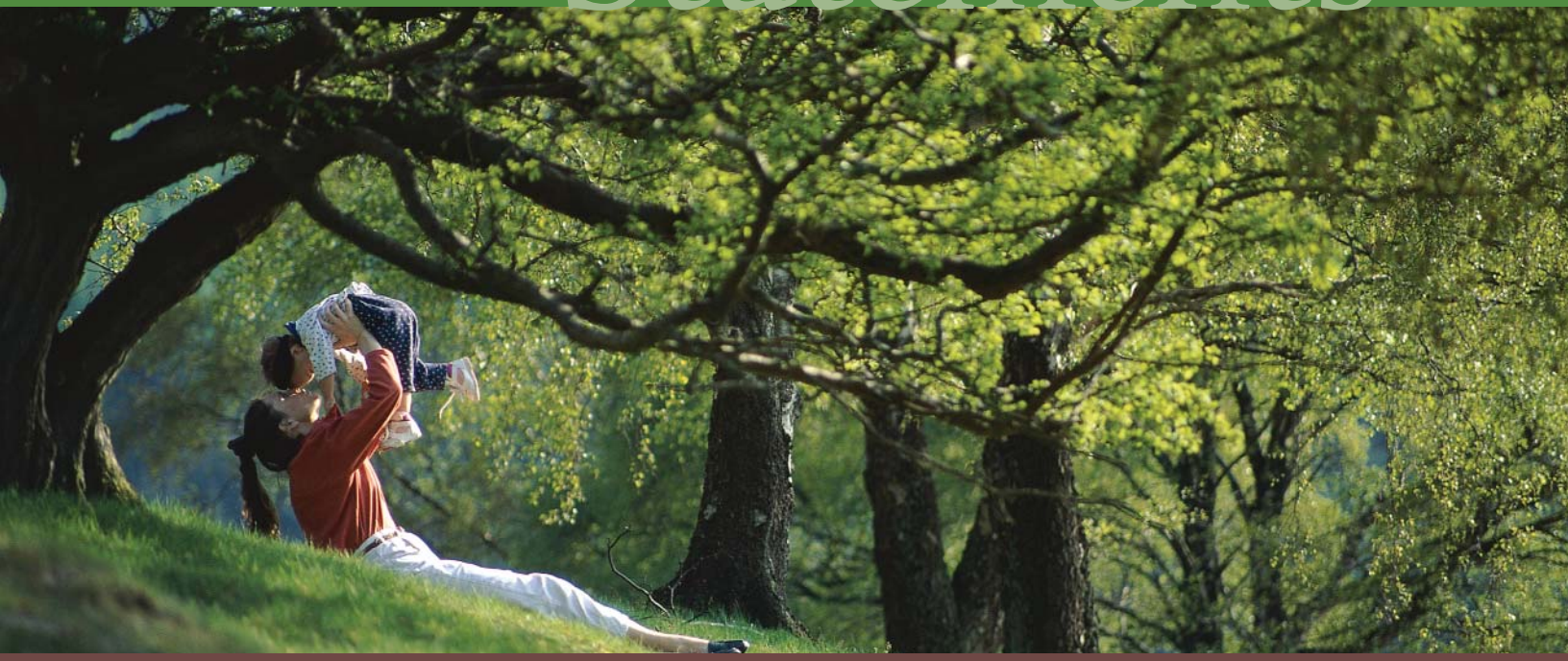
Section IV.

Annual Financial Statements



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Introduction

EPA earned a clean opinion on the financial statements. The auditors identified nine reportable conditions, one non-compliance issue and no material weaknesses. The Chief Financial Officer's Analysis provides comments on the audit results.

This section of the Performance and Accountability Report contains the Agency's financial statements, required supplementary information and related Independent Auditor's Report, as well as other information on the Agency's financial management. Information presented here satisfies the reporting requirements of OMB Circulars A-11 (Section 52.4a) and A-136, *Financial Reporting Requirements*, as well as the following legislation:

- Chief Financial Officers Act of 1990
- Government Management Reform Act of 1994
- Improper Payments Information Act of 2002

The first portion of this section contains the Principal Financial Statements. The statements provide a comparison of FY 2005 and 2004 data. EPA prepares the following required statements:

- Balance Sheet — presents, as of a specific time, amounts of future economic benefits owned or managed by the reporting entity exclusive of items subject to stewardship reporting (assets), amounts owed by the entity (liabilities), and amounts which comprise the difference (net position).
- Statement of Net Cost — presents the gross cost incurred by the reporting entity less any exchange revenue earned from its activities. EPA also prepares a Statement of Net Cost by Goal to provide cost information at the strategic goal level.
- Statement of Changes in Net Position — reports the change in net position during the reporting period. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations.
- Statement of Budgetary Resources — provides information about how budgetary resources were made available as well as their status at the end of the period.
- Statement of Financing — serves as a bridge between an entity's budgetary and financial (i.e., proprietary) accounting. The statement articulates the relationship between net obligations derived from an entity's budgetary accounts and net cost of operations derived from the entity's proprietary accounts by identifying and explaining key differences between the two numbers.
- Statement of Custodial Activity — reports collection of nonexchange revenue for the General Fund of the Treasury, trust funds, or other recipient entities. EPA, as the collecting entity, does not recognize these collections as revenue. Rather, the Agency accounts for sources and disposition of the collections as custodial activities on this statement.

The accompanying *Notes to Financial Statements* provide a description of significant accounting policies as well as detailed information on select statement lines. These Notes and the principal statements are audited by EPA's Inspector General.

The *Required Supplementary Information* portion of this section provides the following unaudited information:

- Deferred Maintenance — reports maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period.
- Intragovernmental Amounts — reports assets, liabilities, and revenues and costs related to transactions between Federal entities.
- Supplemental Statement of Budgetary Resources — provides information by Agency fund group about how the budgetary resources were made available as well as their status at the end of the period.
- Working Capital Fund Condensed Statements — provides Balance Sheet and Statement of Cost for EPA's Working Capital Fund.

The *Required Supplementary Stewardship Information* portion provides information on substantial investments made by the Federal Government for the benefit of the nation—physical assets not owned by the Government. EPA reports on Stewardship Land (land and easement acquisitions/withdrawal) as well as Stewardship Investments for Non-Federal Physical Property (clean water and drinking water facilities), Human Capital (awareness training and fellowships), and Research and Development.

The *Supplemental Information* portion of Section IV presents the following unaudited information:

- Superfund Financial Statements and Related Notes — provides information on the Superfund Trust Fund.
- Financial Management Plans and Reports (OMB Circular A-11, Section 52.4a) — reports on the Agency's financial management goals and strategies, performance, and systems framework.
- Improper Payments Information Act of 2002 (IPIA) Report — reports on EPA's efforts to identify and eliminate erroneous payments.

The Inspector General's Report on EPA's Fiscal 2005 and 2004 Financial Statements provides the following information:

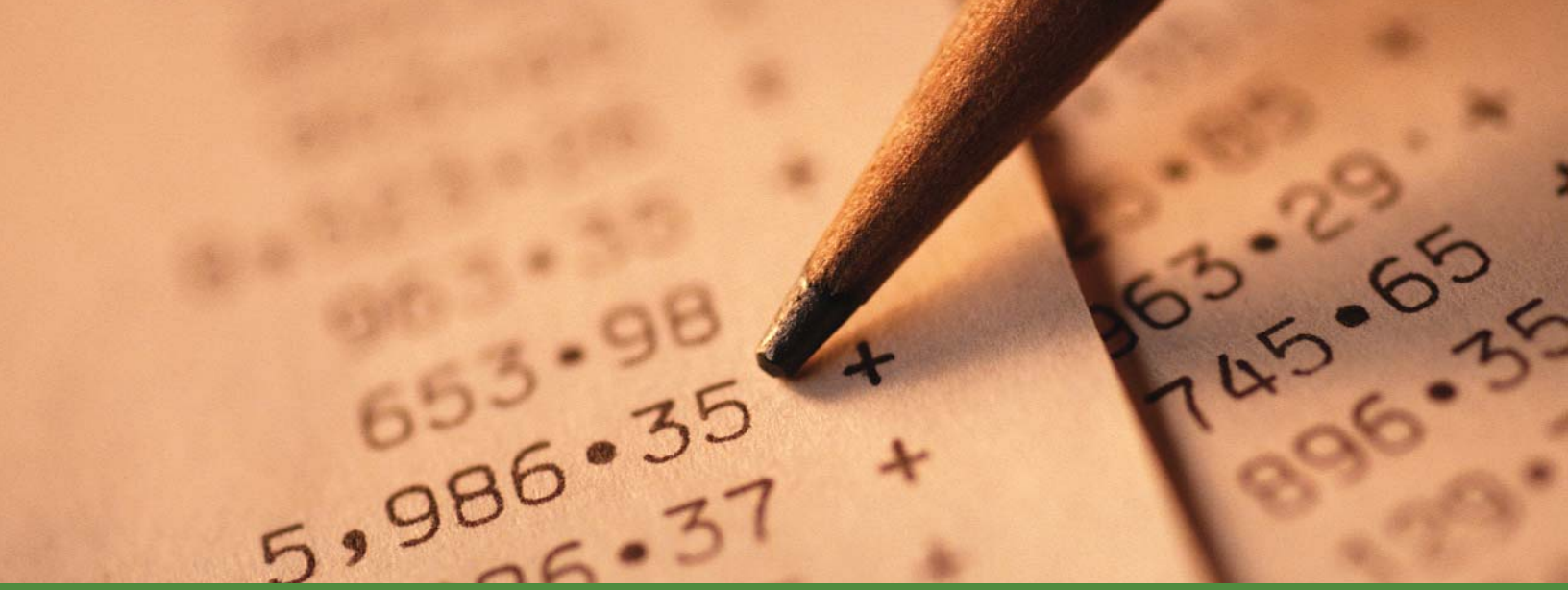
- auditor's opinion on the financial statements,
- audit findings and/or recommendations,
- evaluation of internal controls,
- test of compliance with laws and regulations, and
- Agency comments on the audit findings and the Inspector General's evaluation.

Statement of Limitations Regarding the Principal Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b).

While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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



Chief Financial Officer's Analysis of EPA's Fiscal Year 2005 and 2004 Financial Statements

Below is the Chief Financial Officer's analysis of EPA's Fiscal Year (FY) 2005 and 2004 Financial Statements reportable conditions, and noncompliance issues. During the audit, OIG observed and noted nine reportable conditions and one noncompliance issue, none of which are material.

Reportable Conditions

1. Payroll Internal Controls

OIG found that EPA made payroll payments to separated employees. OIG recommends that OCFO work with EPA's Administration and Resources Management office to ensure proper processing of personnel actions, modify automated controls, and reinforce existing controls.

At the beginning of FY 2005, OCFO implemented a new time and attendance system. OCFO made significant strides to assure system transparency to the Agency and compliance with established payroll policies and procedures. In FY 2006, OCFO will continue to validate payroll system internal controls, enforce existing procedures, and take further corrective actions as necessary.

2. Excess Salary Payments

OIG found the OCFO's payroll system made excess salary payments to employees totaling $14,891 of a $54 million bi-weekly payroll, which equates to 0.04% of total payroll.

OCFO has automated internal controls in place for the majority of potential causes for salary overpayments and manual controls in place for many others. OCFO is initiating enhancements to broaden the scope of automated controls to replace existing manual controls. We will continue to evaluate the results as part of our bi-weekly payroll review process.

3. Superfund State Contract (SSC) and Superfund Unbilled Oversight Accruals

The OIG noted areas where increased oversight would improve the management of SSC and Superfund unbilled oversight accruals.

In the past year, OCFO made considerable progress towards assuring consistency with SSC and Superfund unbilled oversight accrual calculations. As OCFO continues its efforts to consolidate accounting operations, we will explore options for centralizing these accrual processes.

4. General Ledger Account Adjustments for Receivables Transferred to Cincinnati Finance Center

OIG identified regional offices' accounts receivable and allowance for doubtful accounts that needed adjustment during an OCFO functional consolidation process.

As part of the process to consolidate EPA's financial operations into four finance centers, the Agency

successfully transferred five of the ten regions' accounts receivable functions to one finance center. An account analysis identified accounting point balances that required adjustments that are reflected in the financial statements. As the Agency progresses in transferring the accounts receivable functions from the remaining five regions, OCFO will continue to monitor appropriate general ledger accounts and assist the Financial Management Officers in resolving account balance issues.

5. Quality Assurance (QA) Reviews

The OIG recommends increased oversight of the QA program activity to ensure comprehensive reviews and adequate documentation.

In FY 2005, OCFO made significant progress with the QA program. OCFO updated and published the QA Guide on the EPA intranet. It reflects current policies, procedures, and approaches to evaluating accounting functions. In addition, OCFO conducted a specialized session on QA reviews and their relationship to the revised OMB Circular A-123 requirements. To continue the QA program's success, OCFO is conducting a training class in December 2005 for Agency finance personnel.

6. Distribution of the Budget Clearing Accounts

OIG identified interagency transactions that were inappropriately distributed.

In this instance, EPA billed other agencies and two transactions were returned two days prior to the close of the fiscal year. EPA reissued the bills in October 2005 and the FY 2005 financial statements reflect the appropriate accounting adjustments.

7. Documentation of Adjustments to the Integrated Financial Management System (IFMS) Entries

The OIG noted instances of adjusting entries made without proper or adequate documentation.

OCFO's Policy Announcement 93-02, dated November 13, 1992, requires adequate source documentation to support all financial transactions. OCFO will insist that Financial Management Officers ensure that all adjusting transactions entered into the Agency's accounting system be adequately documented and easily accessible in accordance with the Policy Announcement.

8. Correcting Rejected Transactions

OIG observed instances of rejected data transfers between PeoplePlus (PPL) and IFMS that were not resolved in a timely manner.

OCFO took action to identify and correct the rejected data for 16 employees. The Office of Human Resources implemented a control that should prevent a reoccurrence.

9. Contingency Plans for Financial Applications

OIG noted instances where contingency plans for financial systems did not fully comply with Federal or EPA continuity guidelines.

OCFO remains firmly committed to securing its system and data in a cost effective manner and in compliance with Federal guidance, EPA policy, and best practices. In FY 2006, OCFO will revise current contingency plans to clearly state the critical operations, supporting resources, and alternate processing procedures for the financial systems identified by the OIG.

Federal Financial Management Improvement Act (FFMIA) Noncompliance Issues

10. Intragovernmental Transactions

As OIG acknowledged, OCFO greatly improved reconciliations of its intragovernmental transactions during FY 2005. However, at year end, EPA was unable to reconcile a large difference with one Federal agency.

EPA believes this is a result of differing accounting methodologies between agencies. EPA will continue efforts to reconcile the Agency's intragovernmental transactions to comply with Federal financial reporting requirements.

Principal Financial Statements

Financial Statements

1. Consolidated Balance Sheet
2. Consolidated Statement of Net Cost
3. Consolidated Statement of Net Cost by Goal
4. Consolidating Statement of Changes in Net Position
5. Combined Statement of Budgetary Resources
6. Consolidated Statement of Financing
7. Statement of Custodial Activity

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies
Note 2. Fund Balances with Treasury
Note 3. Cash
Note 4. Investments
Note 5. Accounts Receivable
Note 6. Other Assets
Note 7. Loans Receivable, Net—Non-Federal
Note 8. Accounts Payable and Accrued Liabilities
Note 9. General Plant, Property and Equipment
Note 10. Debt
Note 11. Custodial Liability
Note 12. Other Liabilities
Note 13. Leases
Note 14. Pensions and Other Actuarial Liabilities
Note 15. Cashout Advances
Note 16. Unexpended Appropriations
Note 17. Amounts Held by Treasury
Note 18. Commitments and Contingencies
Note 19. Exchange Revenues, Statement of Net Cost
Note 20. Environmental Cleanup Costs
Note 21. State Credits
Note 22. Preauthorized Mixed Funding Agreements
Note 23. Custodial Revenues and Accounts Receivable
Note 24. Statement of Budgetary Resources
Note 25. Recoveries and Resources Not Available, Statement of Budgetary Resources
Note 26. Unobligated Balances Available
Note 27. Offsetting Receipts
Note 28. Statement of Financing
Note 29. Costs Not Assigned to Goals
Note 30. Transfers-In and Out, Statement of Changes in Net Position
Note 31. Imputed Financing
Note 32. Payroll and Benefits Payable
Note 33. Other Adjustments, Statement of Changes in Net Position
Note 34. Nonexchange Revenue, Statement of Changes in Net Position
Note 35. Other, Statement of Financing

Required Supplementary Information (Unaudited)

1. Deferred Maintenance (Unaudited)
2. Intragovernmental Assets (Unaudited)
3. Intragovernmental Liabilities (Unaudited)
4. Intragovernmental Revenues and Costs (Unaudited)
5. Supplemental Statement of Budgetary Resources (Unaudited)
6. Working Capital Fund Condensed Statements (Unaudited)

Required Supplementary Stewardship Information (Unaudited)

Supplemental Information (Unaudited)

1. Superfund Financial Statements and Related Notes
2. Financial Management Plans and Reports (OMB Circular A-11, Section 52.4a)
3. Improper Payments Information Act of 2002 (IPIA) Report

1.

