (72)                            | 8                             |
| National Aeronautics and Space Administration (80)                   | 2                             |
| Department of Energy (89)  | 16                            |
| U.S. Army Corps of Engineers (96)                                    | 2                             |
| Office of the Secretary of Defense-Defense Agencies (97)             | 7                             |
| <b>Total Earned Revenue Federal</b>                                  | <b>\$ 315</b>                 |



**Required Supplementary Information (Unaudited)  
For the Years Ended September 30, 2004 and 2003  
Intragovernmental Trading Partners**

| <b>Cost to Generate Earned Revenue Federal (in millions)<br/>For the Year Ended September 30, 2004</b> |                                |
|--|--------------------------------|
| <b>Functional Classification</b>   | <b>Federal and Non-Federal</b> |
| 300 Natural Resources and Environment  | \$ 121                         |
| <b>Total Cost to Generate Revenue</b>  | <b>\$ 121</b>                  |

| <b>Cost to Generate Earned Revenue Federal (in millions)<br/>For the Year Ended September 30, 2003</b> |                                |
|--|--------------------------------|
| <b>Functional Classification</b>   | <b>Federal and Non-Federal</b> |
| 300 Natural Resources and Environment  | \$ 315                         |
| <b>Total Cost to Generate Revenue</b>  | <b>\$ 315</b>                  |

**Required Supplementary Information (Unaudited)  
For the Years Ended September 30, 2004 and 2003  
Intragovernmental Trading Partners**

| <b>Cost Federal (in millions) for the Year Ended September 30, 2004</b> |                     |
|---|---------------------|
| <b>Trading Partner (Code)</b>   | <b>Cost Federal</b> |
| Government Printing Office (04)   | \$ 8                |
| Department of Agriculture (12)  | 143                 |
| Department of Commerce (13)   | 3                   |
| Department of Interior (14)   | 47                  |
| Department of Justice (15)  | 2                   |
| Department of Labor (16)  | 50                  |
| Department of the Treasury (20)   | 173                 |
| Department of the Army (21)   | 2                   |
| Office of Personnel Management (24)                                     | 519                 |
| Department of Veterans Affairs (36)                                     | 1                   |
| General Services Administration (47)                                    | 123                 |
| Tennessee Valley Authority (64)   | 1                   |
| Environmental Protection Agency (68)                                    | 1                   |
| Department of Transportation (69)                                       | 2                   |
| Department of Homeland Security (70)                                    | (9)                 |
| Department of Health and Human Services (75)                            | 119                 |
| Department of Energy (89)   | 2                   |
| U.S. Army Corps of Engineers (96)                                       | 14                  |
| Office of the Secretary of Defense-Defense Agencies (97)                | 6                   |
| <b>Total Cost Federal</b>   | <b>\$ 1,207</b>     |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Intragovernmental Trading Partners**

| <b>Cost Federal (in millions) for the Year Ended September 30, 2003</b> |                     |
|---|---------------------|
| <b>Trading Partner (Code)</b>   | <b>Cost Federal</b> |
| Unknown (00)  | \$ 15               |
| Government Printing Office (04)   | 8                   |
| Department of Agriculture (12)  | 124                 |
| Department of Commerce (13)   | 3                   |
| Department of Interior (14)   | 83                  |
| Department of Justice (15)  | 3                   |
| Department of Labor (16)  | 92                  |
| Department of the Treasury (20)   | 16                  |
| Department of the Army (21)   | 4                   |
| Office of Personnel Management (24)                                     | 478                 |
| Department of Veterans Affairs (36)                                     | 1                   |
| General Services Administration (47)                                    | 102                 |
| Tennessee Valley Authority (64)   | 1                   |
| Environmental Protection Agency (68)                                    | 1                   |
| Department of Transportation (69)                                       | 3                   |
| Department of Energy (89)   | 2                   |
| U.S. Army Corps of Engineers (96)                                       | 7                   |
| Office of the Secretary of Defense-Defense Agencies (97)                | 4                   |
| <b>Total Cost Federal</b>   | <b>\$ 947</b>       |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Intragovernmental Trading Partners**

