



United States
CONSUMER PRODUCT SAFETY COMMISSION
Washington, DC 20814

OFFICE OF THE INSPECTOR GENERAL

Audit Report

CONSUMER PRODUCT SAFETY COMMISSION'S
FISCAL YEAR (FY) 2006 FINANCIAL STATEMENTS

Date Issued: November 8, 2006

AUDIT OF CPSC'S FY 2006 FINANCIAL STATEMENTS

TABLE OF CONTENTS

		<u>Page</u>
SECTION I	AUDITOR'S REPORT	1
SECTION III	APPENDICES	
	Appendix 1 – Management Response	4
	Appendix 2 – Management Representation	6
	Appendix 3 – Legal Representation Letter, Redacted	11
	Appendix 4 – Financial Statements	20

**Consumer Product Safety Commission
Audit of Financial Statements
For Fiscal Year 2006**

Summary: In our financial statements audit of the Consumer Product Safety Commission (CPSC) for fiscal year 2006, we found:

- the principle financial statements and related notes are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- CPSC had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations;
- the Federal Financial System (FFS), used by the Commission was compliant with financial system requirements set forth in the Federal Financial Management Improvement Act (FFMIA) of 1996; and
- no reportable noncompliance with the laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and other supplementary information and (2) the scope of our audit.

Opinion on Financial Statements: The financial statements, including the accompanying notes, presents fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, CPSC's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and custodial activity as of September 30, 2006 and for the year then ended

Opinion on Internal Control: The Consumer Product Safety Commission maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets and prevention of fraud) and compliance as of September 30, 2006. CPSC's internal controls provided reasonable assurance that misstatements, losses, or noncompliance, material in relation to the financial statements, would be prevented or detected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. 3512 (c), (d), the "Federal Managers' Financial Integrity Act;" the Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control;" revised OMB Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements;" attestation standards established by the American Institute of Certified Public Accountants (AICPA), the Government Accountability Office (GAO), "Government Auditing Standards" (The Yellow Book); and the "GAO/President's Council on Integrity and Efficiency (PCIE) Financial Audit Manual".

Systems' Compliance with FFMIA Requirements: Our tests for systems' compliance with Federal Financial Management Improvement Act requirements found that the Consumer Product Safety Commission's financial management systems substantially comply with Federal financial management systems' requirements, Federal accounting standards, and comply with the Treasury

Financial Manual and the United States Government Standard General Ledger at the transactional level; as required by the FFMIA. Our opinion is based on criteria established under the “Federal Financial Management Improvement Act” (FFMIA) of 1996.

Compliance with Laws and Regulations: Our tests for compliance with selected provisions of laws and regulations disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information: Management’s Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with CPSC officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance. Nothing came to our attention that would indicate (1) instances of fraud and illegal acts, (2) violation of contract provisions, or (3) abuse or mismanagement in accordance with Generally Accepted Government Auditing Standard 5.12 as amended.

Objectives, Scope, and Methodology: Management is responsible for: (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers’ Financial Integrity Act are met; (3) ensuring that CPSC’s financial management systems substantially comply with FFMIA requirements; and (4) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles and (2) management maintained effective internal control, the objectives of which are the following:

- Financial Reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with laws and regulations: Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and government-wide policies identified by OMB audit guidance.

We are also responsible for (1) testing whether the CPSC's financial management systems substantially comply with the three FFMIA requirements, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Accountability report.

In order to fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements, (2) assessed the accounting principles used and significant estimates made by management, (3) evaluated the overall presentation of the financial statements, (4) obtained an understanding of internal control related to financial reporting (including safeguarding assets and detection of potential fraud), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis, (5) tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control, (6) considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act, (7) tested whether CPSC's financial management systems substantially complied with the three FFMIA requirements, and (8) tested compliance with selected provisions of the following laws and regulations: the Prompt Payment Act., the Debt Collection Improvement Act of 1996, the Anti-Deficiency Act, the Improper Payments Information Act of 2002, and Various Pay and Allowance Acts.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the CPSC. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal year ended September 30, 2006. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Our audit work was conducted in accordance with U.S. generally accepted Government auditing standards as issued by the Government Accountability Office and OMB audit guidance as stated in OMB Bulletin No. 01-02.

