

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 I, 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.