| <b>Non-exchange Revenue Federal (in millions)</b><br><b>For the Year Ended September 30, 2004</b> |                     |                      |               |
|---|---------------------|----------------------|---------------|
| <b>Trading Partner (Code)</b>   | <b>Transfers-In</b> | <b>Transfers-Out</b> | <b>Other</b>  |
| Unknown (00)  | \$ 130              | \$ 127               | \$ -          |
| Department of Agriculture (12)  | 346                 | 346                  | 47            |
| Department of Interior (14)   | 132                 | 1                    | -             |
| Department of the Treasury (20)   | -                   | -                    | 3             |
| Office of Personnel Management (24)   | -                   | -                    | 194           |
| Department of Transportation (69)   | 12                  | -                    | -             |
| Department of Homeland Security (70)  | 30                  | -                    | -             |
| <b>Total Non-exchange Revenue Federal</b>   | <b>\$ 650</b>       | <b>\$ 474</b>        | <b>\$ 244</b> |

| <b>Non-exchange Revenue Federal (in millions)</b><br><b>For the Year Ended September 30, 2003</b> |                     |                      |               |
|---|---------------------|----------------------|---------------|
| <b>Trading Partner (Code)</b>   | <b>Transfers-In</b> | <b>Transfers-Out</b> | <b>Other</b>  |
| Unknown (00)  | \$ 1,176            | \$ 715               | \$ -          |
| Department of Agriculture (12)  | 50                  | -                    | 44            |
| Department of the Treasury (20)   | -                   | -                    | 6             |
| Office of Personnel Management (24)   | -                   | -                    | 179           |
| <b>Total Non-exchange Revenue Federal</b>   | <b>\$ 1,226</b>     | <b>\$ 715</b>        | <b>\$ 229</b> |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Fiscal Year 2004 Segment Information as of September 30, 2004 (in thousands of dollars)**

|  | <b>Departmental<br/>Working<br/>Capital Fund</b>   | <b>Forest Service<br/>Working<br/>Capital Fund</b> | <b>Total<br/>Working<br/>Capital Funds</b>           |
|--|--|--|--|
| <b>Condensed Information:</b>                  |  |  |  |
| Fund Balance                                   | \$ --  | 138,985  | 138,985  |
| Accounts Receivable                            | --   | 3,076  | 3,076  |
| Property, Plant, and Equipment                 | --   | 242,080  | 242,080  |
| Other Assets                                   | --   | 12   | 12   |
| <b>Total Assets</b>                            | <b>--</b>  | <b>384,153</b>                                     | <b>384,153</b>                                       |
| <b>Liabilities and Net Position:</b>           |  |  |  |
| Accounts Payable                               | --   | 1,235  | 1,235  |
| Deferred Revenues                              | --   | --   | --   |
| Other Liabilities                              | --   | 23,709   | 23,709   |
| Unexpended Appropriations                      | --   | 8,971  | 8,971  |
| Cumulative Results of Operations               | --   | 350,238  | 350,238  |
| <b>Total Liabilities and Net Position</b>      | <b>--</b>  | <b>384,153</b>                                     | <b>384,153</b>                                       |
|  | <b>Cost of Goods<br/>and Services<br/>Provided</b> | <b>Related<br/>Exchange<br/>Revenue</b>            | <b>Excess of Costs<br/>Over Exchange<br/>Revenue</b> |
| <b>Product or Business Line</b>                |  |  |  |
| <b>Departmental Working Capital Fund:</b>      |  |  |  |
| Finance and Management                         | --   | --   | --   |
| Communications                                 | --   | --   | --   |
| Information Technology                         | --   | --   | --   |
| Administration                                 | --   | --   | --   |
| Executive Secretariat                          | --   | --   | --   |
| <b>Total Departmental Working Capital Fund</b> | <b>--</b>  | <b>--</b>  | <b>--</b>  |
| <b>Forest Service Working Capital Fund:</b>    |  |  |  |
| Other  | 262,924  | 238,392  | 24,532   |
| <b>Total Working Capital Funds</b>             | <b>\$ 262,924</b>                                  | <b>238,392</b>                                     | <b>24,532</b>  |