Agency Comments and Our Evaluation: In commenting on a draft of this report (see appendix 1), the CPSC's management concurred with the facts and conclusions cited in our report.

MANAGEMENT'S RESPONSE



UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, DC 20207

Memorandum

Date: November 1, 2006

TO : Christopher Dentel
Inspector General

THROUGH : Edward E. Quist *eeq*
Director
Office of Financial Management, Planning and Evaluation

FROM : Deborah Peebles Hodge *Dph*
Director
Division of Financial Services

SUBJECT : FY 2006 Financial Statements

I have reviewed the audit report on financial statements for fiscal year 2006. I concur with the findings and opinions expressed in the report.

MANAGEMENT REPRESENTATION LETTER



UNITED STATES
CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, DC 20207

Memorandum

Date: October 26, 2006

TO : Christopher W. Dentel
Inspector General
Office of the Inspector General

THROUGH: Patricia M. Semple *PS*
Executive Director

FROM : *eeq* Edward E. Quist, Director, Office of Financial Management, Planning and
Evaluation *Job*
Deborah P. Hodge, Director, Division of Financial Services

SUBJECT : Fiscal Year 2006 Financial Statements – Management Representation

This letter is in connection with your audit of the U.S. Consumer Product Safety Commission's (CPSC) balance sheet as of September 30, 2006 and the related statements of net costs, changes in net position, budgetary resources, financing, and custodial activity, for the year then ended for the purposes of (1) expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, (2) expressing an opinion on CPSC's internal control as of September 30, 2006 (3) reporting whether the CPSC financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards (generally accepted accounting principles), and the *U.S. Government Standard General Ledger* at the transaction level as of September 30, 2006, and (4) testing for compliance with applicable laws and regulations.

Certain representations in this letter are described as being limited to matters that are material. For purposes of this letter, matters are considered material if they involve, regardless of size, an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during the audit pertaining to the 2006 financial statements:

1. We are responsible for the fair presentation of the financial statements and stewardship information in conformity with generally accepted accounting principles.
2. The financial statements are fairly presented in conformity with generally accepted accounting principles.

3. We have made available to you all:
 - a. Financial records and related data;
 - b. Where applicable, minutes of meetings of the Commission or summaries of actions of recent meetings for which minutes have not been prepared; and
 - c. Communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. We believe that there are no uncorrected misstatements, both individually and in the aggregate, to the financial statements.
6. The CPSC has satisfactory title to all owned assets, including plant, and equipment; such assets have no liens or encumbrances; and no assets have been pledged.
7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
8. Liabilities under which the Commission is contingently liable have been properly reported or disclosed.
9. Accounts receivable or payable, including civil penalty and freedom of information act (FOIA) assessments, have been properly recorded and disclosed.
10. All intragovernmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intragovernmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intragovernmental asset, liability, and revenue amounts as required by OMB Bulletin 97-01, as amended.
11. There are no:
 - a. Possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;
 - b. Material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed; or
 - c. Unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.

12. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
13. No material events or transactions have occurred subsequent to September 30, 2006 that have not been properly recorded in the financial statements information or disclosed in the notes.
14. We believe that there has been no material fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements) or any fraud involving management or employees involved in the preparation of financial statements.
15. We are responsible for establishing and maintaining internal control.
16. Pursuant to the Federal Managers Financial Integrity Act, we have assessed the effectiveness of CPSC's internal control in achieving the following objectives:
 - a. Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;
 - b. Compliance with applicable laws and regulations – transactions are executed in accordance with (i) laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and (ii) any other laws, regulations, and governmentwide policies identified by OMB in its audit guidance; and
 - c. Reliability of performance reporting – transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
17. Those controls in place on September 30, 2006, provided reasonable assurance that the foregoing objectives are met.
18. We have disclosed to you that there are no significant deficiencies in the design or operation of internal control that could adversely affect the entity's ability to meet the internal control objectives and identified those we believe to be material weaknesses.
19. There have been no changes to internal control subsequent to September 30, 2006 or other factors that might significantly affect it.
20. We are responsible for implementing and maintaining financial management systems that comply substantially with federal financial management systems requirements,

federal accounting standards (generally accepted accounting principles), and the *U.S. Government Standard General Ledger* at the transaction level.