Environmental Protection Agency

Consolidating Balance Sheet

For the Periods Ending September 30, 2005 and 2004

(Dollars in Thousands)

	FY 2005	FY 2004
ASSETS		
Intragovernmental		
Fund Balance With Treasury (Note 2)	$ 12,139,207	$ 12,065,145
Investments (Notes 4 and 17)	4,811,065	4,534,498
Accounts Receivable, Net (Note 5)	66,060	42,770
Other (Note 6)	2,335	1,320
Total Intragovernmental	$ 17,018,667	$ 16,643,733
Cash and Other Monetary Assets (Note 3)	10	10
Accounts Receivable, Net (Note 5)	374,668	414,495
Loans Receivable, Net—Non-Federal (Note 7)	39,347	48,927
Property, Plant and Equipment, Net (Note 9)	708,716	673,363
Other (Note 6)	2,789	1,508
Total Assets	**$ 18,144,197**	**$ 17,782,036**
LIABILITIES		
Intragovernmental		
Accounts Payable and Accrued Liabilities (Note 8)	$ 119,836	$ 104,664
Debt Due to Treasury (Note 10)	21,744	24,101
Custodial Liability (Note 11)	142,347	52,216
Other (Note 12)	106,530	78,121
Total Intragovernmental	$ 390,457	$ 259,102
Accounts Payable and Accrued Liabilities (Note 8)	730,278	881,851
Pensions and Other Actuarial Liabilities (Note 14)	39,380	40,281
Environmental Cleanup Costs (Note 20)	6,989	8,407
Cashout Advances, Superfund (Note 15)	270,811	259,361
Commitments and Contingencies (Note 18)	1,950	1,625
Payroll and Benefits Payable (Note 33)	190,394	180,746
Other (Notes 12 and 13)	98,064	103,916
Total Liabilities	**$ 1,728,323**	**$ 1,735,289**
NET POSITION		
Unexpended Appropriations (Note 16)	$ 11,007,589	$ 10,860,136
Cumulative Results of Operations	5,408,285	5,186,611
Total Net Position	16,415,874	16,046,747
Total Liabilities and Net Position	**$ 18,144,197**	**$ 17,782,036**

The accompanying notes are an integral part of these statements.

2.

Environmental Protection Agency

Consolidating Statement of Net Cost

For the Periods Ending September 30, 2005 and 2004

(Dollars in Thousands)

	FY 2005	FY 2004
COSTS		
Intragovernmental	$ 1,238,395	$ 1,205,696
With the Public	7,259,027	7,649,867
Total Costs	$ 8,497,422	$ 8,855,563
Less:		
Earned Revenues, Federal (Note 19)	$ 105,653	$ 66,262
Earned Revenues, Non-Federal (Note 19)	357,824	280,099
Total Earned Revenues	463,477	346,361
NET COST OF OPERATIONS	$ 8,033,945	$ 8,509,202

The accompanying notes are an integral part of these statements.

3.

Environmental Protection Agency

Consolidated Statement of Net Cost by Goal

For the Period Ending September 30, 2005

(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
COSTS					
Intragovernmental	$ 186,667	$ 209,631	$ 376,717	$ 280,492	$ 174,321
With the Public	803,822	3,297,570	1,639,157	992,360	539,857
Total Costs	$ 990,489	$ 3,507,201	$ 2,015,874	$ 1,272,852	$ 714,178
Less:					
Earned Revenue, Federal	20,295	$ 15,444	$ 42,567	$ 15,638	$ 12,000
Earned Revenue, Non-Federal	2,205	2,570	312,487	32,509	1,353
Total Earned Revenue	$ 22,500	$ 18,014	$ 355,054	$ 48,147	$ 13,353
NET COST OF OPERATIONS	$ 967,989	$ 3,489,187	$ 1,660,820	$ 1,224,705	$ 700,825

3. *(continued)*

Environmental Protection Agency

Consolidated Statement of Net Cost by Goal

For the Period Ending September 30, 2005

(Dollars in Thousands)

	Not Assigned to Goals	Consolidated Total
COSTS		
Intragovernmental	$ 10,567	$ 1,238,395
With the Public	(13,739)	7,259,027
Total Costs	$ (3,172)	$ 8,497,422
Less:		
Earned Revenue, Federal	$ (291)	$ 105,653
Earned Revenue, Non-Federal	6,700	357,824
Total Earned Revenue	$ 6,409	$ 463,477
NET COST OF OPERATIONS	$ (9,581)	$ 8,033,945

The accompanying notes are an integral part of these statements.

3. *(continued)*

Environmental Protection Agency

Consolidated Statement of Net Cost by Goal

For the Period Ending September 30, 2004

(Dollars in Thousands)

	Clean Air	Clean and Safe Water	Land Preservation & Restoration	Healthy Communities & Ecosystems	Compliance & Environmental Stewardship
COSTS					
Intragovernmental	$ 168,684	$ 177,573	$ 411,593	$ 257,208	$ 159,492
With the Public	774,151	3,835,046	1,610,080	885,982	557,567
Total Costs	$ 942,835	$ 4,012,619	$ 2,021,673	$ 1,143,190	$ 717,059
Less:					
Earned Revenue, Federal	21,092	$ 6,320	$ 19,877	$ 7,117	$ 13,857
Earned Revenue, Non-Federal	970	1,996	227,936	33,556	1,498
Total Earned Revenue	$ 22,062	$ 8,316	$ 247,813	$ 40,673	$ 15,355
NET COST OF OPERATIONS	$ 920,773	$ 4,004,303	$ 1,773,860	$ 1,102,517	$ 701,704

3. *(continued)*

Environmental Protection Agency

Consolidated Statement of Net Cost by Goal

For the Period Ending September 30, 2004

(Dollars in Thousands)

	Not Assigned to Goals	Consolidated Total
COSTS		
Intragovernmental	$ 31,146	$ 1,205,696
With the Public	(12,959)	7,649,867
Total Costs	$ 18,187	$ 8,855,563
Less:		
Earned Revenue, Federal	$ (2,001)	$ 66,262
Earned Revenue, Non-Federal	14,143	280,099
Total Earned Revenue	$ 12,142	$ 346,361
NET COST OF OPERATIONS	$ 6,045	$ 8,509,202

The accompanying notes are an integral part of these statements.

4.

Environmental Protection Agency

Consolidating Statement of Changes in Net Position

For the Periods Ending September 30, 2005 and 2004

(Dollars in Thousands)

	Cumulative Results of Operations FY 2005	Cumulative Results of Operations FY 2004	Unexpected Appropriations FY 2005	Unexpected Appropriations FY 2004	Consolidated Totals FY 2004	Consolidated Totals FY 2005
Net Position—Beginning of Period	$ 5,186,611	$ 5,124,926	$ 10,860,136	$ 10,768,236	$ 16,046,747	$ 15,893,162
Prior Period Adjustments						
Beginning Balances, as Adjusted	$ 5,186,611	$ 5,124,926	$ 10,860,136	$ 10,768,236	$ 16,046,747	$ 15,893,162
Budgetary Financing Sources:						
Appropriations Received	$ -	$ -	$ 8,005,446	$ 8,322,860	$ 8,005,446	$ 8,322,860
Appropriations Transferred In/Out (Note 30)	-	-	4,702	152	4,702	152
Other Adjustments (Note 33)	-	-	(75,450)	(68,568)	(75,450)	(68,568)
Appropriations Used	7,787,245	8,162,544	(7,787,245)	(8,162,544)	-	-
Nonexchange Revenue (Note 34)	318,662	299,725	-	-	318,662	299,725
Transfers In/Out (Note 30)	11,136	(19,807)	-	-	11,136	(19,807)
Trust Fund Appropriations						
Total Budgetary Financing Sources	$ 8,117,043	$ 8,442,462	$ 147,453	$ 91,900	$ 8,264,496	$ 8,534,362
Other Financing Sources:						
Transfers In/Out (Note 30)	436	$ (436)	$ -	$ -	$ 436	$ (436)
Imputed Financing Sources (Note 31)	138,140	128,861	-	-	138,140	128,861
Total Other Financing Sources	$ 138,576	$ 128,425	$ -	$ -	$ 138,576	$ 128,425
Net Cost of Operations	(8,033,945)	(8,509,202)	-	-	(8,033,945)	(8,509,202)
Net Change	221,674	61,685	147,453	91,900	369,127	153,585
Net Position—End of Period	**$ 5,408,285**	**$ 5,186,611**	**$ 11,007,589**	**$ 10,860,136**	**$ 16,415,874**	**$ 16,046,747**

The accompanying notes are an integral part of these statements.

5.

Environmental Protection Agency

Combined Statement of Budgetary Resources

For the Periods Ending September 30, 2005 and 2004

(Dollars in Thousands)

	FY 2005	FY 2004
BUDGETARY RESOURCES		
Budgetary Authority:		
Appropriations Received	$ 8,032,620	$ 8,353,924
Borrowing Authority	436	5,554
Net Transfers	1,348,725	1,336,786
Unobligated Balances:		
Beginning of Period	2,996,708	2,865,677
Net Transfers, Actual	-	(1,538)
Spending Authority from Offsetting Collections:		
Earned and Collected	$ 557,692	$ 471,777
Receivable from Federal Sources	5,311	(23,156)
Change in Unfilled Customer Orders:		
Advance Received	37,615	(31,207)
Without Advance from Federal Sources	118,144	7,288
Transfers from Trust Funds Collected	69,572	67,959
Transfers from Trust Funds, Anticipated	(20,890)	(16,293)
Total Spending Authority from Collections	$ 767,444	$ 476,368
Recoveries of Prior Year Obligations (Note 25)	174,641	194,775
Temporarily Not Available Pursuant to Public Law (Note 25)	(11,141)	(8,254)
Permanently Not Available (Note 25)	(78,244)	(71,203)
Total Budgetary Resources (Note 24)	**$ 13,231,189**	**$ 13,152,089**
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 9,573,696	$ 9,745,606
Reimbursable	550,737	409,775
Total Obligations Incurred (Note 24)	$ 10,124,433	$ 10,155,381
Unobligated Balances:		
Apportioned (Note 26)	3,018,689	2,903,849
Unobligated Balances Not Available (Note 26)	88,067	92,859
Total Status of Budgetary Resources	**$ 13,231,189**	**$ 13,152,089**
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred, Net	$ 9,182,350	$ 9,484,238
Obligated Balances, Net—Beginning of Period	11,207,776	11,420,719
Accounts Receivable	64,972	80,554
Unfilled Customer Orders from Federal Sources	422,012	303,869
Undelivered Orders, Unpaid	(10,636,009)	(10,467,637)
Accounts Payable	(987,090)	(1,124,560)
Total Outlays (Note 24)	**$ 9,254,011**	**$ 9,697,183**
Disbursements	$ 9,918,889	$ 10,205,713
Collections	(664,878)	(508,530)
Less: Offsetting Receipts (Note 27)	(1,334,508)	(1,350,841)
Net Outlays	**$ 7,919,503**	**$ 8,346,342**

The accompanying notes are an integral part of these statements.

6.

Environmental Protection Agency

Consolidating Statement of Financing

For the Periods Ending September 30, 2005 and 2004

(Dollars in Thousands)

	FY 2005	FY 2004
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$ 10,124,433	$ 10,155,381
Less: Spending Authority from Offsetting Collections and Recoveries	(942,084)	(671,143)
Obligations, Net of Offsetting Collections	$ 9,182,349	$ 9,484,238
Less: Offsetting Receipts (Note 27)	(1,334,508)	(1,350,841)
Net Obligations	$ 7,847,841	$ 8,133,397
Other Resources:		
Imputed Financing Sources (Note 31)	138,140	128,861
Net Other Resources Used to Finance Activities	$ 138,140	$ 128,861
Total Resources Used To Finance Activities	$ 7,985,981	$ 8,262,258
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated	$ (33,501)	$ 192,871
Resources that Fund Prior Period Expenses (Note 28)	(1,120)	(13,855)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Liabilities for Guarantees of Subsidy Allowances	4,337	4,142
Offsetting Receipts Not Affecting Net Cost	87,031	93,304
Resources that Finance Asset Acquisition	(137,277)	(106,185)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (80,530)	$ 170,277
Total Resources Used to Finance the Net Cost of Operations	$ 7,905,451	$ 8,432,535

The accompanying notes are an integral part of these statements.

6. *(continued)*

Environmental Protection Agency

Consolidating Statement of Financing

For the Periods Ending September 30, 2005 and 2004

(Dollars in Thousands)

	FY 2005	FY 2004
WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability (Note 28)	$ 3,889	$ -
Increase in Environmental and Disposal Liability (Note 28)	99	1,244
Increase in Unfunded Contingencies (Note 28)	1,525	22,425
Up/Downward Reestimates of Subsidy Expense (Note 28)	3	-
Increase in Public Exchange Revenue Receivable	(101,645)	(59,937)
Other (Note 35)	1,969	-
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	$ (94,160)	$ (36,268)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	39,760	47,791
Expenses Not Requiring Budgetary Resources	182,894	65,144
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	$ 222,654	$ 112,935
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	$ 128,494	$ 76,667
Net Cost of Operations	**$ 8,033,945**	**$ 8,509,202**

The accompanying notes are an integral part of these statements.

7.

Environmental Protection Agency

Statement of Custodial Activity

For the Periods Ending September 30, 2005 and 2004

(Dollars in Thousands)

	FY 2005	FY 2004
Revenue Activity:		
Sources of Collections		
Fines and Penalties	$ 141,087	$ 162,948
Other	(53,836)	24,463
Total Cash Collections	$ 87,251	$ 187,411
Accrual Adjustment	63,565	(24,865)
Total Custodial Revenue (Note 23)	$ 150,816	$ 162,546
Disposition of Collections:		
Transferred to Others (General Fund)	$ 87,334	$ 187,194
Increases/Decreases in Amounts to be Transferred	63,482	(24,648)
Total Disposition of Collections	$ 150,816	$ 162,546
Net Custodial Revenue Activity (Note 23)	$ -	$ -

The accompanying notes are an integral part of these statements.

Environmental Protection Agency Notes to Financial Statements (Dollars in Thousands)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidated financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (EPA or Agency) as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the Agency in accordance with *Financial Reporting Requirements*, OMB Circular A-136, and the EPA's accounting policies which are summarized in this note. In addition to the reports required by OMB Circular A-136, the Statement of Net Cost has been prepared by the Agency's strategic goals.

B. Reporting Entities

The EPA was created in 1970 by executive reorganization from various components of other federal agencies in order to better marshal and coordinate federal pollution control efforts. The Agency is generally organized around the media and substances it regulates—air, water, land, hazardous waste, pesticides and toxic substances.

For FY 2005, the accompanying financial statements are grouped and presented in a consolidated manner. The accompanying financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

General Fund Appropriations (Treasury Fund Groups 0000 – 3999)

a. State and Tribal Assistance Grants (STAG) Appropriation: The STAG appropriation, Treasury fund group 0103, provides funds for environmental programs and infrastructure assistance including capitalization grants for State revolving funds and performance partnership grants. Environmental programs and infrastructure supported are: Clean and Safe Water; Capitalization grants for the Drinking Water State Revolving Funds; Clean Air; Direct grants for Water and Wastewater Infrastructure needs, Partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross Border Environmental Risks.

b. Science and Technology (S&T) Appropriation: The S&T appropriation, Treasury fund group 0107, finances salaries, travel, science, technology, research and development activities including laboratory and center supplies, certain operating expenses, grants, contracts, intergovernmental agreements, and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2005, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Environmental scientific and technological activities and programs include Clean Air; Clean and Safe Water; Americans Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food.

c. Environmental Programs and Management (EPM) Appropriation: The EPM appropriation, Treasury fund group 0108, includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the Agency's operating programs. Areas supported from this appropriation include: Clean Air, Clean and Safe Water, Land Preservation and Restoration, Healthy Communities and Ecosystems, and Compliance and Environmental Stewardship.

d. Buildings and Facilities Appropriation (B&F): The B&F appropriation, Treasury fund group 0110, provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the EPA.

e. Office of Inspector General (OIG) Appropriation: The OIG appropriation, Treasury fund group 0112, provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund and the LUST Trust Funds are appropriated under those Trust Fund accounts and transferred to the Office of Inspector General account. The audit function provides contract, internal controls and performance, and financial and grant audit services. The appropriation includes expenses incurred and reimbursed from the appropriated trust funds accounted for under Treasury fund group 8145 and 8153.

f. Payments to the Hazardous Substance Superfund Appropriation: The Payment to the Hazardous Substance Superfund appropriation Treasury fund group 0250, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Hazardous Substance Superfund Program.

g. Asbestos Loan Program: The Asbestos Loan Program is accounted for under Treasury fund group 0118 for the subsidy and administrative support; under Treasury fund group 4322 for loan disbursements, loans receivable and loan collections on post FY 1991 loans; and under Treasury fund group 2917 for pre FY 1992 loans receivable and loan collections.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. Funds have not been appropriated for this Program since FY 1993. For FY 1993 and FY1992, the program was funded by a subsidy appropriated from the General Fund for the actual cost of financing the loans, and by borrowing from Treasury for the unsubsidized portion of the loan. The Program Fund disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Fund receives the subsidy payment, borrows from Treasury and collects the asbestos loans.

h. Allocations and Appropriations transferred to the Agency: Allocations and appropriations transferred to the Agency from other federal agencies include funds from the Appalachian Regional Commission, which provides economic assistance to state and local developmental activities, and the Agency for International Development, which provides assistance on environmental matters at international levels. The transfer allocations are accounted for under Treasury fund group 0200 and the appropriation transfers are accounted for under 0108.

i. Treasury Clearing Accounts: The EPA Department of the Treasury Clearing Accounts include: (1) the Budgetary Suspense Account, (2) the Unavailable Check Cancellations and Overpayments Account, and (3) the Undistributed Intra-agency Payments and Collections (IPAC) Account. These are accounted for under Treasury fund groups 3875, 3880 and 3885, respectively.

j. General Fund Receipt Accounts: General Fund Receipt Accounts include: Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Downward Reestimates of Subsidies; Fees and Other Charges for Administrative and Professional Services; and Miscellaneous Recoveries and Refunds. These accounts are accounted for under Treasury fund groups 0895, 1099, 1435, 1499, 2753.3, 3200 and 3220, respectively.