**Required Supplementary Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**  
**Fiscal Year 2003 Segment Information as of September 30, 2003 (in thousands of dollars)**

|   | <b>Departmental<br/>Working<br/>Capital Fund</b>   | <b>Forest Service<br/>Working<br/>Capital Fund</b> | <b>Total<br/>Working<br/>Capital Funds</b>           |
|---|--|--|--|
| Condensed Information:                    |  |  |  |
| Fund Balance                              | \$ --  | 133,972  | 133,972  |
| Accounts Receivable                       | --   | 599  | 599  |
| Property, Plant, and Equipment            | --   | 275,216  | 275,216  |
| Other Assets                              | --   | 13   | 13   |
| <b>Total Assets</b>                       | <b>--</b>  | <b>409,800</b>                                     | <b>409,800</b>                                       |
| Liabilities and Net Position:             |  |  |  |
| Accounts Payable                          | --   | 1,102  | 1,102  |
| Deferred Revenues                         | --   | --   | --   |
| Other Liabilities                         | --   | 33,931   | 33,931   |
| Unexpended Appropriations                 | --   | --   | --   |
| Cumulative Results of Operations          | --   | 374,767  | 374,767  |
| <b>Total Liabilities and Net Position</b> | <b>--</b>  | <b>409,800</b>                                     | <b>409,800</b>                                       |
|   | <b>Cost of Goods<br/>and Services<br/>Provided</b> | <b>Related<br/>Exchange<br/>Revenue</b>            | <b>Excess of Costs<br/>Over Exchange<br/>Revenue</b> |
| Product or Business Line                  |  |  |  |
| Departmental Working Capital Fund:        |  |  |  |
| Finance and Management                    | --   | --   | --   |
| Communications                            | --   | --   | --   |
| Information Technology                    | --   | --   | --   |
| Administration                            | --   | --   | --   |
| Executive Secretariat                     | --   | --   | --   |
| Total Departmental Working Capital Fund   | --   | --   | --   |
| Forest Service Working Capital Fund:      |  |  |  |
| Other                                     | 365,795  | 224,415  | 141,380  |
| <b>Total Working Capital Funds</b>        | <b>\$ 365,795</b>                                  | <b>224,415</b>                                     | <b>141,380</b>                                       |

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**Required Supplementary Stewardship Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**

**Stewardship—Property, Plant and Equipment**

The Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards No. 8, provides the following definitions:

- **Stewardship Assets.** Property owned by the Federal Government that physically resembles Property, Plant and Equipment, but differs in that the value may be indeterminable or have little meaning.
  - Heritage assets
  - Stewardship land
- **Stewardship Investments.** Expenses and investments incurred for education and training of the public that is intended to increase national economic productive capacity (investment in human capital), and research and development intended to produce future benefits.
- **Stewardship Responsibilities.** Information on the financial impact of continuing to provide current programs and services.

**Heritage Assets**

The Forest Service estimates that more than 300,000 heritage assets are on land that it manages. Assets held at museums and universities are managed by those entities. This information was estimated from the nine Forest Service regions and annual Department of the Interior report to Congress. Some of these assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. The Forest Service heritage resource specialists on the 155 national forests maintain separate inventories of heritage assets. Most assets not used for administrative or public purposes receive no annual maintenance. A long-term methodology to better assess the extent and condition of these assets is being formulated to comply with Executive Order 13287, Preserve America. A module in the agency's real property management Infrastructure (INFRA) system has been developed and implemented for heritage assets. The Healthy Forests Initiative and competing budget priorities, however, have prevented full population of the database.