21. We have assessed the financial management systems to determine whether they comply substantially with these federal financial management systems requirements. Our assessment was based on guidance issued by OMB.
22. The financial management systems complied substantially with federal financial management systems requirements, federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level as of September 30, 2006.
23. We are responsible for CPSC's compliance with applicable laws and regulations.
24. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
25. We have disclosed to you that we believe there are no known instances of noncompliance with laws and regulations.

LEGAL REPRESENTATION LETTER, REDACTED



U.S. CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, DC 20207

Page C. Faulk
General Counsel

Tel: 301-504-7626
Fax: 301-504-0403
E-Mail: pfaulk@cpsc.gov

September 20, 2006

Lori Howard
Auditor
Consumer Product Safety Commission
Bethesda, Md. 20814

Subject: Legal Response in Connection with the Fiscal Year 2006
Financial Statement of the Consumer Product Safety Commission

Dear Ms. Howard:

As General Counsel of the Consumer Product Safety Commission (CPSC), I am writing in response to the letter request from Christopher W. Dentel, Inspector General dated September 1, 2006 in connection with the audit of CPSC's financial statements as of and for the fiscal year ended September 30, 2006.

I call your attention to the fact that as General Counsel for CPSC, I have general supervision of CPSC's legal affairs, which include but are not limited to responsibility for the conduct of all Federal court litigation to which the Commission is a party. I also have authority on administrative litigation matters. In such capacity, I have reviewed litigation and claims threatened or asserted involving CPSC and have consulted with outside legal counsel about them when I deemed appropriate.

Subject to the foregoing and to the last paragraph of this letter, I advise you that since October 1, 2005 neither I, nor any of the lawyers over whom I exercise general legal supervision, have given substantive attention to, or represented CPSC in connection with any loss contingencies coming within scope of clause (a) of Paragraph 5 of the Statement of Policy referred to in the last paragraph of this letter, except as follows:

Pending or Threatened Litigation (excluding unasserted claims)

There are two pending litigation actions. See the attached Department of Justice forms.

Page 2

With respect to matters that have been specifically identified as contemplated by clauses (b) or (c) of paragraph 5 of the ABA Statement of Policy, I advise you, subject to the last paragraph of this letter as follows:

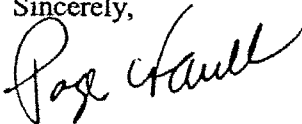
Unasserted Claims and Assessments

There is one unasserted claim. See the attached Department of Justice form.

The information set forth herein is as of the date of this letter, the date on which we commenced our internal review procedures for purposes of preparing this response, except as otherwise noted. I disclaim any undertaking to advise you of changes that, thereafter, may be brought to my attention or the attention of our lawyers over whom I exercise general legal supervision.

This response is limited by, and in accordance with the *ABA Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information* (December 1975); without limiting the generality of the foregoing, the limitations set forth in such statement on the scope and use of this response (Paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any "loss contingencies" is qualified in its entirety by Paragraph 5 of the statement and the accompanying commentary (which is an integral part of the statement). Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy, this will confirm as correct CPSC's understanding that whenever, in the course of performing legal service for CPSC with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, I have formed a professional conclusion that the entity must disclose or consider concerning such possible claim or assessment, I, as a matter of professional responsibility to CPSC, will so advise CPSC and will consult with CPSC concerning the question of such disclosure and the applicable requirements of Statement of Federal Financial Accounting Standards (SFFAS) Number 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5.

Sincerely,



Page C. Faulk
General Counsel

cc: Christopher W. Dentel
Inspector General

SUGGESTED DEPARTMENT OF JUSTICE FORM

PENDING OR THREATENED LITIGATION

AGENCY: Consumer Product Safety Commission

**Amount of potential loss exceeds
the agency/component materiality
threshold of: \$100.00**

1. Case name. (Include case citation, case number, and other names by which the case or group of cases is commonly known.)