Revolving Funds (Treasury Fund Group 4000 – 4999)

a. Federal Insecticide, Fungicide and Rodenticide Act (FIFRA): The FIFRA Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA Act of 1972, as amended in 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide Maintenance fees are paid by industry to offset the costs of pesticide reregistration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

b. Tolerance Revolving Fund: The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently these fees are being deposited in the FIFRA fund (see above).

c. Asbestos Loan Program: The Asbestos Loan Program is accounted for under Treasury fund group 4322 for loan disbursements, loans receivable and loan collections on post FY 1991 loans. Refer to General Fund Appropriations paragraph g. for details.

d. Working Capital Fund (WCF): The WCF, Treasury fund group, 4565, includes two activities: computer support services and postage. The WCF derives revenue from these activities based upon a fee for services. WCF's customers currently consist primarily of Agency program offices and a small portion from other federal agencies. Accordingly, those revenues generated by the WCF from services provided to Agency program offices and expenses recorded by the program offices for use of such services along with the related advances/liabilities, are eliminated on consolidation.

Special Funds (Treasury Fund Group 5000 – 5999)

a. Environmental Services Receipt Account: The Environmental Services Receipt account, Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund will be appropriated to the S&T and the EPM appropriations to meet the expenses of the programs that generate the receipts.

b. Exxon Valdez Settlement Fund: The Exxon Valdez Settlement Fund, Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

c. Pesticide Registration Fund: The Pesticide Registration Fund, Treasury fund group 5374, was authorized in 2004 for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Act of 1988, are to be paid by industry and deposited into this fund group.

Deposit funds (Treasury Fund Group 6000 – 6999)

Deposit funds include: Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances without Orders; and Suspense and payroll deposits for Savings Bonds, and State and City Income Taxes Withheld. These funds are accounted for under Treasury fund groups 6050, 6264, 6265, 6266, 6275 and 6500.

Trust Funds (Treasury Fund Group 8000 – 8999)

a. Superfund Trust Fund: In 1980, the Superfund Trust Fund, Treasury fund group 8145, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to other federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury's collections and investment activity.

b. Leaking Underground Storage Tank (LUST) Trust Fund: The LUST Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent a gallon tax on motor fuels which will expire in 2011.

c. Oil Spill Response Trust Fund: The Oil Spill Response Trust Fund, Treasury fund group 8221, was authorized by the Oil Pollution Act of 1990 (OPA). Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for oil spill cleanup actions is provided through the Department of Transportation under the Oil Spill Liability Trust Fund and reimbursable funding from other federal agencies.

d. Miscellaneous Contributed Funds Trust Fund: The Miscellaneous Contributed Funds Trust Fund, Treasury fund group 8741, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

C. Budgets and Budgetary Accounting

General Funds

Congress adopts an annual appropriation for STAG, B&F, and for Payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for S&T, EPM and for the OIG to be available for 2 fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed from a combination of two sources, one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adopted a 1 year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of

the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost is financed under permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur after the year in which the loan was disbursed.

Funds transferred from other federal agencies are funded by a nonexpenditure transfer of funds from the other federal agencies. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

Clearing accounts and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

Revolving Funds

Funding of the FIFRA and Pesticide Registration Funds is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other Agency appropriations and other federal agencies to offset costs incurred for providing Agency administrative support for computer support and postage.

Special Funds

The Environmental Services Receipt Account obtains fees associated with environmental programs that will be appropriated to the S&T and EPM appropriations.

Exxon Valdez uses funding collected from reimbursement from the Exxon Valdez settlement.

Deposit Funds

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition.

Trust Funds

Congress adopts an annual appropriation amount for the Superfund, LUST and the Oil Spill Response Trust Funds to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund and LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Treasury's Oil Spill Liability Trust Fund to the Oil Spill Response Trust Fund when Congress adopts the appropriation amount.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. Material interfund balances and transactions are eliminated.

E. Revenues and Other Financing Sources.

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenues and Other Financing Sources."

The Superfund program receives most of its funding through appropriations that may be used, within specific statutory limits, for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs), under CERCLA Section 122(b)(3), placed in special accounts. Special accounts were previously limited to settlement amounts for future costs. However, beginning in FY 2001, cost recovery amounts received under CERCLA Section +122 (b)(3) settlements could be placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

The majority of all other funds receive funding needed to support programs through appropriations, which may be used, within statutory limits, for operating and capital expenditures. However, under Credit Reform provisions, the Asbestos Loan Program received funding to support the subsidy cost of loans through appropriations which may be used with statutory limits. The Asbestos Direct Loan Financing fund, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund for the subsidized portion of the loan. The last year Congress provided appropriations to make new loans was 1993.

The FIFRA and Pesticide Registration funds receive funding through fees collected for services provided and interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses upon consolidation of the Agency's financial statements. The Exxon Valdez Settlement Fund receives funding through reimbursements.

Appropriated funds are recognized as Other Financing Sources expended when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned, i.e., when services have been rendered.

F. Funds with the Treasury

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The major funds maintained with Treasury are Appropriated Funds, Revolving Funds, Trust Funds, Special Funds, Deposit Funds, and Clearing Accounts. These funds have balances available to pay current liabilities and finance authorized obligations, as applicable.

G. Investments in U.S. Government Securities

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity (see Note 4).

H. Notes Receivable

The Agency records notes receivable at their face value and any accrued interest as of the date of receipt.

I. Marketable Securities

The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold (see Note 6).

J. Accounts Receivable and Interest Receivable

The majority of receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, allocations receivable from Superfund (eliminated in consolidated totals), and refunds receivable for the STAG appropriation.

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by SARA. However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered (see Note 5).

The Agency records accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under SSCs, cost sharing arrangements may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10 percent or 50 percent of site remedial action costs. States may pay the full amount of their share in advance, or incrementally throughout the remedial action process. Allowances for uncollectible state cost share receivables have not been recorded, because the Agency has not had collection problems with these agreements.

K. Advances and Prepayments

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred.

L. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and

other estimated cash flows associated with these loans.

M. Appropriated Amounts Held by Treasury

For the Superfund and LUST Trust Funds and for amounts appropriated from the Superfund Trust Fund to the OIG, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury.

N. Property, Plant, and Equipment

EPA accounts for its personal and real property accounting records in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment." For EPA-held property, the Fixed Assets Subsystem (FAS) automatically generates depreciation entries monthly based on acquisition dates.

A purchase of EPA-held or contractor-held personal property is capitalized if it is valued at $25 thousand or more and has an estimated useful life of at least 2 years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of 6 years depreciating 10 percent the first and sixth year, and 20 percent in years 2 through 5. This modified straight-line method is still used for contractor-held property; detailed records are maintained and accounted for in contractor systems, not in FAS. All EPA-held personal property purchased before the implementation of FAS was assumed to have an estimated useful life of 5 years. New acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from 2 to 15 years.

Superfund contractor-held property used as part of the remedy for site-specific response actions is capitalized in accordance with the Agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, EPA will retain control of the property, e.g., pump and treat facility, for 10 years or less, and will transfer its interest in the facility to the respective state for mandatory operation and maintenance—usually 20 years or more. Consistent with EPA's 10 year retention period, depreciation for this property will be based on a 10 year life. However, if any property is transferred to a state in a year or less, this property will be charged to expense. If any property is sold prior to EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations.

Real property consists of land, buildings, and capital and leasehold improvements. Real property, other than land, is capitalized when the value is $75 thousand or more. Land is capitalized regardless of cost. Buildings were valued at an estimated original cost basis, and land was valued at fair market value if purchased prior to FY 1997. Real property purchased during and after FY 1997 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed as incurred.

Software for Working Capital Fund, a revenue generating activity, is capitalized if the purchase price was $100 thousand or more with an estimated useful life of 2 years or more. All other funds capitalize software whose acquisition value is $500 thousand or more in accordance with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Software is depreciated using the straight-line method over the specific asset's useful life ranging from 2 to 10 years.

O. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the Agency as the result of a transaction or event that has already occurred. However, no liability can be paid by the Agency without an appropriation or other collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

P. Borrowing Payable to the Treasury

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

Q. Interest Payable to Treasury

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt to Treasury. At the end of FY 2004 and FY 2005, there

was no outstanding interest payable to Treasury since payment was made through September 30.

R. Accrued Unfunded Annual Leave

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in the Statement of Financial Position as a component of "Payroll and Benefits Payable."

S. Retirement Plan

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management (OPM), as administrator of the Civil Service Retirement and Federal Employees Retirement Systems, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

T. Prior Period Adjustments

Prior period adjustments will be made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material prior period errors to: (1) the current period financial statements, and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

Note 2. Fund Balances with Treasury

Fund Balances with Treasury as of September 30, 2005 and 2004, consist of the following:

	FY 2005			FY 2004		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Trust Funds:						
Superfund	$ 213,797	$ -	$ 213,797	$ 199,406	$ -	$ 199,406
LUST	17,613	-	17,613	14,825	-	14,825
Oil Spill & Misc.	9,169	-	9,169	10,222	-	10,222
Revolving Funds:						
FIFRA/Tolerance	7,970	-	7,970	4,913	-	4,913
Working Capital	69,401	-	69,401	53,560	-	53,560
Cr. Reform Finan.	489	-	489	492	-	492
Appropriated	11,655,287	-	11,655,287	11,639,189	-	11,639,189
Other Fund Types	157,303	8,178	165,481	136,646	5,892	142,538
Total	$ 12,131,029	$ 8,178	$ 12,139,207	$ 12,059,253	$ 5,892	$ 12,065,145

Entity fund balances, except for special fund receipt accounts, are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below). Entity Assets for Other Fund Types consist of special purpose funds and special fund receipt accounts, such as the Pesticide Registration funds and the Environmental Services receipt account. The Non-Entity Assets for Other Fund Types consist of clearing accounts and deposit funds, which are either awaiting documentation for the determination of proper disposition or being held by EPA for other entities.

Status of Fund Balances:	FY 2005	FY 2004
Unobligated Amounts in Fund Balances:		
Available for Obligation	$ 3,018,690	$ 2,903,849
Unavailable for Obligation	88,066	92,861
Net Receivables from Invested Balances	(2,278,343)	(2,471,574)
Balances in Treasury Trust Fund (Note 17)	19,965	201,438
Obligated Balance not yet Disbursed	11,136,112	11,207,766
Non-Budgetary FBWT	154,717	130,805
Totals	**$ 12,139,207**	**$ 12,065,145**

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2005 and FY 2004 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

Note 3. Cash

As of September 30, 2005 and 2004, cash consists of an imprest fund of $10 thousand.

Note 4. Investments

As of September 30, 2005 and 2004 investments consist of the following:

Intragovernmental Securities:		Cost	Unamortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
Non-Marketable	FY 2005	**$** 4,762,154	$ (16,261)	$ 32,650	$ 4,811,065	$ 4,811,065
Non-Marketable	FY 2004	**$** 4,459,647	$ (47,536)	$ 27,315	$ 4,534,498	$ 4,534,498

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RP). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable. (See Note 6.)

Note 5. Accounts Receivable

The Accounts Receivable for September 30, 2005 and 2004, consist of the following:

	FY 2005	FY 2004
Intragovernmental Assets:		
Accounts & Interest Receivable	$ 66,060	$ 42,770
Non-Federal Assets:		
Unbilled Accounts Receivable	$ 89,818	$ 93,440
Accounts & Interest Receivable	1,092,376	1,015,721
Less: Allowance for Uncollectibles	(807,526)	(694,666)
Total	$ 374,668	$ 414,495

The Allowance for Uncollectible Accounts is determined both on a specific identification basis, as a result of a case-by-case review of receivables, and on a percentage basis for receivables not specifically identified.

Note 6. Other Assets

	FY 2005	FY 2004
Intragovernmental Assets:		
Advances to Federal Agencies	$ 1,102	$ 767
Advances to WCF	827	-
Advances for Postage	406	553
Total Intragovernmental Assets	$ 2,335	$ 1,320
Non-Federal Assets:		
Travel Advances	$ (898)	$ (1,008)
Letter of Credit Advances	9	271
Grant Advances	1,710	1,164
Other Advances	946	830
Operating Materials and Supplies	183	200
Inventory for Sale	204	51
Securities Received in Settlement of Debt	635	-
Total Non-Federal Assets	$ 2,789	$ 1,508

Other Assets for September 30, 2005 and 2004, consist of the following:

Note 7. Loans Receivable, Net—Non-Federal

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by

	FY 2005			FY 2004		
	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans	Loans Receivable, Gross	Allowance*	Value of Assets Related to Direct Loans
Direct Loans Obligated Prior to FY 1992	$ 18,118	$ -	$ 18,118	$ 25,243	$ -	$ 25,243
Direct Loans Obligated After FY 1991	26,427	(5,198)	21,229	30,466	(6,782)	23,684
Total	**$ 44,545**	**$ (5,198)**	**$ 39,347**	**$ 55,709**	**$ (6,782)**	**$ 48,927**

* Allowance for Pre-Credit Reform loans (prior to FY 1992) is the Allowance for Estimated Uncollectible Loans, and the Allowance for Post Credit Reform Loans (after FY 1991) is the Allowance for Subsidy Cost (present value).

the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, inter-

	Interest Rate Re-estimate	Technical Re-estimate	Total
Downward Subsidy Reestimate—FY 2005	$ (233)	$ (203)	$ (436)
Upward Subsidy Reestimate—FY 2005	129	128	257
FY 2005 Totals	**$ (104)**	**(75)**	**(179)**
Downward Subsidy Reestimate—FY 2004	$ (2,660)	$ (2,894)	$ (5,554)
FY 2004 Totals	**$ (2,600)**	**$ (2,894)**	**$ (5,554)**

est subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2005 and 2004, are as follows:

Subsidy Expenses for Credit Reform Loans (reported on a cash basis):

	FY 2005	FY 2004
Intragovernmental:		
Accounts Payable to other Federal Agencies	$ 774	$ 1,808
Liability for Allocation Transfers	19,878	31,286
Accrued Liabilities, Federal	99,184	71,570
Total Intragovernmental	**$ 119,836**	**$ 104,664**
Non-Federal:		
Accounts Payable, Non-Federal	$ 105,027	$ 93,262
Advances Payable, Non-Federal	24	19
Interest Payable	7	41
Grant Liabilities	449,206	594,124
Other Accrued Liabilities, Non-Federal	176,014	194,405
Total Non-Federal	**$ 730,278**	**$ 881,851**

Note 8. Accounts Payable and Accrued Liabilities

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2005 and 2004.

	FY 2005			FY 2004		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	$ 194,410	$ (109,683)	$ 84,727	$ 188,844	$ (112,793)	$ 76,051
Software	146,132	(19,777)	126,355	105,634	(14,881)	90,753
Contractor Held Equip.	56,746	(22,706)	34,040	61,571	(19,385)	42,186
Land and Buildings	558,689	(122,012)	436,677	547,876	(114,184)	433,692
Capital Leases	50,111	(23,194)	26,917	49,956	(19,275)	30,681
Total	$ 1,006,088	$ (297,372)	$ 708,716	$ 953,881	$ (280,518)	$ 673,363

Note 9. General Plant, Property and Equipment

Plant, property and equipment consist of software; real, EPA-Held and Contractor-Held personal, and capital lease property.

	FY 2005			FY 2004		
All Others Funds	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental:						
Debt to Treasury	$ 24,101	$ (2,357)	$ 21,744	$ 21,189	$ 2,912	$ 24,101

As of September 30, 2005 and 2004, Plant, Property and Equipment consist of the following:

Note 10. Debt

The debt due to Treasury consists of the following as of September 30, 2005 and 2004:

Note 11. Custodial Liability

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities—Intragovernmental			
Current			
Employer Contributions & Payroll Taxes	$ 12,731	$ -	$ 12,731
WCF Advances	17,392	-	17,392
Other Advances	4,737	-	4,737
Advances, HRSTF Cashout	41,207	-	41,207
Deferred HRSTF Cashout	60	-	60
Liability for Deposit Funds	(82)	-	(82)
Resources Payable to Treasury	1	-	1
Non-Current			
Unfunded FECA Liability	-	8,484	8,484
Payable to Treasury Judgment Fund	-	22,000	22,000
Total Intragovernmental	$ 76,046	$ 30,484	$ 106,530
Other Liabilities—Non-Federal			
Current			
Unearned Advances, Non-Federal	$ 59,388	$ -	$ 59,388
Liability for Deposit Funds, Non-Federal	(70)	-	(70)
Non-Current			
Other Liabilities	-	30	30
Capital Lease Liability	-	38,716	38,716
Total Non-Federal	$ 59,318	$ 38,746	$ 98,064

General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable.