**Required Supplementary Stewardship Information (Unaudited)  
For the Years Ended September 30, 2004 and 2003**

**Acquisition and Withdrawal 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 can be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Exhibit 10 shows the major heritage assets by category and condition for FY 2003.<sup>7</sup>

Exhibit 10. *Major Heritage Assets by Category and Condition, FY 2003*

| <b>Category</b>                                       | <b>2003 Final (Sites)</b> | <b>Condition</b> |
|---|---------------------------|------------------|
| Total heritage assets                                 | 310,611                   | Poor to fair     |
| Eligible for the National Register of Historic Places | 58,669                    | Poor to fair     |
| Listed on the National Register                       | 3,380                     | Fair             |
| Sites with structures listed on the National Register | 1,870                     | Poor to fair     |
| National Historic Landmarks                           | 18                        | Fair to good     |

**Heritage Assets Definitions**

**Historic Structures.** Constructed works consciously created to serve some human purpose. They include buildings, monuments, logging and mining camps, and ruins.

**National Historic Landmarks.** Includes sites, buildings, or structures that possess exceptional value in commemorating or illustrating the history of the United States, and exceptional value or quality in illustrating and interpreting the heritage of the United States. The Secretary of the Interior is the official designator of National Historic Landmarks.

**National Register of Historic Places.** Includes properties, buildings, and structures that are significant in U.S. history, architecture, and archaeology, and in the cultural foundation of the Nation.

**Eligible for the National Register.** Those sites formally determined as eligible for the National Register through the Keeper of the National Register or documented by consultation with State Historic Preservation Offices. Previous reports included all sites potentially eligible for the National Register.

<sup>7</sup>Data totaled through fiscal year (FY) 2003. FY 2004 data is gathered in the first half of FY 2005.

**Required Supplementary Stewardship Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**

**Stewardship Land**

The Forest Service manages more than 192 million acres of public land, most of which are classified as stewardship assets. These stewardship assets are valued for the following reasons:

- Environmental resources.
- Recreational and scenic values.
- Cultural and paleontological resources.
- Vast open spaces.
- Resource commodities and revenue they provide to the Federal Government, States, and counties.

Exhibit 11 shows the net change in acres between FY 2003 and FY 2004 in national forests by various purposes.

Exhibit 11. *Net Change in Acres in National Forests by Various Purposes (FY 2003 to FY 2004)*

| Description                                       | FY 2003<br>Ending<br>Balance<br>(Acres) | FY 2004<br>Net Change<br>(Acres)<br>(2) | FY 2004<br>Ending Balance<br>(Acres) (5)<br>As of 9/30/2004 | Condition<br>(1) |
|---|---|---|---|------------------|
| National Forests                                  | 187,873,890                             | 361,348                                 | 188,235,238   | Varies           |
| National Forest Purposes*                         | 143,843,276                             | 233,515                                 | 144,076,791   | Varies           |
| National Forest Wilderness Areas                  | 34,828,502                              | 124,868                                 | 34,953,370  | Varies           |
| National Forest Primitive Areas                   | 173,762                                 | 0                                       | 173,762   | Varies           |
| National Wild and Scenic River Areas              | 947,999                                 | 2,907                                   | 950,906   | Varies           |
| National Recreation Areas                         | 2,911,239                               | 0                                       | 2,911,239   | Varies           |
| National Scenic Areas                             | 130,435                                 | 58                                      | 130,493   | Varies           |
| National Scenic—Research Areas                    | 6,637                                   | 0                                       | 6,637   | Varies           |
| National Game Refuges and Wildlife Preserve Areas | 1,198,099                               | 0                                       | 1,198,099   | Varies           |
| National Monument Areas                           | 3,659,974                               | 0                                       | 3,659,974   | Varies           |
| National Monument Volcanic Areas                  | 167,427                                 | 0                                       | 167,427   | Varies           |
| National Historic Areas                           | 6,540                                   | 0                                       | 6,540   | Varies           |
| National Grasslands                               | 3,839,167                               | 376                                     | 3,839,543   | Varies           |
| Purchase Units                                    | 359,351                                 | 10,675                                  | 370,026   | Varies           |
| Land Utilization Projects                         | 1,876                                   | 0                                       | 1,876   | Varies           |
| Research and Experiment Areas                     | 64,871                                  | 0                                       | 64,871  | Varies           |
| Other Areas                                       | 295,814                                 | 236                                     | 296,050   | Varies           |
| National Preserves                                | 89,716                                  | 0                                       | 89,716  | Varies           |
| <b>Total NFS acreage</b>                          | <b>192,524,685</b>                      | <b>372,635</b>                          | <b>192,897,320</b>  |                  |
| <b>Road Miles (3)</b>                             | <b>378,004</b>                          | <b>749</b>                              | <b>378,753</b>  |                  |
| <b>Trail Miles (4)</b>                            | <b>133,087</b>                          | <b>0</b>                                | <b>133,087</b>  |                  |