(Redacted) v. CPSC, EEO No. 531-2006-00165X

2. Nature of matter. (Include a description of the case or cases and **amount claimed**, if specified.)

Employee claims that reassignment to accommodate disability reflected discrimination and reprisal for participation in EEO process. Seeks reinstatement in prior position and unspecified compensatory damages (Agency has fewer than 500 employees; damages capped at \$200,000.)

3. Progress of the case.

In discovery; (Redacted)

4. The government's response or planned response. (For example, to contest the case vigorously or to seek an out-of-court settlement.)

(Redacted)

5. An evaluation of the likelihood of unfavorable outcome. (Choose one.) (Redacted)

_____ PROBABLE – An unfavorable outcome is likely to occur.

_____ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

_____ REMOTE – the chance of an unfavorable outcome is slight.

6. An estimate of the amount or range of potential loss (if one can be made, for losses considered to be probable or reasonably possible).

(Redacted)

7. The name and phone number of the government attorney handling the case (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

Margaret Plank, Office of General Counsel, CPSC, (301) 504-7639

SUGGESTED DEPARTMENT OF JUSTICE FORM

PENDING OR THREATENED LITIGATION

AGENCY: Consumer Product Safety Commission

**Amount of potential loss exceeds
the agency/component materiality
threshold of: \$100.00**

1. Case name. (Include case citation, case number, and other names by which the case or group of cases is commonly known.)

(Redacted) v. CPSC, EEO No. 120-2005-00575X

2. Nature of matter. (Include a description of the case or cases and amount claimed, if specified.)

Applicant for employment claims his no-selection was due to discrimination based on race and national origin. Seeks back pay (ca. \$10,000) and \$250,000 compensatory damages.

3. Progress of the case.

Pending on summary judgment.

4. The government's response or planned response. (For example, to contest the case vigorously or to seek an out-of-court settlement.)

(Redacted)

5. An evaluation of the likelihood of unfavorable outcome. (Choose one.) (Redacted)

_____ PROBABLE – An unfavorable outcome is likely to occur.

_____ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

_____ REMOTE – the chance of an unfavorable outcome is slight.

6. An estimate of the amount or range of potential loss (if one can be made, for losses considered to be probable or reasonably possible).

(Redacted)

7. The name and phone number of the government attorney handling the case (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

Margaret Plank, Office of General Counsel, CPSC, (301) 504-7639

UNASSERTED CLAIMS AND ASSESSMENTS

AGENCY: Consumer Product Safety Commission

**Amount of potential loss exceeds
the agency/component materiality
threshold of: \$100.00**

1. Name of Matter.

(Redacted) v. CPSC

2. Nature of matter. (Include a description of the matter.)

Employee alleges that non-selection for promotion to supervisory position caused by discrimination based on race and gender, as well as reprisal for prior EEO activity.

3. The Government's Planned Response (if the claim is asserted).

(Redacted)

4. An evaluation of the likelihood of unfavorable outcome. (Choose one.) (Redacted)

_____ PROBABLE – An unfavorable outcome is likely to occur.

_____ REASONABLY POSSIBLE – the chance of an unfavorable outcome is less than probable but more than remote.

_____ REMOTE – the chance of an unfavorable outcome is slight.

5. An estimate of the amount or range of potential loss (if one can be made, for losses considered to be probable or reasonably possible).

(Redacted)

6. The name and phone number of the government attorney handling the case (and names and phone numbers of any outside legal counsel/other lawyers representing or advising the government in the matter.)