Note 12. Other Liabilities

Other Liabilities consist of the following as of September 30, 2005:

Other Liabilities consist of the following as of September 30, 2004:

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
Other Liabilities—Intragovernmental			
Current			
Employer Contributions & Payroll Taxes	$ 10,760	$ -	$ 10,760
Other Advances	3,522	-	3,522
Advances, HRSTF Cashout	32,724	-	32,724
Deferred HRSTF Cashout	3	-	3
Liability for Deposit Funds	(30)	-	(30)
Resources Payable to Treasury	1	-	1
Subsidy Payable to Treasury	437	-	437
Non-Current			
Unfunded FECA Liability	-	8,704	8,704
Payable to Treasury Judgment Fund*	-	22,000	22,000
Total Intragovernmental	$ 47,417	$ 30,704	$ 78,121
Other Liabilities—Non-Federal			
Current			
Unearned Advances, Non-Federal	$ 56,824	$ -	$ 56,824
Liability for Deposit Funds, Non-Federal	5,601	-	5,601
Non-Current			
Capital Lease Liability	-	41,491	41,491
Total Non-Federal	$ 62,425	$ 41,491	$ 103,916

Note 13. Leases

Capital Leases:

The Capital Leases:

Summary of Assets Under Capital Lease:	FY 2005	FY 2004
Real Property	$ 40,913	$ 40,913
Personal Property	2,761	2,606
Software License	6,437	6,437
Total	$ 50,111	$ 49,956
Accumulated Amortization	$ 23,194	$ 19,275

EPA has three capital leases for land and buildings housing scientific laboratories and/or computer facilities. All of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. The real property leases terminate in FYs 2010, 2013, and 2025. These charges are expended out of the EPM appropriation.

EPA also has capital leases terminating in FY 2007 for seven shuttle buses. These leases are expended out of the EPM appropriation.

EPA has two capital leases expended out of the Working Capital Fund. The capital leases are for an IBM Supercomputer and MicroSoft Office software. These leases terminate in 2006 and 2009, respectively.

During FY 2005, EPA entered into a capital lease for a Storage Area Network. The lease terminates in FY 2007 and payments are expended from the EPM appropriation. The total future minimum capital lease payments are listed below.

Future Payments Due:	Capital Leases
Fiscal Year	
2006	$ 8,888
2007	8,147
2008	7,866
2009	6,295
2010	6,101
After 5 Years	64,912
Total Future Minimum Lease Payments	$ 102,209
Less: Imputed Interest	(63,493)
Net Capital Lease Liability	**$ 38,716**
Liabilities not Covered by Budgetary Resources (See Note 12)	**$ 38,716**

Operating Leases:

The GSA provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties.

EPA has three direct operating leases for land and buildings housing scientific laboratories and/or computer facilities. Most of these leases include a base rental charge and escalator clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. Two of these leases expire in FYs 2017 and 2020. A third lease, originally expired in FY 2001, was extended until FY 2007. These charges are expended from the EPM appropriation. The total minimum future operating lease costs are listed below.

Fiscal Year	Operating Leases, Land & Buildings
2006	$ 87
2007	81
2008	74
2009	74
2010	74
Beyond 2010	624
Total Future Minimum Lease Payments	**$ 1,014**

Note 14. Pension and Other Actuarial Liabilities

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered 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. Annually, EPA is allocated the portion of the

long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor.

The FECA Actuarial Liability at September 30, 2005 and 2004, consists of the following:

	FY 2005	FY 2004
FECA Actuarial Liability	$ 39,380	$ 40,281

The FY 2005 present value of these estimated outflows are calculated using a discount rate of 4.528 percent in the first year, and 5.02 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

Note 15. Cashout Advances

Cashouts are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA +Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used in accordance with the terms of the settlement agreement. Funds placed in special accounts may be used without further appropriation by Congress.

Note 16. Unexpended Appropriations

As of September 30, 2005 and 2004, the Unexpended Appropriations consist of the following:

Unexpended Appropriations:	FY 2005	FY 2004
Unobligated		
Available	$ 1,887,884	$ 1,911,797
Unavailable	40,328	39,591
Undelivered Orders	9,079,377	8,908,748
Total	$ 11,007,589	$ 10,860,136

Note 17. Amounts Held by Treasury

Amounts Held by Treasury for Future Appropriations consist of amounts held in trusteeship by Treasury in the Superfund Trust Fund and the LUST Trust Fund.

Superfund (Unaudited)

Superfund is supported primarily by general revenues, cost recoveries of funds spent to clean up hazardous waste sites, interest income, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude oil and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes and the environmental tax on corporations also expired on December 31, 1995, and has not been renewed by Congress. It is not known if or when such taxes will be reassessed in the future.

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2005 and 2004. The amounts contained in these notes have been provided by Treasury and are audited. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

SUPERFUND FY 2005	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 7,212	$ 7,212
Total Undisbursed Balance	-	7,212	7,212
Interest Receivable	-	4,180	4,180
Investments, Net	2,204,850	88,163	2,293,013
Total Assets	**$ 2,204,850**	**$ 99,555**	**$ 2,304,405**
Liabilities & Equity			
Equity	$ 2,204,850	$ 99,555	$ 2,304,405
Total Liabilities and Equity	**$ 2,204,850**	**$ 99,555**	**$ 2,304,405**
Receipts			
Corporate Environmental	$ -	$ 3,663	$ 3,663
Cost Recoveries	-	62,978	62,978
Fines & Penalties	-	2,428	2,428
Total Revenue	-	69,069	69,069
Appropriations Received	-	1,247,477	1,247,477
Interest Income	-	52,540	52,540
Total Receipts	**$ -**	**$ 1,369,086**	**$ 1,369,086**
Outlays			
Transfers to/from EPA, Net	$ 1,261,913	$ (1,261,913)	$ -
Total Outlays	1,261,913	(1,261,913)	-
Net Income	**$ 1,261,913**	**$ 107,173**	**$ 1,369,086**

In FY 2005, the EPA received an appropriation for Superfund of $1,260.6 million. Treasury's Bureau of Public Debt (BPD), the manager of the Superfund Trust Fund assets, records a liability to EPA for the amount of the appropriation. BPD does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2005 and 2004, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of $2,204.9 million and $2,402.1 million, respectively.

SUPERFUND FY 2004	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 188,182	$ 188,182
Total Undisbursed Balance	-	188,182	188,182
Interest Receivable	-	38	38
Investments, Net	2,402,074	(184,778)	2,217,296
Total Assets	**$ 2,402,074**	**$ 3,442**	**$ 2,405,516**
Liabilities & Equity			
Liability for Allocation to CDC	-	11,061	11,061
Equity	$ 2,402,074	$ (7,619)	$ 2,394,455
Total Liabilities and Equity	**$ 2,402,074**	**$ 3,442**	**$ 2,405,516**
Receipts			
Corporate Environmental	$ -	$ 867	$ 867
Cost Recoveries	-	74,063	74,063
Fines & Penalties	-	2,818	2,818
Total Revenue	-	77,748	77,748
Appropriations Received	-	1,257,536	1,257,536
Interest Income	-	27,380	27,380
Total Receipts	**$ -**	**$ 1,362,664**	**$ 1,362,664**
Outlays			
Transfers to EPA	$ 1,256,790	$ (1,256,790)	$ -
Transfers to CDC	-	(30,763)	(30,763)
Total Outlays	1,256,790	(1,287,553)	(30,763)
Net Income	**$ 1,256,790**	**$ 75,111**	**$ 1,331,901**

During FY 2004, the Superfund Trust Fund revenue from cost recoveries and investment interest was less than anticipated. In addition, in FY 2003 the Internal Revenue Service issued approximately $99.4 million in corporate net tax refunds that were previously deposited in the Trust Fund. Due to these circumstances, the amount appropriated to EPA for Superfund activities exceeded the assets available for appropriation in the Trust Fund by $7.6 million at the end of FY 2004.

LUST (Unaudited)

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FYs 2005 and 2004 there were no fund receipts from cost recoveries. The following represents the LUST Trust Fund as maintained by Treasury. The amounts contained in these notes have been provided by Treasury and are audited. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

LUST FY 2005	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 12,754	$ 12,754
Total Undisbursed Balance	-	12,754	12,754
Interest Receivable	-	28,470	28,470
Investments, Net	86,584	2,398,823	2,485,407
Total Assets	$ 86,584	$ 2,440,047	$ 2,526,631
Liabilities & Equity			
Equity	$ 86,584	$ 2,440,047	$ 2,526,631
Total Liabilities and Equity	$ 86,584	$ 2,440,047	$ 2,526,631
Receipts			
Highway TF Tax	$ -	$ 182,953	$ 182,953
Airport TF Tax	-	11,034	11,034
Inland TF Tax	-	456	456
Refund Gasoline Tax	-	(1,760)	(1,760)
Refund Diesel Tax	-	(2,643)	(2,643)
Refund Aviation Fuel	-	(342)	(342)
Refund Aviation Tax	-	(30)	(30)
Cost Recoveries	-	1,455	1,455
Total Revenue	-	191,123	191,123
Interest Income	-	77,666	77,666
Total Receipts	$ -	$ 268,789	$ 268,789
Outlays			
Transfers to/from EPA, Net	$ 69,440	$ (69,440)	$ -
Total Outlays	69,440	(69,440)	-
Net Income	$ 69,440	$ 199,349	$ 268,789

LUST FY 2004	EPA	Treasury	Combined
Undistributed Balances			
Uninvested Fund Balance	$ -	$ 13,256	$ 13,256
Total Undisbursed Balance	-	13,256	13,256
Interest Receivable	-	27,277	27,277
Investments, Net	89,725	2,200,165	2,289,890
Total Assets	**$ 89,725**	**$ 2,240,698**	**$ 2,330,423**
Liabilities & Equity			
Equity	$ 89,725	$ 2,240,698	$ 2,330,423
Total Liabilities and Equity	**$ 89,725**	**$ 2,240,698**	**$ 2,330,423**
Receipts			
Highway TF Tax	$ -	$ 180,763	$ 180,763
Airport TF Tax	-	11,678	11,678
Inland TF Tax	-	454	454
Refund Gasoline Tax	-	(1,535)	(1,535)
Refund Diesel Tax	-	(2,136)	(2,136)
Refund Aviation Tax	-	(227)	(227)
Total Revenue	-	188,997	188,997
Interest Income	-	66,762	66,762
Total Receipts	**$ -**	**$ 255,759**	**$ 255,759**
Outlays			
Transfers to/from EPA, Net	$ 75,552	$ (75,552)	$ -
Total Outlays	75,552	(75,552)	-
Net Income	**$ 75,552**	**$ 180,207**	**$ 255,759**

Note 18. Commitments and Contingencies

EPA may be a party in various administrative proceedings, legal actions and claims brought by or against it. These include:

- Various personnel actions, suits, or claims brought against the Agency by employees and others.
- Various contract and assistance program claims brought against the Agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

Superfund:

Under CERCLA Section 106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

As of September 30, 2005, there are currently four CERCLA Section 106(b) administrative claims and one contract claim. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately $38.2 million. The Environmental Appeals Board has not yet issued final decisions on any of the administrative claims; therefore, a definite estimate of the amount of the contingent loss cannot be made. The claimants' chance of success overall is characterized as reasonably possible.

All Other Funds:

As of September 30, 2005, there are five claims which may be considered threatened litigation involving all other appropriated funds of the Agency. If the claimants are successful, the total losses of the claims are estimated to range from $5.9 to $15.9 million. The largest claim (estimated range from $2 to $12 million, deemed reasonably possible) is a Fifth Amendment taking claim arising out of a Clean Water Act enforcement action.

Judgment Fund:

In cases that are paid by the U.S. Treasury Judgment Fund, the Agency must recognize the full cost of a claim regardless of who is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions."

As of September 30, 2005, there are no material claims pending in the Treasury Judgment Fund. However, EPA has a $22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

Note 19. Exchange Revenues, Statement of Net Cost

Exchange revenues on the Statement of Net Cost include income from services provided, interest revenue (with the exception of interest earned on trust fund investments), and miscellaneous earned revenue.

Note 20. Environmental Cleanup Costs

As of September 30, 2005, EPA has two sites that require clean up stemming from its activities. Costs amounting to $18 thousand may be paid out of the Treasury Judgment Fund. (The $18 thousand represents the lower end of a range estimate, of which the maximum of the range will total $30 thousand.) Both claimants' chance of success is characterized as reasonably possible. Additionally EPA has one site ($80 thousand) characterized as remote chance of success. EPA also holds title to a site in Edison, New Jersey which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the cleanup costs. However, it is expected that the Department of Defense and General Services Administration will bear all or most of the cost of remediation. In addition, EPA has one site that has an unfunded environmental liability of $30 thousand.

Accrued Cleanup Cost:

The EPA has 13 sites that will require future clean up associated with permanent closure. The estimated costs will be approximately $7 million. Since the cleanup costs associated with permanent closure are not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

The FY 2005 estimate for unfunded cleanup costs decreased by $1.4 million from the FY 2004 estimate. This decrease is due in large part to completion of cleanup at one facility. EPA could also be potentially liable for cleanup costs, at a GSA-leased site; however, the amounts are not known.

Note 21. State Credits

Authorizing statutory language for Superfund and related federal regulations require states to enter into SSCs when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. Credit is limited to state site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-federal funds for remedial action.

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2005, the total remaining state credits have been estimated at $10.1 million. The estimated ending credit balance on September 30, 2004 was $5.4 million.

Note 22. Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under +CERCLA Section 111(a)(2). Under +CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2005, EPA had 15 outstanding preauthorized mixed funding agreements with obligations totaling $31 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note 23. Custodial Revenues and Accounts Receivable

EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectibility by EPA of the fines and penalties is based on the RPs' willingness and ability to pay.

	FY 2005	FY 2004
Fines, Penalties and Other Miscellaneous Receipts	$ 150,816	$ 162,546
Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts		
Accounts Receivable	$ 167,533	$ 103,847
Less: Allowance for Doubtful Accounts	(51,954)	(51,630)
Total	$ 115,579	$ 52,217

Note 24. Statement of Budgetary Resources

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2005 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2006 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2005 has not yet been published. We expect it will be published by March 2006, and it will be available on the OMB website at www.whitehouse.gov/omb/budget/fy2006. The actual amounts published for the year ended September 30, 2004 are included in EPA's FY 2005 financial statement disclosures.

FY 2004	Budgetary Resources	Obligations	Outlays
Statement of Budgetary Resources	$ 13,152,089	$ 10,155,381	$ 9,697,183
Funds Reported by Other Federal Entities	622	(6,727)	-
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	19,899	6,322	6,108
Expired and Immaterial Funds*	(86,572)	8,644	(7)
Superfund payment received from BPD recorded in 68X2050	(1,257,536)	-	-
Rounding Differences**	498	1,380	(284)
Reported for Budget of the U. S. Government	$ 11,829,000	$ 10,165,000	$ 9,703,000

* Expired funds are not included in Budgetary Resources Available for Obligation and Total New Obligations in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.

** Balances are rounded to millions in the Budget Appendix.

Note 25. Recoveries and Resources Not Available, Statement of Budgetary Resources

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts:

	FY 2005	FY 2004
Recoveries of Prior Year Obligations-downward adjustments of prior years' obligations	$ 174,641	$ 194,775
Temporarily Not Available-rescinded authority	(11,141)	(8,254)
Permanently Not Available:		
Payments to Treasury	(2,793)	(2,641)
Rescinded Authority	(64,018)	(49,099)
Canceled Authority	(11,433)	(19,463)
Total Permanently Not Available	$ (78,244)	$ (71,203)

Note 26. Unobligated Balances Available

The availability of unobligated balances consists of the following as of September 30, 2005 and 2004. Unexpired unobligated balances are available to be apportioned by the OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

	FY 2005	FY 2004
Unexpired Unobligated Balance	$ 3,011,341	$ 2,903,849
Expired Unobligated Balance	95,415	92,859
Total	$ 3,106,756	$ 2,996,708

Note 27. Offsetting Receipts

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For FYs 2005 and 2004, the following receipts were generated from these activities:

	FY 2005	FY 2004
Trust Fund Recoveries	$ 66,419	$ 74,063
Special Fund Environmental Service	$ 20,176	13,688
Downward Re-estimates of Subsidies	436	5,554
Trust Fund Appropriation	1,247,477	1,257,536
Total	**$ 1,334,508**	**$ 1,350,841**

Note 28. Statement of Financing

Specific components requiring or generating resources in future periods and resources that fund expenses recognized in prior periods are related to changes in liabilities not covered by budgetary resources. For FYs 2005 and 2004, the following line items are reconciled to the increases or decreases in those liabilities.

	FY 2005	FY 2004
Statement of Financing lines:		
Resources that fund prior period expenses	(1,120)	(13,855)
Components requiring or generating resources in future periods:		
Increases in environmental liabilities	99	1,244
Increase in contingencies	1,525	22,425
Increase in annual leave liabilities	3,889	-
Up/downward re-estimates of subsidy exp.	3	-
Total	**$ 4,396**	**$ 9,814**
Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items		
Unfunded Annual Leave Liability	$ 4,092	$ (7,029)
Unfunded Contingent Liability	325	1,607
Unfunded Judgment Fund Liability	-	22,000
Unfunded Workers Compensation Liability	(220)	664
Actuarial Workers Compensation Liability	(901)	(3,815)
Unfunded Clean-up Costs Liability	1,269	61
Unfunded Environmental Liability	30	-
Allowance for Subsidy	-	(3,097)
Subsidy re-estimates	(199)	(577)
Total	**$ 4,396**	**$ 9,814**

Note 29. Costs Not Assigned to Goals

FY 2005's Statement of Net Cost by Goal has $3 million in gross costs not assigned to goals. This amount is comprised of decreases of $0.2 million in overhead costs, $22 million in operating expenses, $0.7 million in unfunded expenses; offset by increases of $16 million in undistributed payroll costs, $0.3 in depreciation expenses, $0.6 million in other expenses, and $3 million in loss on disposition of assets.