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**Required Supplementary Stewardship Information (Unaudited)**  
**For the Years Ended September 30, 2004 and 2003**

- (1) Condition of NFS land. The Forest Service monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs. Annual inventories of forest status and trends are conducted by the Forest Inventory and Analysis (FIA) program in 44 States covering 76 percent of the forested land of the United States. The Forest Health Monitoring (FHM) program, active in 50 States, provides surveys and evaluations of forest health conditions and trends. Although most of the 149 million acres of forest land on NFS lands continue to produce valuable benefits (i.e., clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks or catastrophic fires. About 33 million acres of NFS forest land are at risk to future mortality from insects and diseases (based on the current Insect and Disease Risk Map). Nearly 73 million acres of NFS forest land are prone to catastrophic fire based on current condition and departure from historic fire regimes (Fire Regimes 1, 2, and 3 and Condition Classes 2 and 3). Based on these two maps, approximately 9.5 million acres are at risk to pest-caused mortality and/or fire. Invasive species of insects, diseases, and plants continue to impact our native ecosystems by causing mortality to, or displacement of, native vegetation. The National Fire Plan has enhanced our efforts to prevent and suppress future fires adequately and restore acres that are at risk. Hazardous fuel reduction projects treated 1.7 million acres, with record accomplishments in all regions. Other vegetation management projects to improve wildlife habitat, prevent insect outbreaks, and meet other resource values that contribute to improving condition class treated nearly 640,000 acres. Insect and disease prevention and suppression treatments were completed on 1.1 million acres in 2004.
- (2) Net change. At the time of submission of this information the net change values include the net effects of the Forest Service land transactions with the exception of completed 2004 transactions for the Southwestern region. Land needed to protect critical wildlife habitat and cultural and historic values, to support the purposes of congressional designation, and for recreation and conservation purposes is acquired through purchase or exchange.
- (3) Road miles. Net change to the total road miles occurs through new construction, decommissioning, and correction of errors in the NFS road system's inventory to include miles of unclassified roads that had previously been excluded. Forest Services road miles by maintenance level as of date. FY 2004 ending was not available at current time. The change is an update to FY 2003 ending balance.
- (4) Trail miles. The number of miles reported continues to be based on a 1996 inventory. The number of trail miles has not since been updated. Reconstruction of existing trails has been the predominant activity over the previous 7 years.
- (5) Ending balance acres. The numbers provided as of September 30, 2004 are still subject final verification.

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**Required Supplementary Stewardship Information (Unaudited)  
For the Years Ended September 30, 2004 and 2003**

**Stewardship Land Definitions**

Land Utilization Projects. A unit reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

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

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

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

Purchase Units. A unit of land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition. The law authorizes the Federal Government to purchase lands for stream-flow protection and maintain the acquired lands as national forests.

Research and Experimental Areas. A unit reserved and dedicated by the Secretary for forest and range research experimentation.

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**Required Supplementary Stewardship Information (Unaudited)  
For the Years Ended September 30, 2004 and 2003**

Other Areas. Areas administered by the Forest Service that are not included in one of the above groups.

**Stewardship Investments**

**Human Capital—Job Corps Civilian Conservation Center, FY 2004**

Net Cost of Operations: \$106 Million

The Forest Service's Job Corps Civilian Conservation (Job Corps) Centers, in coordination with the National Parks Service, Fish and Wildlife Service, and Bureau of Reclamation, celebrated its 40th anniversary, "40 Years of Empowering Youth and Enhancing Communities and Natural Resources." Secretary of Agriculture Ann Veneman was the keynote speaker at the 40th anniversary celebration held at the Forest Service's Schenck Job Corps Center in Brevard, NC, from September 10 to 12, 2004.

The anniversary event highlighted that in the last 40 years, all the Job Corps Centers combined have contributed an appraised value of work of approximately \$1.5 billion in community projects, community and public structures, natural resources, and fighting wildland fires. Some of the anniversary events were a presentation of the 40th anniversary video; the unveiling of the Job Corps Wall of Names (erected at the entrance of the Schenck Job Corps Center), visits to the Lyndon B. Johnson (the first Forest Service Job Corps Center) and the Oconaluftee Job Corps Centers; and remarks by past and present staff, center directors, and students.

In partnership with the U.S. Department of Labor (DOL), the Forest Service operates 18 Job Corps Centers. Job Corps is the only Federal residential employment and education training program for economically challenged young people ages 16 to 24. The purpose of the program is to provide young adults with the skills necessary to become employable, independent, and productive citizens. The program is administered in a structured, coeducational, residential environment that provides education, vocational and life skills training, counseling, medical care, work experience, placement assistance and followup, recreational opportunities, and biweekly monetary stipends. Job Corps students choose from a wide variety of careers, such as urban forestry, heavy equipment operations and maintenance, business, clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenance, warehousing, and plastering.

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**Required Supplementary Stewardship Information (Unaudited)  
For the Years Ended September 30, 2004 and 2003**

Job Corps is funded from DOL annually on a program year; the fiscal year is July 1 to June 30. During Job Corps' FY 2004, accomplishments included the following:

- 8,133 participants received 3,780 placements with an average starting hourly wage of \$8.41, 32 cents more than the DOL national average.
- Approximately 1,857 female students received training in nontraditional vocations.
- 617 students received high school diplomas, and 1,438 students obtained general equivalency diplomas.
- Approximately 3,000 Job Corps students and staff assisted the agency in its fire-fighting efforts.
- Students accomplished conservation work on NFS lands appraised at \$17.4 million.

Since 1964, the Forest Service's Job Corps Centers have trained and educated more than 235,000 young men and women. The agency is actively pursuing the transfer of two Department of Interior's Fish and Wildlife Job Corps Centers and their personnel to the Forest Service.

**Research and Development—Forest and Rangeland Research**

FY 2004 Net Cost of Operations: \$313 Million

Forest Service Research and Development provides reliable, science-based information that is incorporated into natural resource decisionmaking. Responsibilities include developing new technology and then adapting and transferring this technology to facilitate more effective resource management. Some major research areas include the following:

- Vegetation management and protection.
- Wildlife, fish, watershed, and air.
- Resource valuation and use research.
- Forest Resources inventory and monitoring.

Research staff is involved in all areas of the Forest Service, supporting agency goals by providing more efficient and effective methods where applicable.

A representative summary of FY 2004 accomplishments include the following:

- 250 new interagency agreements and contracts.
- 445 interagency agreements and contracts continued.
- 1,539 articles published in journals.
- 2,419 articles published in all other publications.
- 8 patents granted.
- 27 rights to inventions established.