Margaret Plank, Office of General Counsel, CPSC, (301) 504-7639

7. The Sequence Number (Based on the total number of Unasserted Claims and Assessments your agency/component is submitting.) Number 1 of 1

**CASES REPORTED IN THE 2005 LEGAL REPRESENTATION
LETTER THAT ARE NO LONGER PENDING**

AGENCY: Consumer Product Safety Commission

**Amount of potential loss exceeds
the agency/component materiality
threshold of: \$100.00**

1. Name of Matter.

(Redacted) v. CPSC, EEO No. 140-2005-00305x

2. The Sequence Number.

N/A

3. Resolution of the Case.

Case remanded to Agency for final decision; Final Agency Decision finding no discrimination entered January 5, 2006; upheld by Office of Federal Operations July 25, 2006.

**4. The name and phone number of the government attorney
handling the case**

Margaret Plank, Office of General Counsel, CPSC, (301) 504-7639

FISCAL YEAR 2006 ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET

FOR THE YEAR ENDED SEPTEMBER 30, 2006

Entity Assets:	2006	2005
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	\$ 10,645,432	\$ 10,089,918
Advances To Others (Note 3)	360	
Accounts Receivable (Note 4)	2,382	25,050
Equipment (Note 5)	2,638,709	2,686,587
Total Entity Assets	13,286,883	12,801,555
Non-Entity Assets:		
Intragovernmental Assets:		
Fund Balance with Treasury	3,470,569	9,116,860
Accounts Receivable	551,457	1,755,650
Total Non-Entity Assets	4,022,026	10,872,510
Total Assets	\$ 17,308,909	\$ 23,674,065
Liabilities:		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accrued Benefits	\$ 1,718,187	\$ 2,599,947
Accounts Payable	267,436	397,328
Total Liabilities Covered by Budgetary Resources	1,985,623	2,997,275
Liabilities Not Covered by Budgetary Resources		
Intragovernmental Liabilities:		
Actuarial Federal Employees' Compensation Act Liabilities	430,344	371,661
Accrued Annual Leave	3,117,029	3,373,107
Imputed Financing Sources	3,627,493	3,627,493
Unemployment Insurance	15,639	4,102
Other Liabilities (Note 6)	4,022,026	10,872,510
Total Liabilities not Covered by Budgetary Resources	11,212,531	18,248,873
Total Liabilities	\$ 13,198,154	\$ 21,246,148
Net Position:		
Balances		
Unexpended Appropriations	8,659,809	7,092,643
Cumulative Results of Operations	(4,549,054)	(4,664,726)
Total Net Position	4,110,755	2,427,917
Total Liabilities and Net Position	\$ 17,308,909	\$ 23,674,065

STATEMENT OF NET COST
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Gross Costs:	2006	2005
Intragovernmental/Public Gross Costs		
Benefits Expenses	\$ 5,517,430	\$ 5,487,756
Operating Expenses	58,204,746	59,225,008
Unfunded Annual Leave	3,117,029	3,373,107
Imputed costs	3,627,493	3,627,493
Unemployment Insurance	15,639	4,102
Federal Employees Compensation Fund	430,344	371,661
Total Gross Costs	<u>70,912,681</u>	<u>72,089,127</u>
Less: Earned Revenue		
Intragovernmental Earned Revenue	(3,268,366)	(2,769,775)
Donated Revenue	(25,966)	(13,315)
Earned revenues from the Public	(71,060)	(59,045)
Total Revenues	<u>(3,365,392)</u>	<u>(2,842,135)</u>
Total Net Cost of Operations	<u>\$ 67,547,289</u>	<u>\$ 69,246,992</u>

STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	2006	2005
Cumulative Results of Operations:		
Beginning Balances	\$ (4,664,726)	\$ (7,266,915)
Budgetary Financing sources:		
Reimbursement Received	(3,300,415)	(2,769,775)
Accounts Receivable	2,382	25,050
Advance	360	-
Donated Revenue	(25,967)	(13,315)
Appropriations Used	63,635,288	64,575,894
Decrease prior year unfunded cost	3,723,820	6,403,834
Other Financing Sources(Non-Exchange):		
Imputed Financing	3,627,493	3,627,493
Total Financing Sources	67,662,961	71,849,181
Net Cost of Operations	(67,547,289)	(69,246,992)
Net Change	115,672	2,602,189
Cumulative Results of Operations	\$ (4,549,054)	\$ (4,664,726)
Unexpended Appropriations:		
Beginning Balance	\$ 7,092,643	\$ 7,120,297
Budgetary Financing Sources:		
Appropriations Received	63,000,000	62,650,000
Reimbursement Received	3,300,415	2,769,775
Rescission	(630,000)	(501,200)
Donated Revenue	25,966	13,315
Appropriations Used	(63,635,288)	(64,575,894)
Cancellation of expired year	(493,927)	(383,650)
Total Budgetary Financing Sources	1,567,166	(27,654)
Total Unexpended Appropriations	\$ 8,659,809	\$ 7,092,643
Net Position	\$ 4,110,755	\$ 2,427,917