FY 2004's Statement of Net Cost by Goal has $18.2 million in gross costs not assigned to goals. This amount is comprised of decreases of $5.7 million in unfunded cleanup costs, $5.6 million in overhead costs, $27.0 million in other unfunded expenses and $2.9 in subsidy expense; offset by increases of $13.8 million in undistributed federal payroll costs, $3.7 million in depreciation expense, $40.1 million in operating expenses, and $1.8 million change in actuarial liability.

Note 30. Transfers-In and Out, Statement of Changes in Net Position

Appropriation Transfers, In/Out:

For FYs 2005 and 2004, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of nonexpenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Detail of the Appropriation Transfers on the Statement of Changes in Net Position and a reconciliation with the Statement of Budgetary Resources follow:

Fund/Type of Account	FY 2005	FY 2004
GSA Building Fund	-	(1,538)
Appalachian Regional Commission	-	60
S & T	(992)	-
EPM	$ 5,694	$ 1,630
Total Appropriation Transfers	$ 4,702	$ 152
Net Transfers from Invested Funds	1,328,667	1,332,342
Transfers to Other Agencies	4,736	(5,157)
Allocations Rescinded	10,620	7,911
Total of Net Transfers on Statement of Budgetary Resources	**$ 1,348,725**	**$ 1,335,248**

Transfers In/Out Without Reimbursement, Budgetary:

For FYs 2005 and 2004 Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers to or from other federal agencies and between EPA funds. These transfers affect Cumulative Results of

Type of Transfer/Funds	FY 2005	FY 2004
Transfers-out, nonexpenditure to other federal agencies	$ (4,736)	$ (5,157)
Transfers-out, nonexpenditure, from Treasury trust fund to CDC	-	(30,763)
Transfers-in, nonexpenditure, Oil Spill	15,872	16,113
Total Transfers in (out) without Reimbursement, Budgetary	**$ 11,136**	**$ (19,807)**

Operations. Detail of the transfers-in and transfers-out, expenditure and nonexpenditure, follows:

Transfers In/Out without Reimbursement, Other Financing Sources:

For FYs 2005 and 2004 Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of

Type of Transfer/Funds	FY 2005	FY 2004
Transfers of negative subsidy, transfer-in paid and funded in year following transfer-(out)	$ -	$ (436)
Transfers-out of prior year negative subsidy to be paid following year	436	-
Total Transfers in (out) without Reimbursement, Budgetary	$ 436	$ (436)

Changes in Net Position are comprised of negative subsidy to a special receipt fund for the credit reform funds. The amounts reported on the Statement of Changes in Net Position are as follows:

Note 31. Imputed Financing

In accordance with SFFAS No. 5, "Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2005 were $129.7 million. For FY 2004, the estimates were $126 million.

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments on behalf of the agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2005 entries for Judgment Fund payments totaled $8.4 million. For FY 2004, entries for Judgment Fund payments totaled $2.8 million.

	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
FY 2005 Payroll and Benefits Payables			
Accrued Funded Payroll and Benefits	$ 30,881	$ -	$ 30,881
Withholdings Payable	26,977	-	26,977
Employer Contributions Payable—TSP	1,896	-	1,896
Other Post-employment Benefits Payable	36	-	36
Accrued Unfunded Leave, WCF	320	-	320
Accrued Unfunded Annual Leave	-	130,284	130,284
Total—Current	$ 60,110	$ 130,284	$ 190,394
FY 2004 Payroll & Benefits Payable			
Accrued Funded Payroll and Benefits	$ 29,845	$ -	$ 29,845
Withholdings Payable	22,771	-	22,771
Employer Contributions Payable—TSP	1,583	-	1,583
Other Post-employment Benefits Payable	36	-	36
Accrued Funded Leave, WCF	320	-	320
Accrued Unfunded Annual Leave	-	126,191	126,191
Total—Current	$ 54,555	$ 126,191	$ 180,746

Note 32. Payroll and Benefits Payable

Payroll and benefits payable to EPA employees for the years ending September 30, 2005 and 2004, consist of the following:

	FY 2005	FY 2004
Rescissions to General Appropriations	$ 64,017	$ 49,105
Canceled General Authority	11,433	19,463
Total Other Adjustments	**$ 75,450**	**$ 68,568**

Note 33. Other Adjustments, Statement of Changes in Net Position

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellations of funds that expired five years earlier. These amounts affect Unexpended

	FY 2005	FY 2004
Interest on Trust Fund Investments	$ 130,206	$ 94,142
Tax Revenue, Net of Refunds	194,786	189,864
Fines and Penalties Revenue	(26,506)	1,973
Special Receipt Fund Revenue	20,176	13,746
Total Nonexchange Revenue	**$ 318,662**	**$ 299,725**

Appropriations.

Note 34. Nonexchange Revenue, Statement of Changes in Net Position

The Nonexchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for FYs 2005 and 2004 consists of the following items:

Note 35. Other, Statement of Financing

The Other balance of $1.9 million in the Statement of Financing represents a portion of the 1993 Cost Recovery received from the Uniroyal bankruptcy judgment that was transferred from the Treasury Managed Receipt Account 20X8145.4 to the Superfund Trust Account 68-20X8145 in FY 2005. The transfer was necessary in order to execute an expenditure that was ordered from a February 2005 consent decree.

Environmental Protection Agency

Required Supplemental Information

As of September 30, 2005

(Dollars in Thousands)

(Unaudited)

1. Deferred Maintenance

The EPA classifies tangible property, plant, and equipment as follows: (1) EPA-Held Equipment, (2) Contractor-Held Equipment, (3) Land and Buildings, and, (4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

2. Intragovernmental Assets

Intragovernmental amounts represent transactions between all federal departments and agencies and are reported by trading partner (entities that EPA did business with during FY 2005).

Trading Partner Code	Agency	Investments	Accounts Receivable	Other Assets
4	Government Printing Office	-	-	957
11	Executive Office of the President	-	752	-
12	Department of Agriculture	-	194	-
13	Department of Commerce	-	945	134
14	Department of Interior	-	13,707	-
15	Department of Justice	-	392	-
16	Department of Labor	-	5	-
17	Department of the Navy	-	135	-
18	U. S. Postal Service	-	169	406
19	Department of State	-	(326)	-
20	Department of the Treasury	4,811,065	1,828	-
21	Department of the Army	-	9,950	-
29	Federal Trade Commission	-	5	-
31	Nuclear Regulatory Commission	-	375	-
36	Department of Veteran Affairs	-	11	-
45	Equal Employment Opportunity Commission	-	(101)	-
47	General Services Administration	-	301	-
49	National Science Foundation	-	36	-
57	Department of the Air Force	-	222	-
61	Consumer Product Safety Commission	-	8	-
64	Tennessee Valley Authority	-	(5)	-
69	Department of Transportation	-	3,704	-
70	Department of Homeland Security	-	23,670	-
71	Overseas Private Investment Corporation	-	(13)	-
72	Agency for International Development	-	(581)	-
75	Department of Health and Human Services	-	8,256	-
80	National Aeronautics and Space Administration	-	175	-
86	Department of Housing and Urban Development	-	67	-
89	Department of Energy	-	3,026	-
91	Department of Education	-	144	-
95	Independent Agencies	-	726	-
96	US Army Corps of Engineers	-	(7,687)	-
97	US Department of Defense	-	3,581	-
99	Treasury General Fund	-	210	-
00	Unassigned	-	2,179	838
	Total	$ 4,811,065	66,060	2,335

3. Intragovernmental Liabilities

Trading Partner Code	Agency	Accounts Payable	Accrued Liabilities	Other Liabilities
3	Library of Congress	-	107	98
4	Government Printing Office	-	1,040	1,957
10	The Judiciary	-	-	(18)
11	Executive Office of the President	-	41	16
12	Department of Agriculture	-	785	1,851
13	Department of Commerce	888	4,704	4,468
14	Department of Interior	901	5,612	4,894
15	Department of Justice	617	5,858	9,865
16	Department of Labor	2,258	1,220	8,506
17	Department of the Navy	-	836	2,641
18	United States Postal Service	-	164	97
19	Department of State	-	22	-
20	Department of the Treasury	-	155	36,425
21	Department of the Army	-	-	2,992
24	Office of Personnel Management	-	625	10,170
31	US Nuclear Regulatory Commission	-	13	17
33	Smithsonian Institution	-	28	125
36	Department of Veterans Affairs	-	506	147
45	EEOC	-	22	-
47	General Services Administration	-	42,299	28,323
49	National Science Foundation	-	539	50
50	Securities and Exchange	-	-	(11,377)
57	Department of the Air Force	-	-	9,936
59	Nat'l Foundation on Arts and Humanities	-	33	-
63	Labor Relations Board	-	-	3
64	Tennessee Valley Authority	-	54	375
69	Department of Transportation	-	4,077	11,441
70	Department of Homeland Security	15,178	2,303	(44,126)
72	Agency for International Development	-	-	183
73	Small Business Administration	-	121	100
75	Department of Health and Human Services	16	8,773	10,684
80	National Aeronautics and Space Administration	-	336	153
86	Department of Housing and Urban Development	-	3	615
89	Department of Energy	-	5,149	2,530
93	Federal Mediation Service	-	9	-
95	Independent Agencies	-	6	16,632
96	US Army Corps of Engineers	782	11,531	(177)
97	Office of the Secretary of Defense	-	2,323	(734)
99	Treasury General Fund	-	-	3,318
00	Unassigned	12	(110)	(5,650)
	Total	**$ 20,652**	**99,184**	**106,530**

For remaining intragovernmental liabilities $21,744 thousand in Debt is assigned to the Department of the Treasury (trading partner Code 20), and $142,347 thousand in Custodial Liability is assigned to the Treasury General Fund (trading partner Code 99).

EPA has confirmed the year-end intragovernmental fiduciary assets, liabilities, revenue, and expenses with the BPD, DOL, and OPM. EPA has also contacted several other federal agencies to confirm nonfiduciary intragovernmental balances for year-end as required.

4.
Intragovernmental Revenues and Costs

EPA's intragovernmental earned revenues are not reported by trading partners because they are below OMB's threshold of $500 million.

Intragovernmental Earned Revenue	$ 105,653
Associated Costs to generate above Revenue (Budget Functional Classification 304)	$ 105,653

5.
Environmental Protection Agency
Required Supplemental Information
Supplemental Statement of Budgetary Resources (Unaudited)
As of September 30, 2005
(Dollars in Thousands)

	STAG	EPM	S&T	FIFRA	LUST	OTHER	TOTAL
BUDGETARY RESOURCES							
Budgetary Authority:							
Appropriations Received	$ 3,604,182	$ 2,313,409	$ 750,350	$ -	$ -	$ 1,364,679	$ 8,032,620
Borrowing Authority	-	-	-	-	-	436	436
Net Transfers	-	5,694	(992)	-	70,000	1,274,023	1,348,725
Unobligated Balances:							
Beginning of Period	1,452,575	331,925	285,394	2,533	6,287	917,994	2,996,708
Spending Authority—Offsetting Collections							
Earned and Collected	$ 7,801	$ 63,476	$ 8,758	$ 23,857	$ 17	$ 453,783	$ 557,692
Receivable from Federal Sources	-	5,651	(155)	-	-	(185)	5,311
Change in Unfilled Customer Orders							
Advance Received	-	2,107	(334)	4,159	-	31,683	37,615
Without Advance from Federal Sources	-	132,679	(2,300)	-	-	(12,235)	118,144
Transfers from Trust Funds Collected	-	-	55,942	-	-	13,630	69,572
Transfers from Trust Funds, Anticipated	-	-	(20,134)	-	-	(756)	(20,890)
Total Spending Authority from Collections	$ 7,801	$ 203,913	$ 41,777	$ 28,016	$ 17	$ 485,920	$ 767,444
Recoveries of Prior Year Obligations	42,734	14,880	4,994	101	376	111,556	174,641
Temporarily Not Available Pursuant to Public Law	-	-	(289)	-	(560)	(10,292)	(11,141)
Permanently Not Available	(28,833)	(24,892)	(10,636)	-	-	(13,883)	(78,244)
Total Budgetary Resources	$ 5,078,459	$ 2,844,929	$ 1,070,598	$ 30,650	$ 76,120	$ 4,130,433	$ 13,231,189

5. *(continued)*
Environmental Protection Agency
Required Supplemental Information

Supplemental Statement of Budgetary Resources (Unaudited)

As of September 30, 2005
(Dollars in Thousands)

	STAG	EPM	S&T	FIFRA	LUST	OTHER	TOTAL
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred:							
Direct	$ 3,608,484	$ 2,315,355	$ 825,674	$ -	$ 70,660	$ 2,753,523	$ 9,573,696
Reimbursable	26	157,961	6,726	25,663	-	360,361	550,737
Total Obligations Incurred	$ 3,608,510	$ 2,473,316	$ 832,400	$ 25,663	$ 70,660	$ 3,113,884	$ 10,124,433
Unobligated Balances:							
Apportioned	1,469,949	297,045	220,896	4,987	5,460	1,020,352	3,018,689
Unobligated Balances Not Available	-	74,568	17,302	-	-	(3,803)	88,067
Total Status of Budgetary Resources	$ 5,078,459	$ 2,844,929	$ 1,070,598	$ 30,650	$ 76,120	$ 4,130,433	$ 13,231,189
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS							
Obligations Incurred, Net	$ 3,557,975	$ 2,254,523	$ 785,629	$ (2,454)	$ 70,267	$ 2,516,410	$ 9,182,350
Obligated Balances, Net — Beginning of Pd	8,272,160	690,182	535,704	2,348	85,008	1,622,374	11,207,776
Accounts Receivable	-	17,670	48,106	-	-	(804)	64,972
Unfilled Customer Orders from Federal Sources	-	257,791	6,720	-	-	157,501	422,012
Undelivered Orders, Unpaid	(7,855,707)	(746,822)	(530,333)	(1,413)	(76,486)	(1,425,248)	(10,636,009)
Accounts Payable	(395,439)	(198,864)	(97,460)	(1,536)	(8,042)	(285,749)	(987,090)
Total Outlays	$ 3,578,989	$ 2,274,480	$ 748,366	$ (3,055)	$ 70,747	$ 2,584,484	$ 9,254,011
Disbursements	$ 3,586,790	$ 2,340,064	$ 812,732	$ 24,961	$ 70,763	$ 3,083,579	$ 9,918,889
Collections	(7,801)	(65,584)	(64,366)	(28,016)	(16)	(499,095)	(664,878)
Less: Offsetting Receipts	-	-	-	-	-	(1,334,508)	(1,334,508)
Net Outlays	$ 3,578,989	$ 2,274,480	$ 748,366	$ (3,055)	$ 70,747	$ 1,249,976	$ 7,919,503

6.
Environmental Protection Agency
Required Supplemental Information

Working Capital Fund Condensed Statements

For the Year Ending September 30, 2005 and 2004
(Dollars in Thousands)

Balance Sheet	(Unaudited) FY 2005	(Audited) FY 2004
ASSETS		
Intragovernmental		
Fund Balance With Treasury	$ 69,401	$ 53,559
Accounts Receivable, Net	55,100	27,874
Other	509	555
Total Intragovernmental	$ 125,010	$ 81,988
Accounts Receivable, Net	4	-
Property, Plant and Equipment, Net	14,159	20,426
Other	205	53
Total Assets	**$ 139,378**	**$ 102,467**
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities	$ 28,071	$ 29,788
Other	67,191	30,413
Total Intragovernmental	$ 95,262	$ 60,201
Accounts Payable & Accrued Liabilities	14,226	11,108
Payroll and Benefits Payable	1,556	1,451
Other	4,986	6,726
Total Liabilities	**$ 116,030**	**$ 79,486**
NET POSITION		
Cumulative Results of Operations	$ 23,348	$ 22,981
Total Net Position	**$ 139,378**	**$ 102,467**

6.
Environmental Protection Agency
Required Supplemental Information

Working Capital Fund Condensed Statements

For the Periods Ending September 30, 2005 and 2004
(Dollars in Thousands)

Statement of Cost

	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over/(Under) Exchange Revenue
FY 2005 (Unaudited) Product or Business Line			
Data Processing	$ 182,720	$ 183,105	$ (385)
Postage	2,171	2,154	17
(Profit)/Loss from Operations	$ 184,891	$ 185,259	$ (368)
Imputed Costs			779
Net (Profit)/Loss			$ 411
FY 2004 (Audited) Product or Business Line			
Data Processing	$ 150,829	$ 141,445	$ 9,384
Postage	2,586	2,581	5
(Profit)/Loss from Operations	$ 153,415	$ 144,026	$ 9,389
Imputed Costs			804
Net (Profit)/Loss			$ 10,193

Environmental Protection Agency

Required Supplementary Stewardship Information (Unaudited)

For the Year Ended September 30, 2005

(Dollars in Thousands)

Investment in the Nation's Research and Development:

Public and private sector institutions have long been significant contributors to our nation's environment and human health research agenda. EPA's Office of Research and Development, however, is unique among scientific institutions in this country in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across the risk assessment and risk management paradigm. Research enables us to identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources. It gives us the understanding and technologies we need to detect, abate, and avoid environmental problems. Research also provides the crucial underpinning(s) for EPA decisions and challenges us to apply the best available science and technical analysis to our environmental problems and to practice more integrated, efficient and effective approaches to reducing environmental risks.

Among the Agency's highest priorities are research programs that address the environmental effects on children's health; the development of alternative techniques for prioritizing chemicals for further testing through computational toxicology; the provision of near-term, appropriate, affordable, reliable, tested, and effective technologies and guidance for potential threats to homeland security; the potential risks of unregulated contaminants in drinking water; the health effects of air pollutants such as particulate matter; and the protection of the nation's ecosystems. For FY 2005, the full cost of the Agency's Research and Development activities totaled over $741 million. Below is a breakout of the expenses (dollars in thousands):

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Programmatic Expenses	555,794	559,218	593,295	581,323	628,467
Allocated Expenses	90,039	123,307	106,971	91,675	112,558

See Section II of the PAR for more detailed information on the results of the Agency's investment in research and development. Each of EPA's strategic goals has a Science and Research Objective.

Investment in the Nation's Infrastructure:

The Agency makes significant investments in the nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program which is being phased out and two State Revolving Fund (SRF) programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of Federal funds, providing more than $60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

State Revolving Funds: EPA provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the Federal Government.

The Agency also is appropriated funds to finance the construction of infrastructure outside the Revolving Funds. These are reported below as Other Infrastructure Grants.

The Agency's expenses related to investments in the nation's Water Infrastructure are outlined below (dollars in thousands):

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Construction Grants	63,344	149,841	15,845	48,948	21,148
Clean Water SRF	1,548,270	1,389,048	1,295,394	1,407,345	1,127,883
Safe Drinking Water SRF	728,921	708,528	842,936	802,629	715,060
Other Infrastructure Grants	282,914	367,259	582,091	341,767	385,226
Allocated Expenses	424,999	576,536	493,349	410,129	402,853

See the Goal 2—Clean and Safe Water portion in Section II of the PAR for more detailed information on the results of the Agency's investment in infrastructure.

Stewardship Land

The Agency acquires title to certain land and land rights under the authorities provided in Section 104 (J) CERCLA related to remedial clean-up sites. The land rights are in the form of easements to allow access to clean-up sites or to restrict usage of remediated sites. In some instances, the Agency takes title to the land during remediation and returns it to private ownership upon the completion of clean-up. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred.

As of September 30, 2005, the Agency possesses the following land and land rights:

Superfund Sites with Easements

Beginning Balance	32
Additions	1
Withdrawals	-
Ending Balance	**33**

Superfund Sites with Land Acquired

Beginning Balance	25
Additions	4
Withdrawals	-
Ending Balance	**29**

Human Capital

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the nation's environmental, not economic, capacity.

The Agency's expenses related to investments in the Human Capital are outlined below (dollars in thousands):

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Training and Awareness Grants	48,697	49,444	47,827	48,416	46,750
Fellowships	11,451	8,728	6,572	7,553	10,195
Allocated Expenses	9,744	12,827	9,808	8,826	10,199

1.
Environmental Protection Agency
Supplemental Information (Unaudited)
Balance Sheet For Superfund Trust Fund
For the Periods Ending September 30, 2005 and 2004
(Dollars in Thousands)

	FY 2005	FY 2004
ASSETS		
Fund Balance With Treasury (Note S1)	$ 213,797	$ 199,406
Investments	2,297,193	2,217,334
Accounts Receivable, Net	28,160	27,212
Other	9,859	6,781
Total Intragovernmental	$ 2,549,009	$ 2,450,733
Cash and Other Monetary Assets		
Accounts Receivable, Net	260,736	369,148
Property, Plant & Equipment, Net	49,530	47,821
Other	1,533	699
Total Assets	$ 2,860,808	$ 2,868,401
LIABILITIES		
Intragovernmental		
Accounts Payable & Accrued Liabilities	$ 105,386	$ 140,781
Custodial Liability	26,763	-
Other	46,809	37,752
Total Intragovernmental	$ 178,958	$ 178,533
Accounts Payable & Accrued Liabilities	126,898	145,369
Pensions & Other Actuarial Liabilities	7,037	7,263
Cashout Advances, Superfund (Note S2)	270,811	259,361
Payroll & Benefits Payable	35,597	31,695
Other	43,392	46,211
Total Liabilities	$ 662,693	$ 668,432
NET POSITION		
Cumulative Results of Operations	2,200,115	2,199,969
Total Net Position	2,200,115	2,199,969
Total Liabilities and Net Position	$ 2,862,808	$ 2,868,401

Environmental Protection Agency
Supplemental Information (Unaudited)

Statement of Net Cost for Superfund Trust Fund

For the Periods Ending September 30, 2005 and 2004
(Dollars in Thousands)

	FY 2005	FY 2004
COSTS		
Intragovernmental	$ 330,839	$ 368,045
With the Public	1,250,009	1,262,540
Expenses from Other Appropriations (Note S5)	90,167	82,776
Total Costs	$ 1,671,015	$ 1,713,361
Less:		
Earned Revenues, Federal	$ 24,827	$ 27,450
Earned Revenues, Non-Federal	312,052	233,171
Total Earned Revenues	$ 336,879	$ 260,621
Net Cost of Operations	$ 1,334,136	$ 1,452,740

Environmental Protection Agency
Supplemental Information (Unaudited)

Statement of Changes in Net Position for Superfund Trust Fund

For the Periods Ending September 30, 2005 and 2004
(Dollars in Thousands)

	Cumulative Results of Operations FY 2005	Cumulative Results of Operations FY 2004
Net Position—Beginning of Period	$ 2,199,969	$ 2,350,037
Beginning Balances, as Adjusted	$ 2,199,969	$ 2,350,037
Budgetary Financing Sources:		
Nonexchange Revenue	$ 29,697	$ 30,239
Transfers In/Out	(53,418)	(87,586)
Trust Fund Appropriations	1,247,477	1,257,537
Income from Other Appropriations (Note S5)	90,167	82,776
Total Budgetary Financing Sources	$ 1,313,923	$ 1,282,966
Other Financing Sources:		
Transfers In/Out	$ -	$ (1)
Imputed Financing Sources	20,359	19,707
Total Other Financing Sources	$ 20,359	$ 19,706
Net Cost of Operations	(1,334,136)	(1,452,740)
Net Change	146	(150,068)
Net Position—End of Period	**$ 2,200,115**	**$ 2,199,969**

Environmental Protection Agency
Supplemental Information (Unaudited)

Statement of Budgetary Resources for Superfund Trust Fund

For the Periods Ending September 30, 2005 and 2004
(Dollars in Thousands)

	FY 2005	FY 2004
BUDGETARY RESOURCES		
Budgetary Authority:		
Net Transfers	$ 1,274,023	$ 1,259,096
Unobligated Balances:		
Beginning of Period	823,713	766,805
Spending Authority from Offsetting Collections:		
Earned and Collected	$ 250,487	$ 229,658
Receivable from Federal Sources	648	(7,853)
Change in Unfilled Customer Orders:		
Advance Received	25,798	(44,218)
Without Advance from Federal Sources	5,789	5,978
Total Spending Authority from Collections	$ 282,722	$ 183,565
Recoveries of Prior Year Obligations	104,852	98,848
Temporarily Not Available Pursuant to Public Law	(10,060)	(7,464)
Total Budgetary Resources (Note S6)	$ 2,475,250	$ 2,300,850
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 1,369,647	$ 1,328,864
Reimbursable	175,211	148,273
Total Obligations Incurred	$ 1,544,858	$ 1,477,137
Unobligated Balances:		
Apportioned	930,373	823,694
Unobligated Balances Not Available	19	19
Total Status of Budgetary Resources	$ 2,475,250	$ 2,300,850
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligations Incurred, Net	$ 1,157,284	$ 1,194,724
Obligated Balances, Net—Beginning of Period	1,569,360	1,838,503
Accounts Receivable	(5,240)	(5,886)
Unfilled Customer Orders from Federal Sources	83,474	77,685
Undelivered Orders, Unpaid	(1,320,488)	(1,374,232)
Accounts Payable	(225,698)	(266,926)
Total Outlays	$ 1,258,692	$ 1,463,868
Disbursements	$ 1,534,977	$ 1,649,308
Collections	(276,285)	(185,440)
Less: Offsetting Receipts	(64,964)	(74,063)
Net Outlays (Note S6)	$ 1,193,728	$ 1,389,805

Environmental Protection Agency
Supplemental Information (Unaudited)

Statement of Financing for Superfund Trust Fund

For the Periods Ending September 30, 2005 and 2004
(Dollars in Thousands)

	FY 2005	FY 2004
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$ 1,544,858	$ 1,477,137
Less: Spending Authority from Offsetting		
Collections and Recoveries	(387,574)	(282,413)
Obligations, Net of Offsetting Collections	$ 1,157,284	$ 1,194,724
Less: Offsetting Receipts	(64,964)	(74,063)
Net Obligations	$ 1,092,320	$ 1,120,661
Other Resources		
Transfers In/Out without Reimbursement,		
Property	$ -	$ (1)
Imputed Financing Sources	20,359	19,707
Income from Other Appropriations (Note S5)	90,167	82,776
Net Other Resources Used to Finance Activities	$ 110,526	$ 102,482
Total Resources Used To Finance Activities	$ 1,202,846	$ 1,223,143
RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS		
Change in Budgetary Resources Obligated	$ 82,049	$ 199,979
Resources that Fund Prior Period Expenses	(278)	(2,243)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:	64,964	74,063
Offsetting Receipts Not Affecting Net Cost	(17,588)	(16,104)
Resources that Finance Asset Acquisition that Do Not Affect Net Cost	(48,682)	(51,666)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 80,465	$ 204,029
Total Resources Used to Finance the Net Cost of Operations	$ 1,283,311	$ 1,427,172

Environmental Protection Agency
Supplemental Information (Unaudited)

Statement of Financing for Superfund Trust Fund

For the Periods Ending September 30, 2005 and 2004
(Dollars in Thousands)

	FY 2005	FY 2004
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	$ 990	$ -
Increase in Public Exchange Revenue Receivable	(87,714)	(41,446)
Other (Note S8)	1,969	-
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	$ (84,755)	$ (41,446)
Components Not Requiring/Generating Resources:		
Depreciation and Amortization	7,849	7,939
Expenses Not Requiring Budgetary Resources	127,730	59,075
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	$ 135,579	$ 67,014
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ 50,824	$ 25,568
Net Cost of Operations	**$ 1,334,136**	**$ 1,452,740**

Environmental Protection Agency
Supplemental Information (Unaudited)

Related Notes to Superfund Trust Financial Statements

Note S1. Fund Balance with Treasury for Superfund Trust

Fund Balances with Treasury as of September 30, 2005 and 2004 consist of the following:

	FY 2005	FY 2005
Fund Balance	$ 213,797	$ 199,406

Fund balances are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below).

Status of Fund Balances:	FY 2005	FY 2004
Unobligated Amounts in Fund Balances:		
Available for Obligation	$ 930,373	$ 823,694
Unavailable for Obligations	19	19
Net Receivables from Invested Balances	(2,191,759)	(2,381,849)
Balances in Treasury Trust Fund	7,212	188,182
Obligated Balance not yet Disbursed	1,467,952	1,569,360
Totals	$ 213,797	$ 199,406

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations.

Note S2. Cashout Advances, Superfund

Cashouts are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA +Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used in accordance with the terms of the settlement agreement. Funds placed in special accounts may be used without further appropriation by Congress.

Note S3. Superfund State Credits

Authorizing statutory language for Superfund and related federal regulations require states to enter into SSCs when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. Credit is limited to state site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-federal funds for remedial action.

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2005, the total remaining state credits have been estimated at $10.1 million. The estimated ending credit balance on September 30, 2004 was $5.4 million.

Note S4. Superfund Preauthorized Mixed Funding Agreements

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse the PRPs a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under +CERCLA Section 111(a)(2). Under +CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2005, EPA had 15 outstanding preauthorized mixed funding agreements with obligations totaling $31 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will

not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

Note S5. Income and Expenses from other Appropriations; General Support Services Charged to Superfund

The Statement of Net Cost reports costs that represent the full costs of the program outputs. These costs consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During FYs 2005 and 2004, the EPM appropriation funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. This appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities.

This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the consolidated totals of the Statement of Net Cost or the Statement of Changes in Net Position.

	FY 2005			FY 2004		
	Income From Other Appropriations	Expenses From Other Appropriations	Net Effect	Income From Other Appropriations	Expenses From Other Appropriations	Net Effect
Superfund	$ 90,167	(90,167)	-	$ 82,776	(82,776)	-
All Others	(90,167)	90,167	-	(82,776)	82,776	-
Total	$ -	-	-	$ -	-	-

In addition, the related general support services costs allocated to the Superfund Trust Fund from the S&T and EPM funds are $6.9 million for FY 2005 and $14.1 million for FY 2004.

Note S6. Statement of Budgetary Resources, Superfund

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2005 Statement of Budgetary Resources, will be reconciled to the amounts included in the FY 2006 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2005 has not yet been published. We expect it will be published by March 2006, and it will be available on the OMB website at www.whitehouse.gov/omb/budget/fy2006. The actual amounts published for the year ended September 30, 2004 are included in EPA's FY 2005 financial statement disclosures.

FY 2004	Budgetary Resources	Obligations	Outlays
Statement of Budgetary Resources	$ 2,300,850	$ 1,477,137	$ 1,463,868
Funds Reported by Other Federal Entities	18,714	5,137	6,108
Expired Funds*	5,885	5,904	-
Rounding Differences**	(449)	(178)	24
Reported for Budget of the U.S. Government	$ 2,325,000	$ 1,488,000	$ 1,470,000

* Expired funds are not included in Budgetary Resources Available for Obligation and Total New Obligations in the Budget Appendix (lines 23.90 and 10.00).

** Balances are rounded to millions in the Budget Appendix.

Note S7. Superfund Eliminations

The Superfund Trust Fund has intra-agency activities with other EPA funds which are eliminated on the consolidated Balance Sheet and the Statement of Net Cost. These are listed below:

Status of Fund Balances:	FY 2005	FY 2004
Advances	$ 9,256	$ 6,749
Expenditure Transfers Payable	$ 48,903	$ 69,793
Accrued Liabilities	$ 6,398	$ 3,916
Expenses	$ 29,674	$ 22,663
Transfers	$ 49,097	$ 52,008

Note S8. Other, Statement of Financing

The Other balance of $1.9 million in the Statement of Financing represents a portion of the 1993 Cost Recovery received from the Uniroyal bankruptcy judgment that was transferred from the Treasury Managed Receipt Account 20X8145.4 to the Superfund Trust Account 68-20X8145 in FY 2005. The transfer was necessary in order to execute an expenditure that was ordered from a February 2005 consent decree.

2.
Environmental Protection Agency
Supplemental Information (Unaudited)

Financial Management Plans and Reports (OMB Circular A-11, Section 52.4a)

For the Year Ended September 30, 2005

The information contained in this section addresses the U.S. Environmental Protection Agency's (EPA's) compliance with the Office of Management and Budget (OMB) Circular A-11, Section 52.4(a). These issues, including financial management goals and strategies, financial management performance, and financial management systems framework, are discussed below.

Financial Management Goals and Strategies

EPA has assembled a talented cadre of financial managers whose strategic vision and tactical planning have expanded the financial management frontier within EPA. Based on their vision, the Agency embarked on an ambitious program of improvements in financial management processes, information quality and accessibility, and the financial management system. In addition, EPA successfully planned and implemented financial management initiatives in response to new legislation and new or revised requirements from central guidance agencies. With such a future-and results-oriented culture already established, it was easy for EPA to embrace the principle of continuous improvement embodied in the President's Management Agenda (PMA).

EPA constantly reassesses its financial management goals and its progress in achieving them. Externally, our success is measured by:

- our continued ability to meet the evolving PMA standards for a "Green" status score for the initiative on Improved Financial Performance,
- our continued progress toward a "Green" status score for the initiative on Budget and Performance Integration, and
- our upgrade from a "Red" to "Yellow" status score for the initiative on Eliminating Improper Payments.

In addition, EPA has met major financial management milestones that support the maintenance of a "Green" status score for the initiative on E-Government and a "Green" progress score for the initiatives on Human Capital and Competitive Sourcing. Although EPA is proud of its record of success, it recognizes that it must continue to "push the envelope" in order to help the Agency achieve its environmental objectives in a cost effective manner.

In the near term, the enhanced internal control requirements in OMB Circular A-123 will strengthen our existing management integrity efforts and provide a platform to broaden our scope and expand our focus on programmatic efficiency and effectiveness. This activity will complement efforts planned or underway to achieve economies of scale and develop and enhance financial information tools to meet the decision making needs of EPA managers.

EPA's financial management strategy focuses on running environmental programs in a fiscally responsible manner, so that government's resources are used wisely and effectively to protect human health and the environment. Implementation of the strategy requires effective stewardship of the Agency's resources by:

- carefully overseeing, capturing, and recording the full costs of transactions,
- maintaining strong internal controls and proper accounting practices,
- maintaining clean audit opinions,
- producing timely, accurate financial information,
- making timely and appropriate payments, and
- ensuring that resources are appropriately expended and linked to results.

Year after year, EPA has set ambitious milestones and sought innovative and efficient techniques to continually improve and achieve strong performance. The Agency's vision for improving its financial management performance consists of continuing improvement efforts in the areas described below.

- **Streamline Financial Management Processes**—EPA is implementing more responsive financial management processes to utilize the Agency's resources more effectively and meet the needs of financial managers. A consolidation of financial functions is currently underway, and a modern financial management system framework is in the development phase.
- **Develop Useful Information for Decision Making**—EPA managers make decisions every day that directly and indirectly affect the Agency's ability to protect human health and the environment. EPA's challenge under the PMA is to ensure that decision makers have access to the financial information necessary for informed decisions. To accomplish this, EPA established a strategic approach to enhance the decision making in grants management; redefined the Agency's accounting output to better capture cost information; worked to integrate budget and performance data; and provided a Web-based reporting tool (ORBIT) to more managers.
- **Improve Financial Operations and Increase Accountability**—Continuous improvement is central to all financial management activities in EPA: internal control programs, financial management operations and practices, and customer service. In FY 2006, EPA will add the Integrated Financial Management System (IFMS) as a new business line in the Working Capital Fund on a pilot basis, and will establish base-line performance measures and build on internal controls to enhance business operations. This change will allow regional and Headquarters offices to receive better information on the financial management costs associated with their programs.
- **Provide Support to Other PMA Initiatives**—As an Agency that strives for continuous improvement, EPA supports financial efficiencies for other PMA initiatives such as competition, technical innovation, and a knowledgeable and competent workforce. To foster competition and to encourage continual evaluation of the Agency's problem solving capabilities, competitive sourcing initiatives are incorporated into financial management proposals to foster the highest quality of cost-effective services. E-gov initiatives, like competitive sourcing initiatives, look beyond EPA's current capabilities and consider how to meet future needs. EPA's initiatives are reliant upon an effective workforce that proactively examines environmental challenges and offers versatile solutions.
- **Develop the Competencies and Leadership to Meet Future Financial Management Requirements**—The ability to establish and achieve ambitious targets and goals is crucial to continuous improvement, and the key to achieving the Agency's financial management goals is our employees. To ensure that EPA continues to have the skills, the vision, and the leadership it needs to meet current and future financial management requirements, the Office of the Chief Financial Officer (OCFO) has developed and implemented a human capital strategy. During FY 2005, OCFO focused on hiring strategies that take into account both current and long-term skill needs. Training and development of existing staff in core competency and leadership areas continues to be a high priority.

EPA has laid the foundation to develop many of the tools that will support the Agency in the coming years. For instance, a high-level vision has been established to replace legacy system that integrate how the Agency captures and conveys financial and performance information. In addition, EPA will ensure that the Agency's internal controls are effective in achieving the Agency's strategic goals. Building upon this foundation, EPA expects to continue demonstrating that its financial management operations, programs, and staff are flexible and adaptable enough to meet current and future financial management needs.

Financial Management Performance

This section summarizes EPA's progress in improving financial management performance and describes EPA's approach for ensuring continuing favorable audit opinions and plans for developing and maintaining relevant and timely financial reporting practices.

Streamline Financial Management Processes

Consolidation of Financial Functions. To take the Agency to the next level of performance, EPA is re-aligning financial functions from regional offices into Finance Centers of Excellence to focus on major accounting functions and customer service responsibilities. By consolidating these functions from 14 locations to the four finance centers, EPA will improve efficiency by streamlining operations; increasing uniformity and consistency in the interpretation and application of policies, rules, and regulations; eliminating communication problems; and saving tax-payers dollars. During FY 2005, three regions transferred some or all of their finance operations for grants, travel, and accounts receivable to the Centers of Excellence. In addition, major union issues were resolved. The remaining accounting functions will be transferred to the four Centers of Excellence by the end of CY 2006.

Financial System Modernization. EPA plans to implement a state of the art financial system in 2008 to replace IFMS, the core accounting system. The new system environment will support the Financial Management Line of Business by providing that the system be operated by a Center of Excellence outside EPA. During FY 2005, a Financial System Modernization Team was staffed, focus groups were created to develop requirements for the new system, and an acquisition strategy and Concept of Operations (CONOPS) were developed. The CONOPS and other documents are available at the EPA Internet at http://www.epa.gov/ocfopage/.

Develop Useful Information for Decision-Making

Budget and Performance Integration. Budget and performance integration (BPI) is a key component of EPA's quest for better performance, increased accountability, better informed decision making, and more transparent, comprehensive reporting of environmental results to the public. This initiative aligns the management of EPA's financial and human resources with the effective delivery of environmental results.

A comprehensive Agency-wide performance measurement improvement strategy was developed to promote improved measures through consideration of environmental indicators, assessment of program management requirements, and establishment of measurement implementation plans. This strategy has supported the efforts of the program offices to establish more outcome-oriented annual performance goals and measures as well as efficiency measures. EPA is in the process of revising its Strategic Plan under the Government Performance and Results Act (GPRA) covering the timeframe from 2006-2011. The Strategic Plan will be the basis for EPA's FY 2008 President's Request and for the FY 2007 execution and performance reporting under GPRA. Our goals for this revision include strengthening the linkage between and integration of budget and cost information, enhancing the availability and use of this information in setting priorities and making resource allocation decisions, and in promoting accountability for results within the Agency.

The Performance Accountability Report (PAR), which consolidates Agency-wide programmatic performance information, is one of the primary methods for sharing EPA's progress on environmental protection with citizens and EPA employees, and therefore must describe a clear, comprehensive picture of EPA's major achievements. EPA is redesigning the PAR as part of a larger effort to merge information systems housing performance data with those containing budget data. This effort will enhance public access to highly technical information, make that information more meaningful to EPA employees, and increase the public's understanding of the costs and expected results from EPA's programs.

The most recent PMA Scorecard (September 30, 2005) rated EPA "Yellow" for status and "Green" for progress made in reaching BPI milestones and goals during the Fourth Quarter. EPA continues its efforts to improve performance measurement

and integrate budget and performance information to manage and deliver the Agency's environmental protection results. The Program Assessment Rating Tool (PART) administered by the Office of Management and Budget (OMB), is a core element of the BPI initiative and a systematic method of assessing the performance of program activities across the federal government. As a diagnostic tool, the PART is used to evaluate program performance and identify areas for program improvement. Programs subject to a PART assessment are required to have OMB-approved annual, long-term efficiency measures. The PART assessments process has heightened the Agency's attention, adoption, and utilization of new performance and efficiency measures to strengthen resource and program management and deliver environmental results.

Since many of these efficiency measures are new—adopted as recently as the FY 2006 budget formulation process—the Agency does not, in all cases, have data to support these measures. Currently, the Agency has completed PART assessments of 32 programs (including 12 new programs in the FY 2006 annual planning and budgeting process), covering more than 60 percent of the Agency's budget. The Agency has OMB-approved efficiency measures for 28 of the 32 programs that were assessed by the PART during the FY 2004, FY 2005, and FY 2006 budget formulation processes. For those measures currently without data, the Agency is working hard to collect the necessary data and establish performance baselines and ambitious targets.

The Agency made significant progress in developing outcome-oriented performance and efficiency measures and in demonstrating the ability to calculate the marginal cost of changing performance goals. As a result of the PART exercise, organizations across the Agency have an increased awareness and dedication to program performance by using performance data to inform management of their environmental programs. Through these initiatives and other actions to tie Agency resources to performance and results, EPA can point to significant accomplishments against the PMA's standards of success.

Data Integration. In a complementary PMA effort to produce useful information, EPA has undertaken a multi-office data integration effort highlighting the use of financial information to improve program efficiency and ensure sound financial management. The development and application of the Agency's strategic plan for Data Integration is an iterative process.

Given the magnitude and complexity of EPA's mission, the Agency has committed to focusing on one business process at a time. Grants management was chosen as the first area for review. EPA is focused on reviewing and understanding the integration of financial and grants management information. The Agency's focus on linking grants management and financial data will produce better information to ensure that projects funded by grants achieve EPA's environmental objectives and grant recipients are technically competent to carry out the work.

EPA has developed baselines, targets, and milestones to measure its success. The collective implementation and completion of these milestones will help to ensure the integration of IFMS (or its replacement) and Integrated Grants Management System (IGMS) data, ultimately resulting in the elimination of duplicate data entry and maximum availability of Pre-Award and Post-Award data.

In FY 2006, the Agency will focus on finalizing the Dun and Bradstreet Data Universal Numbering System Number Integration task under the Vendor Table Integration milestone; defining the requirements of an Integrated Reporting Platform; and configuring the Websphere application integration interface under the IGMS/IFMS Interface milestone. In addition, the Agency will refine its baseline estimate of unliquidated obligations for closed (or expired) grants by reconciling the remaining (99) unmatched records between IGMS and IFMS. EPA also will continue its efforts to finalize the identification of FY 2004 erroneous payments to non-profit recipients.

In future efforts, the Agency anticipates undertaking similar analyses of other key risk areas, including debt management, contracts management, and relevant areas captured by the CFO metrics.

Chief Financial Officers (CFO) Council Government-wide Metrics. The CFO Council Metric Tracking System (MTS) has been tracking government-wide results with nine metrics in six financial management categories for all CFO Act Agencies since FY 2003. During the fourth quarter of FY 2005, MTS tracked Agency performance, and EPA has achieved a "Green" status for four of the CFO Council Government-wide Metrics tracked by MTS. We have corrective action plans are in place for the remaining metrics.

OCFO Reporting and Business Intelligence Tool (ORBIT). ORBIT assimilates EPA's financial, administrative, and program performance information and provides an enterprise-wide, Web-based interface to assist Agency managers in making more informed decisions about their programs and operations. In FY 2005, EPA established program and regional office information centers and developed core budgeting and financial standard reports for ORBIT. This initiative provided the Agency business consistency and a common platform to build the same reports using the same data parameters from the same data source. EPA also worked to develop ORBIT's Commitment Tracking Module, which will make program performance data more readily available across the Agency and establish the foundation to emphasize the linkage of cost and performance information. Finally, EPA implemented a new version of ORBIT, which added a new data source for budget and financial reports, enhanced functionality.

For FY 2006, Phase III development will focus on business intelligence analytics, program cost accounting reporting, resources management, customization of program and regional "information centers," and will begin to provide available Commitment System performance data and PART assessment information. An outreach campaign will help the Agency executives, managers, and staff to integrate ORBIT into daily management and decision processes.

Improve Financial Operations and Increase Accountability

Eliminating Improper Payments. The PMA initiative on Eliminating Improper Payments is focused on identifying, preventing, and eliminating erroneous payments. An improper payment occurs when federal funds are paid to the wrong person or entity, the recipient is paid an incorrect amount, or the recipient uses the funds improperly. This initiative is important because taxpayers need to know that the government is using their tax dollars for their intended purpose. Although the magnitude of improper payments government-wide is unknown, 17 agencies reported over $45 billion of improper payments in 41 programs in FY 2004.

The Improper Payments Information Act of 2002 (IPIA) and subsequent guidance from OMB required federal agencies to analyze the risk of improper payments for their highest risk programs and prepare corrective action plans for those programs with significant risk. Significant risk is defined as improper payments to either primary recipients or their sub-recipients in excess of 2.5 percent of total program dollars and $10 million.

To comply with IPIA requirements, EPA assessed its rate of improper payments in FY 2003 by performing risk assessments on grants, contracts, payroll, and travel cards/purchase cards. All four areas were determined to be "low risk" for improper payments based on the legal guidelines. Across all programs, EPA's error rate for primary recipients was less than 1 percent. In addition, the findings confirmed strong business management practices throughout the Agency.

Even though EPA's improper payments were minimal, EPA espouses the notion of continuous improvement. Because the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF) are former Section 57 programs, EPA is required to submit an IPIA corrective action plan for them. The Agency's corrective action proposed to reduce the error rate of improper payments in the CWSRF and DWSRF from 0.51% to 0.35% over a three-year period.

EPA's challenge for the CWSRF and DWSRF improper payments initiative is to broaden the scope of payment reviews. Through FY 2004, the Agency reviewed only direct payments and found an error rate of 0.00 percent. For FY 2005, EPA is including a judgmental sample of sub-recipient payments in the review process. In FY 2006, EPA will conduct statistically valid samples of grants payments to sub-recipients in New Hampshire and South Carolina and assess the results of a Single Audit in Texas.

Consistent with IPIA requirements, EPA implemented a recovery audit program. Although the final report is not due until the end of October, preliminary results indicate that the error rate was less than 0.01 percent. (For more information on this initiative see the IPIA Report on page 86.)

Clean Audit Opinions. Because a clean audit opinion is a top management priority, all financial statements have been submitted timely and with clean opinions for the last five years. EPA's approach to guarantee that the Agency obtains clean audit opinions in the future is as follows:

- **Strengthen the Quality Assurance Program.** EPA's Quality Assurance Program focuses on management's responsibility for internal control through effective quality assurance processes and reviews. In FY 2005, EPA revised its Quality Assurance Guide (QA Guide) to reflect new or revised government-wide requirements and EPA policies and procedures. The QA Guide is available at the OCFO website. To continue the QA program's success, OCFO is conducting a training class in December 2005 for Agency finance personnel.
- **Automate the Statement Preparation Process.** The Agency is in the process of developing an automated procedure for identifying abnormal general ledger balances. Implementing the new procedure will ensure the reliability of the underlying data and allow EPA to shift resources from the mechanics of report preparation to detailed transaction analysis and explanation of results.
- **Resolve Audit Issues Quickly and Completely.** The Office of Inspector General (OIG) made 32 audit recommendations subsumed under ten reportable conditions, none of which is material, and four noncompliance issues in its audit report on the FY 2004 financial statements. EPA submitted corrective action plans for all reportable conditions and compliance issues within ten months of OIG's FY 2004 Financial Statements Audit. EPA will continue to emphasize quick resolution of audit issues and implementation of corrective actions that avoid recurrences.

- **Implement OMB Circular A-123 Aggressively.** EPA is evaluating its existing internal control programs to comply with the standards defined in OMB Circular A-123, Management's Responsibility for Internal Control. EPA has developed and submitted to OMB an implementation plan that ultimately will provide reasonable assurance that internal controls for financial reporting are adequate to carry out the Agency's mission effectively and efficiently. EPA's approach to implementing OMB Circular A-123 involves the following four steps: (1) Incorporate new requirements into the Agency's existing management integrity process and communicate changes to Agency managers and staff; (2) Conduct a high-level assessment and identify areas of risk and concern in the Agency's management integrity process by applying the fine control standard outlined in OMB Circular A-123; (3) Develop test plans and evaluate results in key risk areas and areas of concern agreed to by the Senior Management Council; and (4) Take necessary action to establish the ability to provide reports of reasonable assurance. In the future EPA will use its Quality Assurance Program in conjunction with the implementation of OMB Circular A-123 to ensure that internal controls are in place and adequate to ensure that the Agency's strategic goals are achieved.

Relevant and Timely Financial Reporting Practices. EPA has successfully managed its financial statement acceleration effort, which is critical to achieving a clean audit opinion. If this information is to be optimally useful to Agency managers, Congress, and others, data must be produced as quickly as possible after the reporting period ends. The Agency adopted government-wide "best practices," such as ensuring senior management commitment, tracking progress, using estimates and accruals to facilitate reporting, and holding bi-weekly audit status meetings with the Chief Financial Officer and the Inspector General. In FY 2005, EPA produced accurate and timely accelerated interim quarterly financial statements, completed Quality Assurance Reviews to ensure the accuracy of Agency financial data, and automated preparation of the Statement of Net Costs by Goal.

EPA will continue to produce accelerated audited statements, timely, accurate, and useful interim statements, and timely financial data to assess program costs and aid the annual budget formulation process. To make financial data more readily available for reconciliation purposes, EPA will utilize ORBIT, EPA's business intelligence reporting tool. EPA's Closing Package, needed for the preparation of the Financial Report (FR) of the U. S. government will continue to be submitted to an Internet-based application used to aid in the preparation of the FR in accordance with Government-wide Financial Reporting System (GFRS) requirements. Furthermore, EPA is working towards automating preparation of the Statement of Budgetary Resources and Intra-governmental (Trading Partner) report data. By consistently meeting the accelerated due dates for the Annual Report and completing interim financial statements (first quarterly, subsequently monthly), EPA provides timely and reliable information to the public.

Provide Support to Other PMA Activities

Competitive Sourcing. EPA utilizes competitive sourcing to ensure effective use of the federal workforce and the highest quality of services. In FY 2005, as part of the first Agency standard competition, 26 employees providing vendor payment services were placed in head-to-head competition against private sector businesses. EPA's finance center at Research Triangle Park (RTP) convincingly demonstrated that its process for handling the Agency's vendor payments is the most cost-effective for EPA. As a result, the Agency will consolidate all vendor payment services, currently done in eight locations, into RTP. This streamlined, consolidated approach to the work is expected to save EPA approximately $3.5 million over a five-year period.

E-Gov. EPA made great strides this year to advance finance related e-government and line of business initiatives based on the PMA.[1] EPA's Financial Management System Framework leverages today's technology to support efficiencies across government. A general theme is gaining economies of scale by reducing the number of financial systems operated by individual agencies. Instead, agencies will purchase hosting and other services from external providers. E-gov initiatives are discussed below in the Financial Management Systems section.

Human Capital Management. All financial managers linked their performance standards to the five goals in the Agency's Strategic Plan. In addition, we adopted the new Performance Appraisal Management System for managers and employees.

Develop Leadership and Provide Staff with Adequate Tools

OCFO Human Capital Strategy. OCFO continues to implement its Human Capital Strategy. During FY 2005, OCFO established a workforce team to assist in developing the action plan to enhance communication of Human Capital initiatives throughout OCFO. OCFO completed a comprehensive review of its workforce requirements, identified skills and competencies needed for success, and established training programs to address skill gaps. For example, OCFO initiated a series of project

[1] See "Expanding E Government: Partnering for a Results Oriented Government" issued by the White House December 2004 http://www.whitehouse.gov/omb/budintegration/expanding_egov12-2004.pdf

management courses leading to a Project Management Certificate. As a result, several participants in this training have assumed leadership roles in high-visibility projects or management activities within OCFO. In addition, OCFO focused on aligning its hiring strategies with its strategic workforce plan. Offices within OCFO were challenged to develop hiring plans that address both current and long-term skill needs. OCFO expanded its use of alternative means to fill vacancies through details, term positions, and telework arrangements. In addition, OCFO continues to target a diverse student population for internships and other part-time positions and take advantage of the Agency's entry-level programs. Consequently, OCFO benefits from their contributions.

Financial Management Systems Framework

Nowhere is EPA's commitment to continuous improvement more apparent than in the Agency's financial management system. The system architecture contributed to EPA's winning of the 2003 Presidential Quality Award for Improved Financial Performance. EPA is in the process of developing a modern financial system infrastructure to help EPA better manage the resources that support our environmental mission, more accurately measure the true costs of environmental programs, and better inform the public. EPA's new system architecture will be based on commercial off-the-shelf software that complies with today's standards for usability, functionality, security, and internal controls. Our long term vision for financial systems is laid out in detail at http://www.epa.gov/ocfo/modernization/index.htm. Readers are referred in particular to the Concept of Operations (CONOPS) for the Financial System Modernization Project posted on this website.

Financial Management Line of Business. The Financial Management Line of Business, sometimes termed e-finance, seeks to achieve process improvements and cost savings in acquisition, development, implementation, operation of the financial management systems through shared services, joint procurements, consolidation, and other means; standardize business processes and data elements; promote seamless data exchange among federal agencies; and strengthen internal controls through real-time interoperability of core financial systems. To achieve these goals, federal agencies will purchase financial system hosting services from a Center of Excellence (external host) in either the public or private sector. EPA's financial management systems vision and strategy follow this approach.

Financial System Modernization. EPA plans to implement a state of the art financial system in FY 2008. IFMS is EPA's current core financial system. It dates back to the late 1980s. Over the years it has been enhanced to meet various growing needs. At the same time, government-wide requirements have become far more stringent. For example, today's greater emphasis on financial accountability, internal controls, and security coupled with the accelerated deadlines for agency financial statements place increasing stress on the legacy system. Today's market offers a range of modern products that have been certified as acceptable for use by federal agencies.[2]

EPA's objectives for the new core financial system include aligning with the government-wide Financial Management Line of Business; improving agency financial performance through streamlining and automation; improving financial service to internal and external customers; facilitating compliance with today's information security standards; improving financial accountability; and improving integration of budget and performance.

In FY 2005, EPA developed an acquisition strategy to obtain hosting services from a Center of Excellence, financial system software, and a contractor to implement the new core financial system. To support the acquisition and guide system development, a Financial System Modernization Team was staffed, focus groups were created to develop requirements for the new system, and a Concept of Operations (CONOPS) was developed. The CONOPS and other documents are available on the EPA Internet. Vendor selection is scheduled for spring 2006, and full implementation of the new system is scheduled for 2008.

E-Payroll. E-Payroll seeks to gain economies of scale by reducing the number of civilian agencies that process their own payroll. In FY 2005, EPA implemented a fully integrated, Web-based payroll-human resource system. The new system uses commercial software to streamline and automate business processes and provides the technical foundation for EPA's participation in e-payroll. EPA made technical preparations to migrate the payroll processing portion of the payroll-human resources system to the Defense Financial and Accounting Service (DFAS), scheduled for completion in FY 2006. In addition, EPA began preparations for migrating certain human resource processing functions to a central service center pursuant to the Human Resources Line of Business.

E-Travel. E-Travel seeks to reduce the costs of processing employee travel by using centralized electronic travel service providers to automate the entire process from making reservations to reimbursing travelers. In FY 2005, EPA selected a service provider and began implementing the service provider's reservations process. Full implementation is scheduled for the end of CY 2006.

[2] See <http://www.jfmip.gov/jfmip/>.

Data Warehousing and Reporting Tools. Data Warehousing and Reporting Tools bring data from different applications to user desktops to guide management resource decisions and to link cost with performance. In FY 2005, EPA rolled out a flexible Administrative Data Mart (ADAM) to serve as a source for ORBIT and added new reports to the ORBIT menu. FY 2006 and FY 2007 efforts will focus on business intelligence analytics and improved reports.

Budget and Planning. One of the major financial tools used by the Agency for improving financial performance and budget management is the Budget Automation System (BAS). BAS accomplishes "horizontal fusion" of budget and performance data throughout the 10 EPA regions and headquarters program offices, totaling 2,507 users. By using cutting-edge database technology, BAS provides Agency-wide, real-time access to budget planning, formulation, and analysis tools. BAS links budget dollars directly to the achievement of the Agency's strategic goals and objectives, which directly supports EPA's Government Performance Results Act (GPRA) compliance efforts.

Cost Recovery and Imaging. The existing application summarizes spending on Superfund cleanup sites and supports the recovery of the costs. EPA is exploring options for replacing this system with a more modern commercial product.

Application Integration. Application integration middleware is the switchboard mechanism that allows applications to communicate with each other without costly system specific interfaces. In FY 2005, EPA implemented an application integration tool as part of the deployment of our Web-based integrated payroll-human resource system and ADAM and developed a strategy for linking other information.

In conclusion, EPA expects to remain in the forefront of federal financial management. Further, the Agency will maximize the benefits from its PMA initiatives to ultimately protect the environment and save taxpayers' dollars.

3.
Environmental Protection Agency
Supplemental Information (Unaudited)
Improper Payments Information Act of 2002 (IPIA) Report
For the Year Ended September 30, 2005

I. RISK ASSESSMENTS: After reviewing and sampling disbursements made in the highest risk susceptible inventories, EPA determined that its programs do not have "significant erroneous payments," defined by the IPIA as payments exceeding $10 million and 2.5% of program payments. Because the Clean Water and the Drinking Water State Revolving Funds (SRFs) are former Section 57 programs, EPA is required to submit an IPIA corrective action plan for them. The Agency's corrective action proposed to reduce the error rate of improper payments in the SRFs from 0.51 percent to 0.35 percent over a three-year period. EPA surpassed the FY 2005 target of 0.45 percent. The error rates for these two programs were as follows:

Program: Clean Water and Drinking Water SRFs

Fiscal Year	Outlays	Erroneous Payments	Error Rate
2004	$2.1 billion	$10.3 million	0.47 percent
2005	$1.9 billion (est.)	$3.1 million	0.16 percent

II. STATISTICAL SAMPLING PROCESS: In FY 2005, EPA revised its corrective action plan for the two SRFs. Based on the FY 2005 Measurement Plan approved by OMB, EPA pulled a statistical random sample of 252 direct payments from a population of 8,538 direct grant payments (126 transactions for each SRF). The error rate for the direct payment sample was 0.00 percent. Additionally, the Agency committed to reviewing a judgmental sample of at least 100 sub-recipient level payment transactions for each SRF during FY 2005. Only $3.1 million of the $555.1 million sub-recipient SRF payments reviewed were erroneous (0.23 percent). In FY 2006, EPA will provide OMB with a statistical methodology for sampling sub-recipient payments. The Agency plans to review a statistical sample of sub-recipient payments for each SRF in South Carolina and New Hampshire as well as a statistical sample of direct grant payments.

III. CORRECTIVE ACTION PLANS: In order to meet OMB's objectives, EPA initially conducted additional risk assessments by forming four subgroups with expertise in grants, contracts, payroll, and travel/purchase credit cards to review internal controls, identify and measure high risk areas, and develop corrective action plans for each subject area. Updated planned actions in each of the areas are as follows:

A. **Grants:** As described in section II, EPA will continue reviewing direct and sub-recipient SRF payments. In the FY 2005 corrective action plan for the Clean Water and Drinking Water SRFs, EPA also committed to:

- Continue to review and enhance internal controls, as needed, in the Agency's overall payment processes,
- As part of the post award process, continue to monitor payments made to sub-recipients,
- Comply with reporting requirements for improper payments, and
- Implement and operate the Agency's audit recovery program.

In FY 2005, the Office of Grants and Debarments (OGD) identified modifications needed to enable tracking erroneous payments by grant recipient in the Grantee Compliance Database. These modifications will allow tracking and maintaining data on the dollar value of erroneous payments by grant recipient.

During FY 2005, OGD performed an erroneous payments review for calendar year (CY) 2004 using judgmental risk-based sampling to select 267 grant recipients for administrative reviews including 111 non-profit grantees. Only 19 of these non-profit grantees had potential erroneous payments. All identified erroneous payments have been recovered

Preliminary results of the review of CY 2004 non-profit recipient reports provided the following results:

Review/Audit Results	Dollars
All potential erroneous payments cited	$650,799
Questioned costs determined allowable	$1,789
Actual erroneous payments (unallowable costs)	$4,575
Costs that have been recovered	$4,575
Costs still in recipient appeal process (no final determination—may not to be erroneous)	$644,435

In FY 2006 the OGD will complete the final identification of CY 2004 non-profit recipient erroneous payments still in the appeal process. They will implement modifications to the Grantee Compliance Database to enable capturing questioned costs and confirmed erroneous payments by grant recipient. OGD will introduce a new statistical sampling approach for the review of CY 2005 non-profit grantee monitoring/audit reports for erroneous payments and will identify reduction targets based on the results of this review. Those results also will be used to develop a performance monitoring metric that will serve as the baseline against which future results can be measured. EPA also reports on these OGD initiatives for the Improved Financial Management Initiative of the President's Management Agenda.

B. **Contracts:** EPA continues to take appropriate action as needed to reduce or eliminate improper payments. The appropriate Contracting Officer Representatives or On Scene Coordinators are notified of all improper payments discovered. In January 2003, EPA implemented a monthly Improper Payment Report. The report categorizes the number of improper payments per month and provides information on each improper payment including the reason. In FY 2005, EPA identified 21 improper payments (0.01 percent error rate) due to keypunch errors or invoice error. Billing numbers received on contracts are now verified prior to entering information in Contract Payment System. Staff review identified keying errors and efforts are made to prevent or detect these types of errors in the future.

Fiscal Year	Number of Erroneous Payments	Erroneous Payments (Dollars in Thousands)	Error Rate for Dollars
2003 *	25 (of 24,056)	$206.1	0.02 percent
2004	21 (of 24,886)	$748.5	0.08 percent
2005	21 (of 26,305)	$121.5	0.01 percent

* FY 2003 only included data from January through September.

Other actions include the addition of an improper payment review element for the Quality Assurance Review for invoices and the initiation of the Recovery Audit process which was completed in October 2005. The Audit Recovery contractor reviewed 86,217 contract payments totaling $51.6 million and found 11 erroneous payments ($12 thousand)—less than a 0.02 percent error rate.

The continued proactive process of reviewing and implementing changes as needed when an improper payment occurs should continue to reduce the number of improper payments. The Contracting Officer Representatives, On-Scene Coordinators or Contracting Officers will continue to be notified of all improper payments that involve their contract. Suggested actions will be provided and if the problem continues, actions will be elevated. Previously documented keying errors are being noted by the staff at EPA to assist in the detection by the initial data entry personnel as well as the sample reviewer and the certifying officer.

C. **Commodity Payments:** Since no high risk areas have been identified, no corrective action is required. EPA continues to take appropriate action as needed to reduce or eliminate any improper payments. The Recovery Audit contractor reviewed 249,879 invoices paid totaling $124.0 million and found 41 improper payments ($129 thousand)—less than a 0.10 percent error rate. These improper payments have been attributed to duplicate payments, returns not deducted, overpayments, and cash discounts not taken. The payment and certifying staff have been alerted to this fact and are making an effort to double check all vendor codes to prevent this in the future. All invoices marked past due are being reviewed to determine if they are duplicate invoices.

EPA put a tracking mechanism in place in January 2004 to gather improper payment data in anticipation that purchase order payments would be included in the erroneous payment process. The tracking system provides the data for a monthly Improper Payment Report. In FY 2005, 40 (of 42,698) commodity payments were erroneous. The improper payments represent $416 thousand of the $239 million payments processed (error rate of 0.17 percent).

D. **Payroll:** A payroll workgroup completed the following tasks:

1. Reviewed Payroll internal control documentation.
2. Reviewed personnel interviews to verify/test whether internal controls are understood and being utilized.
3. Summarized the results of the review of the internal controls.

EPA continues to provide training to its managers and staff in this area.

E. **Travel Card/Purchase Card:** The Agency will continue to monitor the charge card transactions and employee accounts using the tools described above to ensure that the cards are used in accordance with the Agency policies and procedures.

The Agency will continue to monitor the issuance of purchase cards to ensure that spending limits and span of control are kept to a minimum. The Office of Acquisition Management is in the process of implementing a monitoring program that is to be performed by each of the Senior Resource Officials in the Agency. This program will mandate that each office perform yearly reviews of the purchases made within their program offices. These reviews will ensure the integrity of the purchase card program.

IV. IMPROPER PAYMENT (IP) REDUCTION OUTLOOK FY 2004—FY 2008

(Dollars in millions)

Program	FY 2004 Outlays	FY 2004 IP %	FY 2004 IP $	FY 2005 Outlays	FY 2005 IP %	FY 2005 IP $	FY 2006 Outlays	FY 2006 IP %	FY 2006 IP $	FY 2007 Outlays	FY 2007 IP %	FY 2007 IP $	FY 2008 Outlays	FY 2008 IP %	FY 2008 IP $
Clean Water and Drinking Water SRFs	$2,182 (actual)	0.47	$10.3	$1,928 (est.)	0.45 target 0.16 actual	$3.1	$1,580 (est.)	0.40	$6.3 (est.)	$1,543 (est.)	0.35	$5.4 (est.)	$1,565 (est.)	0.30	$4.7 (est.)

Approximately $10 million of the FY 2004 improper payments were due to states drawing funds too soon. The states have taken appropriate action to improve their internal controls so fund draws are properly timed.

V. RECOVERY AUDIT PROGRAMS: The Agency hired a contractor, Business Strategy, Inc (BSI), to conduct the recovery audit. BSI completed its preliminary interviews as part of the discovery phase of its work. This phase involved discussions with key individuals in the contract obligation and payment process and individuals knowledgeable about EPA's financial system.

BSI analyzed data received from the Integrated Financial Management System and in September 2005 completed its field work to identify and collect contract overpayments. BSI completed its final Recovery Audit report at the end of October 2005. As reported above in the Contracts and Commodities sections, BSI did not uncover any material erroneous payments (only $130 thousand identified).

(Dollars in millions)

Agency Component	Amount Subject to Review for FY 2005 Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amounts Identified / Actual Amount Reviewed	Amounts Recovered FY 2005	Amounts Recovered Prior Years
Contracts	$4,284.8	$51.6	$0.01	0.02 percent	$0.01	N/A
Commodities	$2,175.2	$124.0	$0.12	0.10 percent	$0.129	N/A

In the first quarter of FY 2006, EPA will work with BSI to further strengthen payment processes and internal controls to prevent erroneous payments. The Agency will suggest to OMB that future Recovery Audit reviews be performed at three to five year intervals.

VI. ENSURING MANAGEMENT ACCOUNTABILITY: As previously outlined in the corrective action plans, the Agency continues to strengthen already strong internal controls in key payment processes. Information on erroneous payments from reviews and audits for the two SRFs, our largest grant programs, is reported quarterly to management in both the Office of Water and the Office of the Chief Financial Officer. In all cases, action is taken with the appropriate officials to ensure improper payments are recovered and to avoid future improper payments.

VII. INFORMATION SYSTEMS AND INFRASTRUCTURE: The Agency's information system and related processes are sufficient to reduce improper payments to targeted levels.

VIII. STATUTORY AND REGULATORY BARRIERS: Currently, EPA includes in the Office of Water's SRF state review process examination of sub-recipient invoices. The Agency also reviews audit reports on sub-recipient financial operations. In FY 2006, we will determine to what extent we can gather erroneous payment information from Single Audit Act reports. EPA's challenge for the SRF improper payments initiative is to broaden the scope of payment reviews. Through FY 2004, the Agency reviewed only direct payments. For FY 2005, EPA included a judgmental sample of sub-recipient payments in the review process. In FY 2006, EPA will conduct statistically valid samples of grants payments to sub-recipients in New Hampshire and South Carolina and assess the results of a Single Audit Act report for Texas.

IX. CONCLUSIONS: EPA is exceeding its erroneous payment reduction targets. The Agency has committed to the following FY 2006 erroneous payment actions:

- Provide to OMB a detailed sampling methodology for South Carolina and New Hampshire SRF sub-recipient payments;
- Review documentation for the State of Texas Single Audit Act report as a basis for determining whether such audits can be used to identify improper payments issues;
- Provide results of South Carolina and New Hampshire reviews, and direct payment reviews;
- Provide results of reviews of payments made to non-profit grantees;
- Assess the final October 2005 results of the recovery audit and establish reduction and recovery targets, if appropriate; and
- Report on improper payments in the Performance and Accountability Report (PAR).