STATEMENT OF BUDGETARY RESOURCES FOR THE YEAR ENDED SEPTEMBER 30, 2006

Budgetary Resources:	<u>2006</u>	<u>2005</u>
Budget authority:		
Unobligated balances-brought forward, October 1	\$ 1,028,349	951,041
Recoveries of prior year unpaid obligations	505,713	748,259
Appropriation	63,000,000	62,650,000
Spending authority from offsetting collections	3,365,392	2,842,135
Cancellation of expired year	(493,927)	(383,650)
Permanently not available	(630,000)	(501,200)
Total Budgetary Resources	<u>\$ 66,775,527</u>	<u>\$ 66,306,585</u>
Status of Budgetary Resources:		
Direct	62,433,279	62,508,462
Reimbursable	3,300,415	2,769,775
Unobligated balances currently available	145,664	95,332
Unobligated balances not available	896,169	933,016
Total Status of Budgetary Resources	<u>\$ 66,775,527</u>	<u>\$ 66,306,585</u>
Change in Obligated Balances:		
Unpaid obligated balance, brought forward, October 1	9,061,569	8,056,310
Obligations incurred	65,733,694	65,278,237
Gross outlays	(64,685,951)	(63,524,718)
Recoveries of prior year unpaid obligations, actual	(505,713)	(748,259)
Total, unpaid obligated balance, net - end of period	<u>\$ 9,603,599</u>	<u>\$ 9,061,570</u>
Net Outlays		
Gross outlays	64,685,951	63,524,718
Less: Offsetting collections	(3,365,392)	(2,842,135)
Less: Distributed offsetting receipts	(8,221)	-
Total Net Outlays	<u>\$ 61,312,338</u>	<u>\$ 60,682,583</u>

STATEMENT OF FINANCING
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Resources Used to Finance Activities	2006	2005
Budgetary Resources Obligated		
Obligations incurred	\$ 65,733,694	\$ 65,278,237
Less: Collections	(3,365,392)	(2,842,135)
Less: Adjustment-downward	(505,713)	(748,259)
Obligations net of offsetting collections and recoveries	61,862,589	61,687,843
Less: Offsetting receipts	(8,221)	-
Net Obligations	61,854,368	61,687,843
Other Resources		
Obligations-Beginning of the Period	9,061,570	8,056,311
Imputed Financing Sources	3,627,493	3,627,493
Total Resources Used to Finance Activities	74,543,431	73,371,647
Resources Used to finance items not Part of the Net Cost of Operations		
Changes in Undelivered Orders	(7,617,977)	(6,064,295)
Other/Accrual/Accounts Payable prior year	(2,997,275)	(1,887,055)
Offsetting receipts	8,221	-
Resources that finance the acquisition of assets	(542,084)	(744,109)
Total resources used to finance items not part of the net cost of operations	(11,149,115)	(8,695,459)
Total Resources Used to Finance the Net Cost of Operations	\$ 63,394,316	\$ 64,676,188
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring Resources in Future Periods:		
Actuarial Federal Employees' Compensation Act Liabilities	430,344	371,661
Unfunded Annual Leave	3,117,029	3,373,107
Unemployment Insurance	15,639	4,102
Total components of Net Cost of Operations that will Require Resources in the Future Period	3,563,012	3,748,870
Components not Requiring or Generating Resources:		
Depreciation	589,961	821,934
Total Components of Net Cost of operations that will not Require or Generate Resources in the Current Period	4,152,973	4,570,804
Net Cost of Operations	\$ 67,547,289	\$ 69,246,992

STATEMENT OF CUSTODIAL ACTIVITY
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Gross Revenue Activity	2006	2005
Sources of Cash Collections:		
Civil Penalties and Fines	\$ 3,462,348	\$ 9,107,885
FOIA and Misc collections	8,221	8,975
Fees Collected-DOJ	3,544	6,471
Total Custodial Revenue	3,474,113	9,123,331
Disposition of Revenue Collected:		
Amounts to be Transferred to:		
Treasury General Fund	3,470,569	9,116,860
Retained by Justice Department-Fees	3,544	6,471
Net Custodial Activity	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The U.S. Consumer Product Safety Commission (CPSC) is an independent Federal regulatory agency whose mission is to save lives and keep families safe by reducing the risk of injuries and deaths associated with consumer products. The CPSC was created in 1972 by Congress under the Consumer Product Safety Act and began operating in 1973. The agency is headed by three commissioners nominated by the President and confirmed by the Senate for staggered seven-year terms. The President designates one of the commissioners as Chairman. The Consumer Product Safety Act authorizes CPSC to:

- Develop voluntary standards with industry
- Issue and enforce mandatory standards
- Obtain recall of products or arranging for their repair
- Conduct research on potential product hazards
- Inform and educate consumers through the media, state and local governments, private organizations, and by responding to consumer inquiries

Fund Accounting Structure

The CPSC's financial activities are accounted for by federal account symbol. They include the accounts for appropriated funds and other fund groups described below for which the CPSC maintains financial records.

General Funds: These funds consist of salaries and expense appropriation accounts used to fund agency operations and capital expenditures.

Miscellaneous Receipt Accounts: The CPSC collects civil penalties, Freedom of Information Act fees and other miscellaneous receipts which by law are not retained by CPSC. The U.S. Department of Treasury automatically transfers all cash balances in these receipt accounts to the general fund of the Treasury at the end of each fiscal year.

Gifts and Donations Receipt Account: U.S.C. Title 15, Chapter 47, section 2076, paragraph (b) (6), authorizes CPSC "to accept gifts and voluntary and uncompensated services." CPSC occasionally receives donations from non-government sources in support of the agency's mission. Funds received from excess property sales are also maintained in this account.

Basis of Accounting and Presentation

The financial statements present the financial position, net cost of operations, changes in net position,

budgetary resources, financing and custodial activities of the CPSC, in accordance with accounting principles generally accepted in the United States of America and the form and content requirements of OMB Circular A-136-Revised July 2006. The statements have been prepared from the books and records of the CPSC and include the accounts of all funds under the control of the CPSC.

Accounting principles generally accepted in the United States of America encompass both accrual and budgetary transactions. 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. The accompanying financial statements are prepared on the accrual basis of accounting.

Budget Authority

Congress annually passes appropriations that provide the CPSC with authority to obligate funds for necessary expenses to carry out mandated program activities. The funds appropriated are subject to OMB apportionment of funds in addition to congressional restrictions on the expenditure of funds. Also, the CPSC places internal restrictions to ensure the efficient and proper use of all funds.

Fund Balances with the U.S. Treasury

Fund balances with Treasury consist of appropriated funds and general fund receipt accounts. Appropriated funds are available to pay current liabilities and authorized purchase commitments. General fund receipt accounts are used to record collections made by the CPSC on behalf of the Department of Treasury's General fund. The CPSC's fund balances with Treasury are carried forward until such time as goods or services are received and payment is made, or until the funds are returned to the U.S. Treasury.

Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances and recognized as expense when the related goods and services are received. Advances are principally advances to CPSC employees for official government business.

Accounts Receivable

Entity accounts receivables include amounts due from current and former employees. Non-entity accounts receivable are for civil monetary penalties imposed as a result of the CPSC's enforcement activities, and for fees imposed for information requested from the public for Freedom of Information Act requests. CPSC does not retain non entity these receipts.

Property and Equipment

Property and equipment consists of equipment and software. All items with an acquisition value greater

than \$5,000 and a useful life over two years are capitalized using the straight-line method of depreciation. Service lives range from five to twelve years.

Internal use software acquired for a value greater than \$5,000 is capitalized using the straight-line method with a service life of five years. Purchased commercial software which does not meet the capitalization criteria is expensed.

Accounts Payable and Accrued Liabilities

Liabilities Covered by Budgetary Resources represent liabilities funded by available budgetary resources, which include appropriated funds and reimbursable authority. Accounts payable and Accrued Benefits represent the amount of monies or other resources that are likely to be paid as the result of a transaction or event that has already occurred.

Liabilities Not Covered by Budgetary Resources exists when funding has not yet been made available through Congressional appropriations or reimbursable authority. The CPSC recognizes such liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor for Federal Employee's Compensation Act (disability) payments. In addition, liabilities not covered by budgetary resources include liabilities resulting from the agency's custodial activity. See Note 6.

Accrued Leave

A liability for annual leave is accrued as leave is earned and paid when leave is taken. At year-end, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. Accrued annual leave is reflected as a liability that is not covered by current budgetary resources. Sick leave and other leave are expensed as taken.

Retirement Plans and Other Benefits

Federal Employee benefits consist of the actuarial portions of future benefits earned by Federal employees, but not yet due and payable. These costs include pensions, other retirement benefits, and other post-employment benefits. These benefits are administered by the Office of Personnel Management (OPM) not CPSC. Since CPSC does not administer the benefit plans, the CPSC does not recognize any liability on the Balance Sheet for pensions, and other retirement benefits. CPSC does, however, recognize the imputed costs related to these benefits on the Balance Sheet, the Statement of Net Cost, and the Statement of Financing.

CPSC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees hired after December 31, 1983, are covered by FERS and Social Security, while employees hired prior to January 1, 1984, elected to either join FERS or remain in the CSRS. Under CSRS, CPSC makes matching contributions equal to 7 percent of the employee's gross earnings to the CSRS Retirement and Disability Fund. Employees participating in FERS are covered under the Federal Insurance Contributions Act (FICA) for which the CPSC

contributes a matching amount to the Social Security Administration. CPSC contributions are recognized as current operating expenses.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. CSRS participating employees may contribute up to \$15,000 for 2006 but do not receive a matching contribution from the CPSC. FERS participating employees may contribute up to \$15,000 for 2006. For FERS employees, the CPSC's automatic contribution is 1 percent of the employee's gross pay to the TSP. The CPSC matches dollar for dollar on the first 3 percent of basic pay for each pay period. Each dollar of the next 2 percent of basic pay is matched 50 cents on the dollar. CPSC contributions are recognized as current operating expenses.

Federal Employees' Compensation Act (FECA)

The CPSC records an estimated liability for future worker' compensation claims based on data provided from the Department of Labor (DOL).

Employee Health Benefits and Life Insurance

CPSC employees are eligible to participate in the contributory Federal Employees Health Benefit Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLIP). The CPSC matches the employee contributions to each program to pay for current benefits.

Net Position

The CPSC's net position is composed of the following:

1. Unexpended appropriations include the amount of unobligated balances and undelivered orders. Unobligated balances are the amount of appropriations or other authority remaining after deducting the appropriation used and unpaid obligations.
2. Cumulative results of operations represent the net results of operations since inception, the cumulative amount of prior period adjustments, and the remaining book value of capitalized assets.

Revenues and Other Financing Sources

Exchange and Nonexchange revenue: Exchange revenue is the amount of money earned for goods and services provided to other agencies and the public. For example, reimbursable agreements are considered exchange revenue. Nonexchange revenue is assessed against manufacturers, retailers or distributors who violate the Consumer Product Safety Act, Federal Hazardous Substance Act, and the Flammable Fabrics Act. For example, collections of fines are nonexchange revenue. Other Financing sources are funding such as appropriations, where resources are received and nothing of value is given in return. Following are revenue and financing sources for CPSC with an indication of whether the revenue is exchange, nonexchange revenue, or a financing source: