

# FY 2003 ANNUAL REPORT



## SECTION III

### FY 2003 ANNUAL FINANCIAL STATEMENTS

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# CHIEF FINANCIAL OFFICER'S ANALYSIS OF EPA'S FISCAL YEAR 2003 AND 2002 FINANCIAL STATEMENTS

## *Summary of Auditor's Report and Opinions*

The Environmental Protection Agency (EPA) prepared the following Fiscal Year (FY) 2003 Financial Statements: Statement of Financial Position (Balance Sheet), Statement of Changes in Net Position, Statement of Net Cost, Statement of Budgetary Resources, Statement of Financing, and Statement of Custodial Activity. In addition, we prepared a Statement of Net Cost by Goal for each of the Agency's 10 Strategic Goals.

The Office of Inspector General (OIG) stated: "In our opinion, the consolidating financial statements present fairly, in all material respects, the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, budgetary resources, reconciliation of net cost to budgetary obligations, and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and all other Appropriated Funds, as of and for the years ended September 30, 2003 and 2002, in accordance with accounting principles generally accepted in the United States of America."

## **Report on Internal Controls**

The OIG Audit Report on the EPA's Fiscal 2003 and 2002 Financial Statements did not identify any material weaknesses.<sup>1</sup> However, the report cited eight reportable conditions. These reportable conditions are summarized below, along with a short statement of the Agency's position with respect to each of those items.

- **Documentation and Approval of Standard Vouchers** – The OIG noted that the Agency did not always adequately document standard vouchers for transfer requests from Treasury to EPA Trust Fund accounts (Superfund and Leaking Underground Storage Tank funds) prior to the transactions being entered into the Integrated Financial Management System (IFMS). The OIG indicated that establishing written procedures to calculate the monthly transfer process would reduce the potential for errors. The Office of the Chief Financial Officer (OCFO) will issue procedures in support of this process.
- **Improvement Needed in EPA's Interagency Agreement Invoice Approval Process** – The OIG noted that EPA project officers did not always fulfill their oversight duties related to reviewing and approving Interagency Agreement (IAG) invoices. EPA agrees that improvement is needed. The Grants Administration Division will provide more in-depth training for project officers on IAG core competencies and emphasize the importance of collecting and reviewing invoice documentation to substantiate costs.

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<sup>1</sup>A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level the risk, that misstatement of amounts would be material in relation to the financial statements being audited and would not be detected within a timely period by employees in the normal course of performing their assigned functions.

- **Improvement Needed in Reconciling State Superfund Contracts Unearned Revenue –** The OIG recommended that EPA reconcile the unearned revenue from State Superfund Contracts (SSC) to the general ledger balance. EPA agrees to analyze and reconcile SSC expenditures annually.
- **EPA Did Not Promptly Record Marketable Securities Received in Fiscal Year 2003 –** The OIG noted two instances where marketable securities received in FY 2003 in the settlement of debts were not promptly recorded. The OCFO will issue policy and procedures to standardize the process for recording marketable securities within the Agency.
- **Automated Application Processing Controls for the Integrated Financial Management System Could Not be Assessed –** The OIG was unable to assess automated application processes and controls for the IFMS. The OIG made no recommendations in this area. The OCFO has a planned target date of 2006 for replacing IFMS. A commercial-off-the-shelf package will be delivered with applicable documentation.
- **Integrated Financial Management System (IFMS) Suspense File Needs to be Reconciled to the General Ledger –** The OIG recommends that the OCFO establish and test a formal reconciliation process that includes total dollars and record counts for the data processed from the IFMS suspense file to the general ledger accounts. OCFO agrees with the OIG's recommendation. An automated reconciliation is currently in the testing and validation phase. Further, a policy is in place that establishes the policies and procedures for reconciling the IFMS suspense file to the general ledger.
- **Further Improvements Needed in Managing EPA's Accounts Receivable –** The OIG noted two issues that impact EPA's accounting for accounts receivable: (1) untimely recording of receivables by some Financial Management Offices (FMO) due to late submission of supporting documentation from the Department of Justice, Regional Counsel, or the program offices, and (2) one region's improper allowance for doubtful accounts calculation, which was subsequently properly adjusted. The OCFO will develop necessary policies and procedures to ensure legal documents are promptly forwarded. OCFO has implemented procedures to: (1) verify that year-end or period-end transactions are processed, and (2) review the allowance for doubtful accounts and update percentages based on collection experience from prior years. The OCFO will continue to work with the FMOs to ensure that these policies and procedures are understood and properly followed.
- **Internal Controls for Correcting Errors in the Integrated Financial Management System Need Improvement –** The OIG recommends that the Agency use a standardized approach when making systemic corrections. The OCFO believes that existing Agency policy documents the procedures for processing financial transactions. However, the OCFO is currently in the process of updating related Standard Operating Procedures to insure that future transactions are processed using the standard accounting protocol.

## **Compliance with Laws and Regulations**

### **Noncompliance Issues with Federal Financial Management Improvement Act (FFMIA)**

The OIG identified no substantial noncompliance issues with FFMIA, however, four other noncompliances were noted.

- **EPA Continues to Make Efforts to Improve Its Cost Accounting Processes** – The OIG recommends that the OCFO continue to improve Agency financial and cost accounting systems, and educate users on the types of information available from within those systems. Further, the OIG would like the Agency to reconsider the use of the Program Results Code as a cost accounting output.

EPA has a cost information assessment under way, designed to further educate users on the benefit of cost information. The assessment is designed to elicit from Agency managers additional cost information needs and assist them in identifying types of information currently available in OCFO systems. OCFO will continue to work with Agency managers and staff to identify their cost information needs and incorporate those requirements into the Agency's accounting processes, where practical.

The Agency's cost accounting output will continue to be the subobjective. Having the Agency output as a subobjective does not preclude the Agency from accounting for discrete programs or projects below the subobjective level. The revised accounting structure for the new strategic plan will allow the Agency to do just that. For example, the Agency currently accounts for projects below the subobjective level in the Superfund Program. Phase II of the cost information assessment will identify other projects and activities that may be at a level lower than subobjective or even below the Program/Project level. If practical to do so, the Agency will establish procedures to collect cost information in the Agency's accounting system.

- **EPA Continues to Experience Difficulties in Reconciling Intragovernmental Transactions** – The OIG referenced government-wide difficulties in reconciling intragovernmental transactions. The OIG did not make any specific recommendations at this time; however, the OIG did encourage EPA to continue its efforts in reconciling the Agency's intragovernmental transactions to comply with Federal reporting requirements. The OCFO will continue its efforts to reconcile intragovernmental transactions and meet the Federal reporting requirements.
- **EPA Needs to Revise and Resubmit Federal Financial Management Improvement Act Remediation Plan** – The OIG reported that the EPA had failed to implement the personnel certification program for granting access to non-Federal personnel (e.g., contractors) as provided in its 1999 Remediation Plan.

EPA's 1999 Remediation Plan has been updated and submitted to the OMB. The updated plan shows (1) that the Office of Administration and Resources Management is the party responsible for establishing a security certification process for non-federal workers, and (2) the estimated milestones for issuing the security certification policy is July 2004 for contractor personnel, and July 2005 for grantee personnel. The revised Remediation Plan was included in the FY 2004 - FY 2009 Financial Management Five Year Plan and provided

to the Office of Management and Budget in October 2003.

The OCFO has also taken steps to ensure that a certification process for contractors using EPA's IFMS is in place. This certification process is outlined in OCFO Policy Announcement No. 98-08.

The audit report also stated that EPA's Memorandums of Understanding (MOUs) with other financial or mixed systems that interface with IFMS do not stipulate clear baseline security requirements for screening contractor personnel with access to financial data. EPA believes that IFMS MOUs clearly reference the Interconnection Security Agreement which requires compliance with IFMS' Security Plan. Under the Security Plan, background screening is required for contractor personnel. Further, OCFO has surveyed its interfacing system owners (i.e., EPAYS, IDOTS, and CPS) and found that contractor personnel do not have access to them.

- **EPA Not in Compliance Regarding Preparation and Reconciliation of SF 224** – The OIG reported that EPA continues to experience difficulties in completing the required SF 224 “Statement of Transactions” and reconciling transactions on the Statement of Differences (FMS 6652) as required by Agency policy and Treasury's Financial Manual. The OCFO disagrees with the OIG's assessment that the entire Agency is not in compliance with Treasury's regulations since the majority of the FMOs comply with the regulations. The OCFO has advised the OIG that only one accounting point continues to adjust amounts via the SF 224. Also, the OCFO has provided the OIG with an analysis indicating that any suspense differences between IFMS and the SF 224 are insignificant.

## **Progress in Correcting Previously Identified Problems**

OCFO management believes that audit follow-up is an integral part of good management and that corrective actions are essential to improving the effectiveness and efficiency of government operations. To resolve long-standing audit recommendations, the OCFO formed an Audit Follow-Up Council in July 2000 to review progress on audit findings, discuss approaches to resolving audit issues, and provide coordination and support across the OCFO on audit related matters.

As a result of the Council's efforts, the Agency has resolved several long-standing issues. During the audit of the FY 2002 financial statements, the OIG noted substantial progress in completing a number of corrective actions from prior years. For FY 2003, the Agency and the OIG are currently working to resolve several remaining issue areas from prior financial statement audits. Those areas are as follows:

- **Automated Application Processing Controls for IFMS** – The OIG continues to acknowledge that the Agency plans to replace IFMS with a new automated accounting system. Until the new system is installed, the OIG will continue to mention this area as a reportable condition. EPA is on track to replace IFMS with a planned target date of 2006.
- **Financial System Security Plans** – The OIG believes that the Agency has established a

personnel security policy for access to IFMS. However, it is not clear what is required of non-Federal personnel for access to other financial and mixed-financial systems. The OIG recommended that EPA revise the 1999 FFMIA Remediation Plan, establish a milestone for completion, and submit the revised Plan to OMB. The OCFO has updated the EPA Remediation Plan and has submitted it to the OMB. The milestones for issuing the policy are July 2004 for contractor personnel and July 2005 for grantee personnel.

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### **Required Supplemental Stewardship Information**

- Annual Stewardship Information (Unaudited)

**Environmental Protection Agency  
Consolidating Balance Sheet  
As of September 30, 2003 and 2002  
(Dollars in Thousands)**

	<b>Superfund Trust Fund FY 2003</b>	<b>Superfund Trust Fund FY 2002</b>	<b>All Others FY 2003</b>	<b>All Others FY 2002</b>	<b>Combined Totals FY 2003</b>
<b>ASSETS</b>					
Intragovernmental					
Fund Balance With Treasury (Note 2)	\$ 26,448	\$ 32,229	\$ 11,758,357	\$ 11,688,934	\$ 11,784,805
Investments (Notes 4 and 17)	2,516,147	3,309,975	2,114,684	1,952,052	4,630,831
Accounts Receivable, Net (Note 5)	34,665	33,309	119,941	72,298	154,606
Other (Note 6)	7,414	4,520	3,827	4,578	11,241
Total Intragovernmental	<u>\$ 2,584,674</u>	<u>\$ 3,380,033</u>	<u>\$ 13,996,809</u>	<u>\$ 13,717,862</u>	<u>\$ 16,581,483</u>
Cash and Other Monetary Assets (Note 3)	0	0	10	10	10
Accounts Receivable, Net (Note 5)	428,486	411,437	65,296	49,398	493,782
Loans Receivable, Net - Non-Federal (Note 7)	0	0	53,506	64,646	53,506
Property, Plant and Equipment, Net (Note 9)	45,855	38,746	579,471	551,336	625,326
Other (Note 6)	680	780	3,502	4,937	4,182
Total Assets	<u>\$ 3,059,695</u>	<u>\$ 3,830,996</u>	<u>\$ 14,698,594</u>	<u>\$ 14,388,189</u>	<u>\$ 17,758,289</u>
<b>LIABILITIES</b>					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	\$ 145,631	\$ 116,239	\$ 70,156	\$ 43,983	\$ 215,787
Debt Due to Treasury (Note 10)	0	0	21,189	24,290	21,189
Custodial Liability (Note 11)	0	0	78,776	69,706	78,776
Other (Note 12)	30,600	23,727	21,611	26,381	52,211
Total Intragovernmental	<u>\$ 176,231</u>	<u>\$ 139,966</u>	<u>\$ 191,732</u>	<u>\$ 164,360</u>	<u>\$ 367,963</u>
Accounts Payable and Accrued Liabilities (Note 8)	165,550	145,805	722,784	511,236	888,334
Pensions and Other Actuarial Liabilities (Note 14)	7,937	7,698	36,159	31,759	44,096
Environmental Cleanup Costs (Note 20)	0	0	8,880	13,309	8,880
Cashout Advances, Superfund (Note 15)	279,092	337,139	0	0	279,092
Commitments and Contingencies (Note 18)	0	0	18	20	18
Payroll and Benefits Payable (Note 33)	31,039	39,136	142,791	177,432	173,830
Other (Notes 12 and 13)	49,809	45,515	53,105	47,479	102,914
Total Liabilities	<u>\$ 709,658</u>	<u>\$ 715,259</u>	<u>\$ 1,155,469</u>	<u>\$ 945,595</u>	<u>\$ 1,865,127</u>
<b>NET POSITION</b>					
Unexpended Appropriations (Note 16)	\$ 0	\$ 0	\$ 10,768,236	\$ 10,923,889	\$ 10,768,236
Cumulative Results of Operations (Notes 17 and 36)	2,350,037	3,115,737	2,774,889	2,518,705	5,124,926
Total Net Position	<u>2,350,037</u>	<u>3,115,737</u>	<u>13,543,125</u>	<u>13,442,594</u>	<u>15,893,162</u>
Total Liabilities and Net Position	<u>\$ 3,059,695</u>	<u>\$ 3,830,996</u>	<u>\$ 14,698,594</u>	<u>\$ 14,388,189</u>	<u>\$ 17,758,289</u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Consolidating Balance Sheet  
As of September 30, 2003 and 2002  
(Dollars in Thousands)**

	<b>Combined Totals FY 2002</b>	<b>Intra- agency Elimination FY 2003</b>	<b>Intra- agency Elimination FY 2002</b>	<b>Consolidated Totals FY 2003</b>	<b>Consolidated Totals FY 2002</b>
<b>ASSETS</b>					
Intragovernmental					
Fund Balance With Treasury (Note 2)	\$ 11,721,163	\$ 0	\$ 0	\$ 11,784,805	\$ 11,721,163
Investments (Notes 4 and 17)	5,262,027	0	0	4,630,831	5,262,027
Accounts Receivable, Net (Note 5)	105,607	(89,789)	(47,412)	64,817	58,195
Other (Note 6)	9,098	(7,269)	(4,447)	3,972	4,651
Total Intragovernmental	<u>\$ 17,097,895</u>	<u>\$ (97,058)</u>	<u>\$ (51,859)</u>	<u>\$ 16,484,425</u>	<u>\$ 17,046,036</u>
Cash and Other Monetary Assets (Note 3)	10	0	0	10	10
Accounts Receivable, Net (Note 5)	460,835	0	0	493,782	460,835
Loans Receivable, Net - Non-Federal (Note 7)	64,646	0	0	53,506	64,646
Property, Plant and Equipment, Net (Note 9)	590,082	0	0	625,326	590,082
Other (Note 6)	5,717	0	0	4,182	5,717
Total Assets	<u>\$ 18,219,185</u>	<u>\$ (97,058)</u>	<u>\$ (51,859)</u>	<u>\$ 17,661,231</u>	<u>\$ 18,167,326</u>
<b>LIABILITIES</b>					
Intragovernmental					
Accounts Payable and Accrued Liabilities (Note 8)	\$ 160,222	\$ (89,789)	\$ (47,480)	\$ 125,998	\$ 112,742
Debt Due to Treasury (Note 10)	24,290	0	0	21,189	24,290
Custodial Liability (Note 11)	69,706	0	0	78,776	69,706
Other (Note 12)	50,108	(7,269)	(4,379)	44,942	45,729
Total Intragovernmental	<u>\$ 304,326</u>	<u>\$ (97,058)</u>	<u>\$ (51,859)</u>	<u>\$ 270,905</u>	<u>\$ 252,467</u>
Accounts Payable and Accrued Liabilities (Note 8)	657,041	0	0	888,334	657,041
Pensions and Other Actuarial Liabilities (Note 14)	39,457	0	0	44,096	39,457
Environmental Cleanup Costs (Note 20)	13,309	0	0	8,880	13,309
Cashout Advances, Superfund (Note 15)	337,139	0	0	279,092	337,139
Commitments and Contingencies (Note 18)	20	0	0	18	20
Payroll and Benefits Payable (Note 33)	216,568	0	0	173,830	216,568
Other (Notes 12 and 13)	92,994	0	0	102,914	92,994
Total Liabilities	<u>\$ 1,660,854</u>	<u>\$ (97,058)</u>	<u>\$ (51,859)</u>	<u>\$ 1,768,069</u>	<u>\$ 1,608,995</u>
<b>NET POSITION</b>					
Unexpended Appropriations (Note 16)	\$ 10,923,889	\$ 0	\$ 0	\$ 10,768,236	\$ 10,923,889
Cumulative Results of Operations (Notes 17 and 36)	5,634,442	0	0	5,124,926	5,634,442
Total Net Position	<u>16,558,331</u>	<u>0</u>	<u>0</u>	<u>15,893,162</u>	<u>16,558,331</u>
Total Liabilities and Net Position	<u>\$ 18,219,185</u>	<u>\$ (97,058)</u>	<u>\$ (51,859)</u>	<u>\$ 17,661,231</u>	<u>\$ 18,167,326</u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Consolidating Statement of Net Cost  
For the Years Ended September 30, 2003 and 2002  
(Dollars in Thousands)**

	Superfund Trust Fund FY 2003	Superfund Trust Fund FY 2002	All Others FY 2003	All Others FY 2002	Combined Totals FY 2003
<b>COSTS</b>					
Intragovernmental	\$ 341,817	\$ 348,980	\$ 816,624	\$ 782,110	\$ 1,158,441
With the Public	1,246,427	1,209,338	6,427,497	5,678,789	7,673,924
Expenses from Other Appropriations (Note 23)	<u>75,597</u>	<u>114,297</u>	<u>(75,597)</u>	<u>(114,297)</u>	<u>0</u>
Total Costs	\$ <u>1,663,841</u>	\$ <u>1,672,615</u>	\$ <u>7,168,524</u>	\$ <u>6,346,602</u>	\$ <u>8,832,365</u>
Less:					
Earned Revenues, Federal (Note 19)	16,682	22,932	124,233	104,318	140,915
Earned Revenues, Non-Federal (Note 19)	<u>394,295</u>	<u>477,768</u>	<u>31,304</u>	<u>24,927</u>	<u>425,599</u>
Total Earned Revenues (Note 19)	\$ <u>410,977</u>	\$ <u>500,700</u>	\$ <u>155,537</u>	<u>129,245</u>	\$ <u>566,514</u>
<b>NET COST OF OPERATIONS</b>	<u>\$ 1,252,864</u>	<u>\$ 1,171,915</u>	<u>\$ 7,012,987</u>	<u>\$ 6,217,357</u>	<u>\$ 8,265,851</u>

**Environmental Protection Agency  
Consolidating Statement of Net Cost  
For the Years Ended September 30, 2003 and 2002  
(Dollars in Thousands)**

	Combined Totals FY 2002	Intra-agency Eliminations FY 2003	Intra-agency Eliminations FY 2002	Consolidated Totals FY 2003	Consolidated Totals FY 2002
<b>COSTS</b>					
Intragovernmental	\$ 1,131,090	\$ (20,240)	\$ (20,795)	\$ 1,138,201	\$ 1,110,295
With the Public	6,888,127	0	0	7,673,924	6,888,127
Expenses from Other Appropriations (Note 23)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Costs	\$ <u>8,019,217</u>	\$ <u>(20,240)</u>	\$ <u>(20,795)</u>	\$ <u>8,812,125</u>	\$ <u>7,998,422</u>
Less:					
Earned Revenues, Federal (Note 19)	127,250	(20,240)	(20,795)	120,675	106,455
Earned Revenues, Non-Federal (Note 19)	<u>502,695</u>	<u>0</u>	<u>0</u>	<u>425,599</u>	<u>502,695</u>
Total Earned Revenues (Note 19)	<u>629,945</u>	\$ <u>(20,240)</u>	<u>(20,795)</u>	\$ <u>546,274</u>	<u>609,150</u>
<b>NET COST OF OPERATIONS</b>	<u>\$ 7,389,272</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,265,851</u>	<u>\$ 7,389,272</u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency**  
**Consolidated Statement of Net Cost by Goal**  
**For the Year Ended September 30, 2003**  
**(Dollars in Thousands)**

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
<b>COSTS</b>						
Intragovernmental	\$ 84,961	\$ 139,303	\$ 31,028	\$ 54,492	\$ 409,312	\$ 35,643
With the Public	532,480	3,817,701	97,848	281,634	1,581,550	219,692
Total Costs	<u>\$ 617,441</u>	<u>\$ 3,957,004</u>	<u>\$ 128,876</u>	<u>\$ 336,126</u>	<u>\$ 1,990,862</u>	<u>\$ 255,335</u>
Less:						
Earned Revenue, Federal	3,234	5,394	37	1,197	80,029	3,911
Earned Revenue, Non-Federal	71	1,876	20,729	300	396,738	1,652
Total Earned Revenue	<u>\$ 3,305</u>	<u>7,270</u>	<u>\$ 20,766</u>	<u>1,497</u>	<u>\$ 476,767</u>	<u>\$ 5,563</u>
Management Cost Allocation	<u>55,231</u>	<u>83,892</u>	<u>24,379</u>	<u>36,784</u>	<u>136,240</u>	<u>15,031</u>
<b>NET COST OF OPERATIONS</b>	<u><u>\$ 669,367</u></u>	<u><u>\$ 4,033,626</u></u>	<u><u>\$ 132,489</u></u>	<u><u>\$ 371,413</u></u>	<u><u>\$ 1,650,335</u></u>	<u><u>\$ 264,803</u></u>

**Environmental Protection Agency**  
**Consolidated Statement of Net Cost by Goal**  
**For the Year Ended September 30, 2002**  
**(Dollars in Thousands)**

	Clean Air	Clean and Safe Water	Safe Food	Prevent Pollution	Better Waste Management	Global Risks
<b>COSTS</b>						
Intragovernmental	\$ 101,347	\$ 183,063	\$ 37,022	\$ 55,734	\$ 440,640	\$ 36,020
With the Public	487,461	3,264,051	91,795	253,462	1,488,511	206,938
Total Costs	<u>\$ 588,808</u>	<u>\$ 3,447,114</u>	<u>\$ 128,817</u>	<u>\$ 309,196</u>	<u>\$ 1,929,151</u>	<u>\$ 242,958</u>
Less:						
Earned Revenue, Federal	266	3,744	109	1,497	92,691	4,081
Earned Revenue, Non-Federal	25	2,290	14,960	1,193	473,739	586
Total Earned Revenue	<u>\$ 291</u>	<u>6,034</u>	<u>\$ 15,069</u>	<u>2,690</u>	<u>\$ 566,430</u>	<u>\$ 4,667</u>
Management Cost Allocation	<u>59,337</u>	<u>87,575</u>	<u>26,585</u>	<u>37,863</u>	<u>143,513</u>	<u>16,636</u>
<b>NET COST OF OPERATIONS</b>	<u><u>\$ 647,854</u></u>	<u><u>\$ 3,528,655</u></u>	<u><u>\$ 140,333</u></u>	<u><u>\$ 344,369</u></u>	<u><u>\$ 1,506,234</u></u>	<u><u>\$ 254,927</u></u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Consolidated Statement of Net Cost by Goal  
For the Year Ended September 30, 2003  
(Dollars in Thousands)**

	<u>Environ. Information</u>	<u>Sound Science</u>	<u>Credible Deterrent</u>	<u>Effective Management</u>	<u>Not Assigned to Goals*</u>	<u>Consolidated Total</u>
<b>COSTS</b>						
Intragovernmental	\$ 174,224	\$ 51,118	\$ 93,695	\$ 40,751	\$ 23,674	\$ 1,138,201
With the Public	191,351	293,552	325,968	343,036	(10,888)	7,673,924
Total Costs	<u>\$ 365,575</u>	<u>\$ 344,670</u>	<u>\$ 419,663</u>	<u>\$ 383,787</u>	<u>\$ 12,786</u>	<u>\$ 8,812,125</u>
Less:						
Earned Revenue, Federal	126,261	1,198	272	(100,428)	(430)	120,675
Earned Revenue, Non-Federal	121	364	1,220	1,367	1,161	425,599
Total Earned Revenue	<u>\$ 126,382</u>	<u>\$ 1,562</u>	<u>\$ 1,492</u>	<u>\$ (99,061)</u>	<u>\$ 731</u>	<u>\$ 546,274</u>
Management Cost Allocation	<u>26,018</u>	<u>28,766</u>	<u>76,507</u>	<u>(482,848)</u>	<u>0</u>	<u>0</u>
<b>NET COST OF OPERATIONS</b>	<u><u>\$ 265,211</u></u>	<u><u>\$ 371,874</u></u>	<u><u>\$ 494,678</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 12,055</u></u>	<u><u>\$ 8,265,851</u></u>

**Environmental Protection Agency  
Consolidated Statement of Net Cost by Goal  
For the Year Ended September 30, 2002  
(Dollars in Thousands)**

	<u>Environ. Information</u>	<u>Sound Science</u>	<u>Credible Deterrent</u>	<u>Effective Management</u>	<u>Not Assigned to Goals*</u>	<u>Consolidated Total</u>
<b>COSTS</b>						
Intragovernmental	\$ 60,624	\$ 62,030	\$ 106,374	\$ 23,393	\$ 4,048	\$ 1,110,295
With the Public	193,241	263,592	281,171	366,798	(8,893)	6,888,127
Total Costs	<u>\$ 253,865</u>	<u>\$ 325,622</u>	<u>\$ 387,545</u>	<u>\$ 390,191</u>	<u>\$ (4,845)</u>	<u>\$ 7,998,422</u>
Less:						
Earned Revenue, Federal	130,237	800	234	(125,025)	(2,179)	106,455
Earned Revenue, Non-Federal	154	84	914	3,300	5,450	502,695
Total Earned Revenue	<u>\$ 130,391</u>	<u>\$ 884</u>	<u>\$ 1,148</u>	<u>\$ (121,725)</u>	<u>\$ 3,271</u>	<u>\$ 609,150</u>
Management Cost Allocation	<u>28,089</u>	<u>30,408</u>	<u>81,910</u>	<u>(511,916)</u>	<u>0</u>	<u>0</u>
<b>NET COST OF OPERATIONS</b>	<u><u>\$ 151,563</u></u>	<u><u>\$ 355,146</u></u>	<u><u>\$ 468,307</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ (8,116)</u></u>	<u><u>\$ 7,389,272</u></u>

\* See Note 30.

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency**  
**Consolidating Statement of Changes in Net Position**  
**For the Years Ended September 30, 2003 and 2002**  
**(Dollars in Thousands)**

	<b>Cumulative Results of Operations Superfund Trust Fund FY 2003</b>	<b>Cumulative Results of Operations Superfund Trust Fund FY 2002</b>	<b>Cumulative Results of Operations All Others FY 2003</b>	<b>Cumulative Results of Operations All Others FY 2002</b>	<b>Cumulative Results of Operations Consolidated Totals FY 2003*</b>
Net Position - Beginning of Period	\$ 3,115,737	\$ 3,477,720	\$ 2,518,705	\$ 2,335,136	\$ 5,634,442
Prior Period Adjustments	0	0	0	0	0
Beginning Balances, as Adjusted	<u>\$ 3,115,737</u>	<u>\$ 3,477,720</u>	<u>\$ 2,518,705</u>	<u>\$ 2,335,136</u>	<u>\$ 5,634,442</u>
Budgetary Financing Sources:					
Appropriations Received	0	0	0	0	0
Appropriations Transferred In/Out (Note 31)	0	0	0	0	0
Other Adjustments (Note 34)	0	0	0	0	0
Appropriations Used	0	0	7,496,463	6,784,295	7,496,463
Nonexchange Revenue (Note 35)	(49,692)	108,038	260,515	260,111	210,823
Transfers In/Out (Note 31)	(191,131)	(103,448)	111,614	63,672	(79,517)
Trust Fund Appropriations	632,307	676,292	(632,307)	(676,292)	0
Income from Other Appropriations (Note 23)	75,597	114,297	(75,597)	(114,297)	0
Total Budgetary Financing Sources	<u>\$ 467,081</u>	<u>\$ 795,179</u>	<u>\$ 7,160,688</u>	<u>\$ 6,317,489</u>	<u>\$ 7,627,769</u>
Other Financing Sources:					
Transfers In/Out (Note 31)	84	47	287	398	371
Imputed Financing Sources (Note 32)	19,999	14,706	108,196	83,039	128,195
Total Other Financing Sources	<u>\$ 20,083</u>	<u>\$ 14,753</u>	<u>\$ 108,483</u>	<u>\$ 83,437</u>	<u>\$ 128,566</u>
Net Cost of Operations	<u>(1,252,864)</u>	<u>(1,171,915)</u>	<u>(7,012,987)</u>	<u>(6,217,357)</u>	<u>(8,265,851)</u>
Net Position - End of Period	<u><u>\$ 2,350,037</u></u>	<u><u>\$ 3,115,737</u></u>	<u><u>\$ 2,774,889</u></u>	<u><u>\$ 2,518,705</u></u>	<u><u>\$ 5,124,926</u></u>

\* This statement does not have any intra-agency eliminations for FY 2003 or 2002.

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency**  
**Consolidating Statement of Changes in Net Position**  
**For the Years Ended September 30, 2003 and 2002**  
**(Dollars in Thousands)**

	Cumulative Results of Operations	Unexpended Appropriation s	Unexpended Appropriations		
	Consolidated Totals FY 2002*	All Others FY 2003	All Others FY 2002	Consolidated Totals FY 2003*	Consolidated Totals FY 2002*
Net Position - Beginning of Period	\$ 5,812,856	\$ 10,923,889	\$ 10,358,961	\$ 16,558,331	\$ 16,171,817
Prior Period Adjustments	0	0	0	0	0
Beginning Balances, as Adjusted	<u>\$ 5,812,856</u>	<u>\$ 10,923,889</u>	<u>\$ 10,358,961</u>	<u>\$ 16,558,331</u>	<u>\$ 16,171,817</u>
Budgetary Financing Sources:					
Appropriations Received	0	7,408,126	7,356,085	7,408,126	7,356,085
Appropriations Transferred In/Out (Note 31)	0	4,550	28,598	4,550	28,598
Other Adjustments (Note 34)	0	(71,866)	(35,460)	(71,866)	(35,460)
Appropriations Used	6,784,295	(7,496,463)	(6,784,295)	0	0
Nonexchange Revenue (Note 35)	368,149	0	0	210,823	368,149
Transfers In/Out (Note 31)	(39,776)	0	0	(79,517)	(39,776)
Trust Fund Appropriations	0	0	0	0	0
Income from Other Appropriations (Note 23)	0	0	0	0	0
Total Budgetary Financing Sources	<u>\$ 7,112,668</u>	<u>\$ (155,653)</u>	<u>\$ 564,928</u>	<u>\$ 7,472,116</u>	<u>\$ 7,677,596</u>
Other Financing Sources:					
Transfers In/Out (Note 31)	445	0	0	371	445
Imputed Financing Sources (Note 32)	97,745	0	0	128,195	97,745
Total Other Financing Sources	<u>\$ 98,190</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 128,566</u>	<u>\$ 98,190</u>
Net Cost of Operations	<u>(7,389,272)</u>	<u>0</u>	<u>0</u>	<u>(8,265,851)</u>	<u>(7,389,272)</u>
Net Position - End of Period	<u><u>\$ 5,634,442</u></u>	<u><u>\$ 10,768,236</u></u>	<u><u>\$ 10,923,889</u></u>	<u><u>\$ 15,893,162</u></u>	<u><u>\$ 16,558,331</u></u>

\* This statement does not have any intra-agency eliminations for FY 2003 or 2002.

**The accompanying notes are an integral part of these statements.**



**Environmental Protection Agency**  
**Combined Statement of Budgetary Resources**  
**For the Years Ended September 30, 2003 and 2002**  
**(Dollars in Thousands)**

	<b>Superfund Trust Fund FY 2003</b>	<b>Superfund Trust Fund FY 2002</b>	<b>All Others FY 2003</b>
<b>BUDGETARY RESOURCES</b>			
Budgetary Authority:			
Appropriations Received	\$ 0	\$ 0	\$ 7,424,350
Borrowing Authority	0	0	0
Net Transfers	1,286,342	1,329,490	76,863
Other	0	0	0
Unobligated Balances:			
Beginning of Period	750,994	714,321	2,045,248
Net Transfers, Actual	0	0	0
Anticipated Transfers Balance	0	0	0
Spending Authority from Offsetting Collections:			
Earned and Collected	211,066	193,835	273,703
Receivable from Federal Sources	(1,728)	3,523	5,074
Change in Unfilled Customer Orders			
Advance Received	(41,608)	(22,548)	(20,362)
Without Advance from Federal Sources	5,259	1,749	(28,473)
Anticipated for Rest of Year	0	0	0
Transfers from Trust Funds	(9,642)	0	96,135
Total Spending Authority from Collections	\$ 163,347	\$ 176,559	\$ 326,077
Recoveries of Prior Year Obligations (Note 26)	124,797	230,628	114,437
Permanently Not Available (Note 26)	(8,274)	(2,000)	(76,182)
Total Budgetary Resources (Note 25)	<u>\$ 2,317,206</u>	<u>\$ 2,448,998</u>	<u>\$ 9,910,793</u>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$ 1,373,144	\$ 1,548,650	\$ 7,539,595
Reimbursable	177,257	149,354	272,326
Total Obligations Incurred (Note 25)	<u>\$ 1,550,401</u>	<u>\$ 1,698,004</u>	<u>\$ 7,811,921</u>
Unobligated Balances:			
Apportioned (Note 27)	766,786	726,589	2,011,471
Exempt from Apportionment	0	0	0
Unobligated Balances Not Available (Note 27)	19	24,405	87,401
Total Status of Budgetary Resources	<u>\$ 2,317,206</u>	<u>\$ 2,448,998</u>	<u>\$ 9,910,793</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>			
Obligations Incurred, Net	\$ 1,262,257	\$ 1,290,817	\$ 7,371,407
Obligated Balances, Net - Beginning of Period	2,021,759	2,108,696	9,608,652
Accounts Receivable	1,965	3,694	118,037
Unfilled Customer Orders from Federal Sources	71,707	66,448	224,874
Undelivered Orders, Unpaid	(1,612,994)	(1,831,268)	(9,077,583)
Accounts Payable	(299,181)	(260,633)	(847,544)
Total Outlays (Note 25)	<u>\$ 1,445,513</u>	<u>\$ 1,377,754</u>	<u>\$ 7,397,843</u>
Disbursements	\$ 1,605,329	\$ 1,549,041	\$ 7,706,933
Collections	(159,816)	(171,287)	(309,090)
Less: Offsetting Receipts (Note 28)	(146,502)	(248,252)	(643,956)
Net Outlays	<u>\$ 1,299,011</u>	<u>\$ 1,129,502</u>	<u>\$ 6,753,887</u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency**  
**Combined Statement of Budgetary Resources**  
**For the Years Ended September 30, 2003 and 2002**  
**(Dollars in Thousands)**

	<b>All Others FY 2002</b>	<b>Combined Totals FY 2003</b>	<b>Combined Totals FY 2002</b>
<b>BUDGETARY RESOURCES</b>			
Budgetary Authority:			
Appropriations Received	\$ 7,371,085	\$ 7,424,350	\$ 7,371,085
Borrowing Authority	0	0	0
Net Transfers	101,010	1,363,205	1,430,500
Other	0	0	0
Unobligated Balances:			
Beginning of Period	1,911,304	2,796,242	2,625,625
Net Transfers, Actual	500	0	500
Anticipated Transfers Balance	0	0	0
Spending Authority from Offsetting Collections:			
Earned and Collected	262,102	484,769	455,937
Receivable from Federal Sources	1,410	3,346	4,933
Change in Unfilled Customer Orders			0
Advance Received	2,133	(61,970)	(20,415)
Without Advance from Federal Sources	62,549	(23,214)	64,298
Anticipated for Rest of Year	0	0	0
Transfers from Trust Funds	48,671	86,493	48,671
Total Spending Authority from Collections	\$ 376,865	\$ 489,424	\$ 553,424
Recoveries of Prior Year Obligations (Note 26)	89,440	239,234	320,068
Permanently Not Available (Note 26)	(42,292)	(84,456)	(44,292)
Total Budgetary Resources (Note 25)	<u>\$ 9,807,912</u>	<u>\$ 12,227,999</u>	<u>\$ 12,256,910</u>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$ 7,514,054	\$ 8,912,739	\$ 9,062,704
Reimbursable	248,610	449,583	397,964
Total Obligations Incurred (Note 25)	<u>\$ 7,762,664</u>	<u>\$ 9,362,322</u>	<u>\$ 9,460,668</u>
Unobligated Balances:			
Apportioned (Note 27)	1,917,637	2,778,257	2,644,226
Exempt from Apportionment	0	0	0
Unobligated Balances Not Available (Note 27)	127,611	87,420	152,016
Total Status of Budgetary Resources	<u>\$ 9,807,912</u>	<u>\$ 12,227,999</u>	<u>\$ 12,256,910</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>			
Obligations Incurred, Net	\$ 7,296,359	\$ 8,633,664	\$ 8,587,176
Obligated Balances, Net - Beginning of Period	9,324,855	11,630,411	11,433,551
Accounts Receivable	72,577	120,002	76,271
Unfilled Customer Orders from Federal Sources	253,348	296,581	319,796
Undelivered Orders, Unpaid	(9,277,925)	(10,690,577)	(11,109,193)
Accounts Payable	(656,652)	(1,146,725)	(917,285)
Total Outlays (Note 25)	<u>\$ 7,012,562</u>	<u>\$ 8,843,356</u>	<u>\$ 8,390,316</u>
Disbursements	\$ 7,323,740	\$ 9,312,262	\$ 8,872,781
Collections	(311,178)	(468,906)	(482,465)
Less: Offsetting Receipts (Note 28)	(687,650)	(790,458)	(935,902)
Net Outlays	<u>\$ 6,324,912</u>	<u>\$ 8,052,898</u>	<u>\$ 7,454,414</u>

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Consolidating Statement of Financing  
For the Years Ended September 30, 2003 and 2002  
(Dollars in Thousands)**

	<b>Superfund Trust Fund FY 2003</b>	<b>Superfund Trust Fund FY 2002</b>	<b>All Others FY 2003</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>			
Budgetary Resources Obligated			
Obligations Incurred	\$ 1,550,401	\$ 1,698,004	\$ 7,811,921
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(288,144)</u>	<u>(407,187)</u>	<u>(440,514)</u>
Obligations, Net of Offsetting Collections	\$ 1,262,257	\$ 1,290,817	\$ 7,371,407
Less: Offsetting Receipts (Note 28)	<u>(146,502)</u>	<u>(248,252)</u>	<u>(643,956)</u>
Net Obligations	\$ 1,115,755	\$ 1,042,565	\$ 6,727,451
Other Resources			
Transfers In/Out without Reimbursement, Property (Note 31)	\$ 84	\$ 47	\$ (84)
Imputed Financing Sources (Note 32)	19,999	14,706	108,196
Income from Other Appropriations (Note 23)	<u>75,597</u>	<u>114,297</u>	<u>(75,597)</u>
Net Other Resources Used to Finance Activities	\$ 95,680	\$ 129,050	\$ 32,515
 Total Resources Used To Finance Activities	 \$ 1,211,435	 \$ 1,171,615	 \$ 6,759,966
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>			
Change in Budgetary Resources Obligated	\$ 179,096	\$ 64,738	\$ 165,667
Resources that Fund Prior Period Expenses (Note 29)	0	(1,590)	0
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations			
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances	0	0	4,980
Offsetting Receipts Not Affecting Net Cost	146,502	248,252	11,649
Resources that Finance Asset Acquisition	(16,287)	(6,587)	(66,321)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost	<u>(105,777)</u>	<u>(48,758)</u>	<u>96,135</u>
 Total Resources Used to Finance Items Not Part of the Net Cost of Operations	 \$ 203,534	 \$ 256,055	 \$ 212,110
 Total Resources Used to Finance the Net Cost of Operations	 \$ 1,414,969	 \$ 1,427,670	 \$ 6,972,076

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Consolidating Statement of Financing  
For the Years Ended September 30, 2003 and 2002  
(Dollars in Thousands)**

	<b>Superfund Trust Fund FY 2003</b>	<b>Superfund Trust Fund FY 2002</b>	<b>All Others FY 2003</b>
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>			
Components Requiring or Generating Resources in Future Periods			
Increase in Annual Leave Liability (Note 29)	\$ 1,088	\$ 0	\$ 5,647
Increase in Environmental and Disposal Liability (Note 29)	0	0	(3,276)
Up/Downward Reestimates of Subsidy Expense	0	0	170
Increase in Public Exchange Revenue Receivable	(205,844)	(305,035)	(1,706)
Increase in Workers Compensation Costs (Note 29)	246	0	4,591
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	\$ (204,510)	\$ (305,035)	\$ 5,426
Components Not Requiring/Generating Resources			
Depreciation and Amortization	8,915	7,854	36,289
Revaluation of Assets or Liabilities	0	0	0
Expenses Not Requiring Budgetary Resources	33,490	41,426	(804)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	\$ 42,405	\$ 49,280	\$ 35,485
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period			
	(162,105)	(255,755)	40,911
Net Cost of Operations	\$ 1,252,864	\$ 1,171,915	\$ 7,012,987

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Consolidating Statement of Financing  
For the Years Ended September 30, 2003 and 2002  
(Dollars in Thousands)**

	<b>All Others FY 2002</b>	<b>Consolidated Totals* FY 2003</b>	<b>Consolidated Totals* FY 2002</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>			
Budgetary Resources Obligated			
Obligations Incurred	\$ 7,762,664	\$ 9,362,322	\$ 9,460,668
Less: Spending Authority from Offsetting Collections and Recoveries	(466,305)	(728,658)	(873,492)
Obligations, Net of Offsetting Collections	\$ 7,296,359	\$ 8,633,664	\$ 8,587,176
Less: Offsetting Receipts (Note 28)	(687,650)	(790,458)	(935,902)
Net Obligations	\$ 6,608,709	\$ 7,843,206	\$ 7,651,274
Other Resources			
Transfers In/Out without Reimbursement, Property (Note 31)	\$ (47)	\$ 0	\$ 0
Imputed Financing Sources (Note 32)	83,039	128,195	97,745
Income from Other Appropriations (Note 23)	(114,297)	0	0
Net Other Resources Used to Finance Activities	\$ (31,305)	\$ 128,195	\$ 97,745
 Total Resources Used To Finance Activities	 \$ 6,577,404	 \$ 7,971,401	 \$ 7,749,019
<b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>			
Change in Budgetary Resources Obligated	\$ (422,293)	\$ 344,763	\$ (357,555)
Resources that Fund Prior Period Expenses (Note 29)	(399)	0	(1,989)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations			
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances	4,394	4,980	4,394
Offsetting Receipts Not Affecting Net Cost	11,358	158,151	259,610
Resources that Finance Asset Acquisition	(53,692)	(82,608)	(60,279)
Adjustments to Expenditure Transfers that Do Not Affect Net Cost	48,670	(9,642)	(88)
 Total Resources Used to Finance Items Not Part of the Net Cost of Operations	 \$ (411,962)	 \$ 415,644	 \$ (155,907)
 Total Resources Used to Finance the Net Cost of Operations	 \$ 6,165,442	 \$ 8,387,045	 \$ 7,593,112

*\* This statement did not have any intra-agency eliminations for FY 2003 or 2002.*

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Consolidating Statement of Financing  
For the Years Ended September 30, 2003 and 2002  
(Dollars in Thousands)**

	<b>All Others FY 2002</b>	<b>Consolidated Totals* FY 2003</b>	<b>Consolidated Totals* FY 2002</b>
<b>COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>			
Components Requiring or Generating Resources in Future Periods			
Increase in Annual Leave Liability (Note 29)	\$ 0	\$ 6,735	\$ 0
Increase in Environmental and Disposal Liability (Note 29)	578	(3,276)	578
Up/Downward Reestimates of Subsidy Expense	(371)	170	(371)
Increase in Public Exchange Revenue Receivable	(2,422)	(207,550)	(307,457)
Increase in Workers Compensation Costs (Note 29)	0	4,837	0
Total Components of Net Cost of Operations that Requires or Generates Resources in the Future	\$ (2,215)	\$ (199,084)	\$ (307,250)
Components Not Requiring/Generating Resources			
Depreciation and Amortization	27,022	45,204	34,876
Revaluation of Assets or Liabilities	0	0	0
Expenses Not Requiring Budgetary Resources	27,108	32,686	68,534
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	\$ 54,130	\$ 77,890	\$ 103,410
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period			
Net Cost of Operations	\$ 51,915	\$ (121,194)	\$ (203,840)
	\$ 6,217,357	\$ 8,265,851	\$ 7,389,272

*\* This statement did not have any intra-agency eliminations for FY 2003 or 2002.*

**The accompanying notes are an integral part of these statements.**

**Environmental Protection Agency  
Consolidated Statement of Custodial Activity  
For the Years Ended September 30, 2003 and 2002  
(Dollars in Thousands)**

	FY 2003	FY 2002
<b>Revenue Activity:</b>		
Sources of Collections		
Fines and Penalties	\$ 161,544	\$ 94,237
Other	5,793	9,322
Total Cash Collections	\$ 167,337	\$ 103,559
Accrual Adjustment	7,172	(8,070)
Total Custodial Revenue (Note 24)	\$ 174,509	\$ 95,489
 <b>Disposition of Collections:</b>		
Transferred to Others (General Fund)	\$ 165,440	\$ 103,818
Increases/Decreases in Amounts to be Transferred	9,069	(8,329)
Total Disposition of Collections	\$ 174,509	\$ 95,489
Net Custodial Revenue Activity (Note 24)	\$ 0	\$ 0

**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 consolidating financial statements have been prepared to report the financial position and results of operations of the Environmental Protection Agency (Agency) for the Hazardous Substance Superfund (Superfund) Trust Fund and All Other Funds, 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 "Form and Content for Agency Financial Statements," specified by the Office of Management and Budget (OMB) in Bulletin 01-09, and the Agency's accounting policies which are summarized in this note. In addition to preparing the reports required by Bulletin 01-09, Statement of Net Cost has been prepared by the Agency's strategic goals.

**B. Reporting Entities**

The Environmental Protection Agency (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 2003 the reporting entities are grouped as the Superfund Trust Fund and All Other Funds.

***Superfund Trust Fund***

In 1980, the Hazardous Substance Superfund, commonly referred to as the Superfund Trust Fund, 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 Agency 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 Agency, private parties, or other federal agencies. The Superfund Trust Fund includes the Department of the Treasury (Treasury) collections and investment activity. The Superfund Trust Fund is accounted for under Treasury symbol number 8145.

The accompanying financial statements include the accounts of all funds described in this note. EPA uses an expense allocation methodology as a financial statement estimate to present EPA programs' full cost. This methodology is used because Superfund programs may charge some costs directly to the Superfund Trust Fund and charge the remainder of their costs to All Other Funds in the Agency-wide appropriations. These amounts are presented as Expenses from Other Appropriations on the Statement of Net Cost and as Income from Other Appropriations on the



## Statement of Changes in Net Position and the Statement of Financing.

The Superfund Trust Fund is allocated to general support services costs (e.g., rent, communications, utilities, and mail operations) that were initially charged to the Agency's Science and Technology (S&T) and Environment Programs and Management (EPM) appropriations. During the year, these costs are allocated from the S&T and EPM appropriations to the Superfund Trust Fund based on a ratio of Superfund direct labor hours to the Agency total of all direct labor hours, using budgeted or actual full-time equivalent personnel charged to these appropriations. Agency general support services cost charges to the Superfund Trust Fund may not exceed the ceilings established in its appropriation. The related general support services costs charged to the Superfund Trust Funds were \$49.1 million for FY 2002 and \$11.9 million for FY 2003.

### ***All Other Funds***

All Other Funds include other Trust Fund appropriations, General Fund appropriations, Revolving Funds, Special Funds, the Agency Budgetary Clearing accounts, Deposit Funds, General Fund Receipt accounts, the Environmental Services Special Fund Receipt Account, the Miscellaneous Contributed Funds Trust Fund, and General Fund appropriations transferred from other federal agencies as authorized by the Economy Act of 1932. General Fund appropriation activities that no longer receive current definite appropriations but have unexpended authority are the Asbestos Loan Program and Energy, Research and Development. Detailed descriptions of All Other Funds are as follows:

The Leaking Underground Storage Tank (LUST) Trust Fund 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 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 2005, and is accounted for under Treasury symbol number 8153.

The Oil Spill Response Trust Fund 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. The Oil Spill Response Trust Fund is accounted for under Treasury symbol number 8221.

The State and Tribal Assistance Grants (STAG) appropriation 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. STAG is accounted for under Treasury symbol 0103.

The Science and Technology (S&T) appropriation 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 2003, 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. The S&T appropriation is accounted for under Treasury symbol 0107.

The Environmental Programs and Management (EPM) appropriation 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; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; Better Waste Management, Restoration of Contaminated Waste Sites, and Emergency Response; Reduction of Global and Cross Border Environmental Risks; Americans' Right to Know About Their Environment; Sound Science; Improved Understanding of Environmental Risk; and Greater Innovation to Address Environmental Problems; Credible Deterrent to Pollution and Greater Compliance with the Law; and Effective Management. The EPM appropriation is accounted for under Treasury symbol 0108.

The Office of Inspector General appropriation 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 Office of Inspector General appropriation is accounted for under Treasury symbol 0112 and includes expenses incurred and reimbursed from the appropriated trust funds accounted for under Treasury symbols 8145 and 8153.

The Buildings and Facilities (B&F) appropriation provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the EPA. The B&F appropriation is accounted for under Treasury symbol 0110.

The Payment to the Hazardous Substance Superfund appropriation authorizes appropriations

from the General Fund of the Treasury to finance activities conducted through the Hazardous Substance Superfund Program. Payment to the Hazardous Substance Superfund appropriation is accounted for under Treasury symbol 0250.

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

The FIFRA Revolving Fund was authorized by the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) of 1972 as amended in 1988 and as amended by the Food Quality Protection Act of 1996. Fees are paid by industry to offset costs of accelerated reregistration, expedited processing of pesticides, and establishing tolerances for pesticide chemicals in or on food and animal feed. The FIFRA Revolving Fund is accounted for under Treasury symbol number 4310.

The Tolerance Revolving Fund 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. Effective January 2, 1997, fees collected are now being collected and deposited in the Reregistration and Expedited Processing Revolving (FIFRA) Fund (4310). The fees collected prior to this date are accounted for under Treasury symbol number 4311.

The Working Capital Fund (WCF) 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 solely of Agency program offices. Accordingly, revenues generated by WCF and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation. The WCF is accounted for under Treasury symbol 4565.

The Exxon Valdez Settlement Fund 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. The Exxon Valdez Settlement fund is accounted for under Treasury symbol number 5297.

Allocations and appropriations transferred to the Agency from other federal agencies include funds from: (1) the Appalachian Regional Commission and the Department of Commerce, which provide economic assistance to state and local developmental activities; (2) the Agency for International Development, which provides assistance on environmental matters at international levels; and (3) the General Services Administration which provides funds for rental of buildings and operations, repairs, and maintenance of rental space. The transfer allocations are accounted for under Treasury symbols 0200, 1010, and 4542; and the appropriation transfers are accounted for under 0108.

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 Intraagency Payments and Collections (IPAC) Account. These are accounted for under Treasury symbols 3875, 3880 and 3885, respectively

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 symbols 6050, 6264, 6265, 6266, 6275 and 6500, respectively.

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

The Environmental Services Receipt account 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. Environmental Services are unavailable receipts accounted for under Treasury symbol 5295.

The Miscellaneous Contributed Funds Trust Fund 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. The Miscellaneous Contributed Funds Trust Fund is accounted for under Treasury symbol 8741.

### **C. Budgets and Budgetary Accounting**

#### ***Superfund***

Congress adopts an annual appropriation amount to be available until expended for the Superfund Trust Fund. A transfer account for the Superfund 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 Trust Fund at Treasury to cover the amounts being disbursed.

#### ***All Other Funds***

Congress adopts an annual appropriation amount for the LUST and the Oil Spill Response Trust Funds to remain available until expended. A transfer account for the 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 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. 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 Office of the Inspector General to be available for two 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 by a combination from two sources, one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adapted a one 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 was financed under a 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.

Funding of the FIFRA and the Tolerance Revolving 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 to offset costs incurred for providing the Agency administrative support for computer support and postage.

Funds transferred from other federal agencies are funded by a non expenditure 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, deposit accounts, and receipt accounts receive no budget. The amounts are recorded to the clearing and deposit accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts receivable to or collected for the Treasury General Fund.

#### **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. All 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 Number Seven (SFFAS No. 7), "Accounting for Revenues and Other Financing Sources," which was effective for accounting periods after September 30, 1997.

### ***Superfund***

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 under Inter-Agency Agreements (IAGs), state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties, 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.

### ***All Other Funds***

The majority of "All Other Funds" appropriations 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 the Tolerance Revolving Funds receive funding, which is now deposited with the FIFRA Revolving Fund, through fees collected for services provided. The FIFRA Revolving Fund also receives 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 received funding through reimbursements.

Appropriated funds are recognized as Other Financing Sources when earned, i.e., 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 funds maintained with Treasury are Appropriated Funds, Revolving Funds and Trust Funds. These funds have balances available to pay current liabilities and finance authorized purchase commitments. (See Note 2)

## **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 (See Note 5)**

### ***Superfund***

CERCLA as amended by SARA provides for the recovery of costs from potentially responsible parties (PRPs). However, cost recovery expenditures are expensed when incurred since there is no assurance that these funds will be recovered.

It is the Agency's policy to record 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 Superfund State Contracts (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% or 50% 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.

### ***All Other Funds***

The majority of receivables for All Other Funds represent interest receivable for Asbestos and FIFRA activities.

## **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. (See Note 6)

## **L. Loans Receivable**

Loans are accounted for as receivables after funds have been disbursed. The amounts of Asbestos Loan Program loans obligated but not disbursed is disclosed in Note 7. 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. (See Note 7)

## **M. Appropriated Amounts Held by Treasury**

For the Superfund and LUST Trust Funds, and for amounts appropriated from these Trust Funds to the Office of Inspector General, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury. (See Note 17)

## **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. (See Note 9)

Purchases of EPA-held and contractor-held personal property are capitalized if it is valued at \$25 thousand or more and has an estimated useful life of at least two years. Prior to implementing FAS, depreciation was taken on a modified straight-line basis over a period of six years depreciating 10% the first and sixth year, and 20% in years two through five. 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 five years. New acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to 15 years.

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 are valued at actual costs. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from ten 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.

In FY 1997, EPA's Working Capital Fund, a revenue generating activity, implemented requirements to capitalize software if the purchase price was \$100 thousand or more with an estimated useful life of two years or more. In FY 2001 the Agency began capitalizing software for All Other Funds 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 two to ten 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 collection of revenue for services provided. 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 2002 and FY 2003, 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." (See Note 33)

## **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," which was effective for the FY 1997 financial statements, 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, 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 the Agency with the 'Cost Factors' to compute EPA's 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," which was effective for FY 2002. EPA will make prior period adjustments for material errors as follows in accordance with SFFAS No. 21. 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, 2003 and 2002, consist of the following:

	<u>FY 2003</u>			<u>FY 2002</u>		
	<u>Entity Assets</u>	<u>Non-Entity Assets</u>	<u>Total</u>	<u>Entity Assets</u>	<u>Non-Entity Assets</u>	<u>Total</u>
<b>Trust Funds:</b>						
Superfund	\$ 26,448	\$ 0	\$ 26,448	\$ 32,229	\$ 0	\$ 32,229
LUST	34,008	0	34,008	16,405	0	16,405
Oil Spill	5,505	0	5,505	3,796	0	3,796
<b>Revolving Funds:</b>						
FIFRA/Tolerance	1,826	0	1,826	3,028	0	3,028
Working Capital	57,780	0	57,780	57,380	0	57,380
<b>Appropriated</b>	11,527,765	0	11,527,765	11,504,638	0	11,504,638
<b>Other Fund Types</b>	<u>111,225</u>	<u>20,248</u>	<u>131,473</u>	<u>99,575</u>	<u>4,112</u>	<u>103,687</u>
<b>Total</b>	<u>\$ 11,764,557</u>	<u>\$ 20,248</u>	<u>\$ 11,784,805</u>	<u>11,717,051</u>	<u>\$ 4,112</u>	<u>\$ 11,721,163</u>

Entity fund balances, except for Other Fund Types, include balances that are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below). Other Fund Types are not presently subject to obligation.

Entity Assets for Other Fund Types consist of the Environmental Services Receipt account, which is a special fund receipt account. Upon Congress appropriating the funds, EPA will use these special fund receipts in the S&T and EPM appropriations. 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 accounting disposition or being held by EPA for other entities.

Status of Fund Balances:

	FY 2003		FY 2002	
	<u>Superfund</u>	<u>All Others</u>	<u>Superfund</u>	<u>All Others</u>
Unobligated Amounts in Fund Balances:				
Available for Obligation	\$ 766,786	\$ 2,011,471	\$ 726,589	\$ 1,917,637
Unavailable for Obligation	19	87,404	24,417	127,611
Net Receivables from Invested Balances	(2,579,726)	(66,574)	(2,742,412)	(80,875)
Balances in Treasury Trust Fund (Note 17)	866	12,377	1,876	12,232
Obligated Balance not yet Disbursed	1,838,503	9,582,206	2,021,759	9,608,642
Balances not subject to Obligation	<u>0</u>	<u>131,473</u>	<u>0</u>	<u>103,687</u>
Totals	<u>\$ 26,448</u>	<u>\$ 11,758,357</u>	<u>\$ 32,229</u>	<u>\$ 11,688,934</u>

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

For FY 2003, no differences existed between Treasury’s accounts and EPA’s statements for fund balances with Treasury. For FY 2002, the amounts on the agency financial statements were \$2,828 thousand less than the balances on Treasury’s records. These differences consist mainly of unrecorded transactions from the last two months of FY 2002 that were recorded by the agency in FY 2003. The FY 2002 differences for Superfund and All Other Funds are \$1,301 thousand and \$1,527 thousand, respectively.

**Note 3. Cash**

In All Others, as of September 30, 2003 and 2002, cash consisted of imprest funds totaling \$10 thousand.

**Note 4. Investments**

As of September 30, 2003 and 2002, investments consisted of the following:

		<u>Cost</u>	<u>Unamortized (Premium) Discount</u>	<u>Interest Receivable</u>	<u>Investments, Net</u>	<u>Market Value</u>
<b>Superfund</b>						
<b>Intragovernmental Securities:</b>						
Non-Marketable	FY 2003	\$ <u>2,507,927</u>	\$ <u>(8,183)</u>	\$ <u>37</u>	\$ <u>2,516,147</u>	\$ <u>2,516,147</u>
	FY 2002	\$ <u>3,234,352</u>	\$ <u>(62,650)</u>	\$ <u>12,973</u>	\$ <u>3,309,975</u>	\$ <u>3,309,975</u>
<b>All Others</b>						
<b>Intragovernmental Securities:</b>						
Non-Marketable	FY 2003	\$ <u>2,037,560</u>	\$ <u>(51,290)</u>	\$ <u>25,834</u>	\$ <u>2,114,684</u>	\$ <u>2,114,684</u>
	FY 2002	\$ <u>1,892,769</u>	\$ <u>(36,752)</u>	\$ <u>22,531</u>	\$ <u>1,952,052</u>	\$ <u>1,952,052</u>

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.

**Note 5. Accounts Receivable**

The Accounts Receivable for September 30, 2003 and 2002, consist of the following:

	<u>FY 2003</u>		<u>FY 2002</u>	
	<u>Superfund</u>	<u>All Others</u>	<u>Superfund</u>	<u>All Others</u>
<b>Intragovernmental Assets:</b>				
Accounts & Interest Receivable	\$ <u>34,665</u>	\$ <u>119,941</u>	\$ <u>33,309</u>	\$ <u>72,298</u>
<b>Non-Federal Assets:</b>				
Unbilled Accounts Receivable	\$ 109,272	\$ 1,668	\$ 87,443	\$ 2,210
Accounts & Interest Receivable	815,119	113,130	783,279	101,392
Less: Allowance for Uncollectibles	<u>(495,905)</u>	<u>(49,502)</u>	<u>(459,285)</u>	<u>(54,204)</u>
<b>Total</b>	\$ <u>428,486</u>	\$ <u>65,296</u>	\$ <u>411,437</u>	\$ <u>49,398</u>

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

**Note 6. Other Assets**

Other Assets for September 30, 2003, consist of the following:

	<b>Superfund Trust Fund</b>	<b>All Others</b>	<b>Combined Totals</b>
<b>Intragovernmental Assets:</b>			
Advances to Federal Agencies	\$ 146	\$ 3,233	\$ 3,379
Advances to Working Capital Fund	7,268	0	7,268
Advances for Postage	<u>0</u>	<u>594</u>	<u>594</u>
<b>Total Intragovernmental Assets</b>	<b><u>\$ 7,414</u></b>	<b><u>\$ 3,827</u></b>	<b><u>\$ 11,241</u></b>
<b>Non-Federal Assets:</b>			
Travel Advances	\$ (51)	\$ (918)	\$ (969)
Letter of Credit Advances	0	601	601
Grant Advances	0	1,544	1,544
Other Advances	731	95	826
Operating Materials and Supplies	0	217	217
Inventory for Sale	0	51	51
Securities Received in Settlement for Debt	<u>0</u>	<u>1,912</u>	<u>1,912</u>
<b>Total Non-Federal Assets</b>	<b><u>\$ 680</u></b>	<b><u>\$ 3,502</u></b>	<b><u>\$ 4,182</u></b>

Other Assets for September 30, 2002, consist of the following:

	<b>Superfund Trust Fund</b>	<b>All Others</b>	<b>Combined Totals</b>
<b>Intragovernmental Assets:</b>			
Advances to Federal Agencies	\$ 141	\$ 4,163	\$ 4,304
Advances to Working Capital Fund	4,379	0	4,379
Advances for Postage	<u>0</u>	<u>415</u>	<u>415</u>
<b>Total Intragovernmental Assets</b>	<b><u>\$ 4,520</u></b>	<b><u>\$ 4,578</u></b>	<b><u>\$ 9,098</u></b>
<b>Non-Federal Assets:</b>			
Travel Advances	\$ (13)	\$ (911)	\$ (924)
Letter of Credit Advances	0	2,388	2,388
Grant Advances	0	3,054	3,054
Other Advances	793	148	941
Operating Materials and Supplies	0	216	216
Inventory for Sale	<u>0</u>	<u>42</u>	<u>42</u>
<b>Total Non-Federal Assets</b>	<b><u>\$ 780</u></b>	<b><u>\$ 4,937</u></b>	<b><u>\$ 5,717</u></b>

**Note 7. Loans Receivable, Net - Non-Federal**

Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 are net of an allowance for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act. The Act mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an

expense in the year the loan is made. The net present value of loans is the amount of the gross loan receivable less the present value of the subsidy.

An analysis of loans receivable and the nature and amounts of the subsidy and administrative expenses associated entirely with Asbestos Loan Program loans as of September 30, 2003 and 2002, is provided in the following sections.

	<u>FY 2003</u>			<u>FY 2002</u>		
	<u>Loans Receivable, Gross</u>	<u>Allowance*</u>	<u>Value of Assets Related to Direct Loans</u>	<u>Loans Receivable, Gross</u>	<u>Allowance*</u>	<u>Value of Assets Related to Direct Loans</u>
Direct Loans Obligated Prior to FY 1992	\$ 33,245	\$ 0	\$ 33,245	\$ 41,181	\$ 0	\$ 41,181
Direct Loans Obligated After FY 1991	<u>34,597</u>	<u>(14,336)</u>	<u>20,261</u>	<u>38,664</u>	<u>(15,199)</u>	<u>23,465</u>
<b>Total</b>	<b><u>\$ 67,842</u></b>	<b><u>\$ (14,336)</u></b>	<b><u>\$ 53,506</u></b>	<b><u>\$ 79,845</u></b>	<b><u>\$ (15,199)</u></b>	<b><u>\$ 64,646</u></b>

\* 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).

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

	<u>Interest Rate Re-estimate</u>	<u>Technical Re-estimate</u>	<u>Fee Offsets</u>	<u>Total</u>
Direct Loan Subsidy Expense - FY 2003	\$ 377	\$ 528	\$ 0	\$ 905
Downward Subsidy Reestimate - FY 2003	<u>(170)</u>	<u>(201)</u>	<u>0</u>	<u>(371)</u>
FY 2003 Totals	<u>\$ 207</u>	<u>\$ 327</u>	<u>\$ 0</u>	<u>\$ 534</u>
Direct Loan Subsidy Expense - FY 2002	\$ 115	\$ 157	\$ 0	\$ 272
Downward Subsidy Reestimate - FY 2002	<u>(496)</u>	<u>(816)</u>	<u>0</u>	<u>(1,312)</u>
FY 2002 Totals	<u>\$ (381)</u>	<u>\$ (659)</u>	<u>\$ 0</u>	<u>\$ (1,040)</u>

**Note 8. Accounts Payable and Accrued Liabilities**

The Accounts Payable and Accrued Liabilities, both Federal and Non-Federal, are current liabilities consisting of the following amounts as of September 30, 2003:

<u>Superfund Trust Fund</u>	<u>All Other Funds</u>	<u>Combined Total</u>
-----------------------------	------------------------	-----------------------

**Federal:**

Accounts Payable to other Federal Agencies	\$	593	\$	618	\$	1,211
Liability for Allocation Transfers		20,017				20,017
Expenditure Transfers Payable to other EPA Funds		86,087				86,087
Accrued Liabilities, Federal		38,934		69,538		108,472
Total	\$	<u>145,631</u>	\$	<u>70,156</u>	\$	<u>215,787</u>

**Non-Federal:**

Accounts Payable, Non-Federal	\$	45,880	\$	71,160	\$	117,040
Advances Payable, Non-Federal		3		13		16
Interest Payable		553		2		555
Grant Liabilities		21,714		545,872		567,586
Other Accrued Liabilities, Non-Federal		97,400		105,737		203,137
Total	\$	<u>165,550</u>	\$	<u>722,784</u>	\$	<u>888,334</u>

The Accounts Payable and Accrued Liabilities, both Federal and Non-Federal, consisted of the following amounts as of September 30, 2002:

		<b>Superfund Trust Fund</b>		<b>All Other Funds</b>		<b>Combined Total</b>
<b>Federal:</b>						
Accounts Payable to other Federal Agencies	\$	4,964	\$	620	\$	5,584
Liability for Allocation Transfers		20,017				20,017
Expenditure Transfers Payable to other EPA Funds		45,701				45,701
Accrued Liabilities, Federal		45,557		43,363		88,920
Total	\$	<u>116,239</u>	\$	<u>43,983</u>	\$	<u>160,222</u>
<b>Non-Federal:</b>						
Accounts Payable, Non-Federal	\$	43,344	\$	74,260	\$	117,604
Advances Payable, Non-Federal		14		3		17
Interest Payable		333		1		334
Grant Liabilities		14,590		348,474		363,064
Other Accrued Liabilities, Non-Federal		87,524		88,498		176,022
Total	\$	<u>145,805</u>	\$	<u>511,236</u>	\$	<u>657,041</u>

**Note 9. General Plant, Property and Equipment**

Superfund property, plant and equipment, consists of personal property items held by contractors and the Agency. EPA also has property funded by various other Agency appropriations. The property funded by these appropriations are presented in the aggregate under "All Others" and consists of software; real, EPA-Held and Contractor-Held personal, and capitalized-leased property.

As of September 30, 2003, Plant, Property and Equipment consisted of the following:

	Superfund			All Others		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 28,990	\$ (15,664)	\$ 13,326	\$ 158,199	\$ (97,785)	\$ 60,414
Software	3,649	(138)	3,511	53,888	(4,397)	49,491
Contractor-Held Property:						
Superfund						
Site-Specific	40,505	(16,642)	23,863			
General	7,607	(2,452)	5,155	15,679	(6,429)	9,250
Land and Buildings				536,212	(100,826)	435,386
Capital Leases				41,535	(16,605)	24,930
<b>Total</b>	<b>\$ 80,751</b>	<b>\$ (34,896)</b>	<b>\$ 45,855</b>	<b>\$ 805,513</b>	<b>\$ (226,042)</b>	<b>\$ 579,471</b>

As of September 30, 2002, Plant, Property and Equipment consisted of the following:

	Superfund			All Others		
	Acquisition Value	Accumulated Depreciation	Net Book Value	Acquisition Value	Accumulated Depreciation	Net Book Value
EPA-Held Equipment	\$ 25,968	\$ (15,245)	\$ 10,723	\$ 148,693	\$ (92,920)	\$ 55,773
Software	961	(85)	876	26,358	(2,520)	23,838
Contractor-Held Property:						
Superfund						
Site-Specific	32,472	(12,065)	20,407	0	0	0
General	10,407	(3,667)	6,740	18,412	(9,689)	8,723
Land and Buildings				521,515	(85,238)	436,277
Capital Leases				41,614	(14,889)	26,725
<b>Total</b>	<b>\$ 69,808</b>	<b>\$ (31,062)</b>	<b>\$ 38,746</b>	<b>\$ 756,592</b>	<b>\$ (205,256)</b>	<b>\$ 551,336</b>

**Note 10. Debt**

The Debt consisted of the following as of September 30, 2003 and 2002:

	FY 2003			FY 2002		
	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
<b>All Others</b>						
Other Debt:						
Debt to Treasury	\$ 24,290	\$ (3,101)	\$ 21,189	\$ 31,124	\$ (6,834)	\$ 24,290
Classification of Debt:						
Intragovernmental Debt			\$ 21,189			\$ 24,290



**Note 11. Custodial Liability**

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

The Other Liabilities, both intragovernmental and Non-Federal, for September 30, 2003 are as follows:

<b>Other Liabilities - Intragovernmental</b>	<b>Covered by</b>	<b>Not Covered by</b>	<b>Total</b>
	<b><u>Budgetary Resources</u></b>	<b><u>Budgetary Resources</u></b>	
<b>Superfund - Current</b>			
Employer Contributions & Payroll Taxes	\$ 1,379	0	\$ 1,379
Other Advances	1,811	0	1,811
Advances, HRSTF Cashout	25,016	0	25,016
Deferred HRSTF Cashout	947	0	947
<b>Superfund - Non-Current</b>			
Unfunded FECA Liability	<u>0</u>	<u>1,447</u>	<u>1,447</u>
<b>Total Superfund</b>	<b><u>\$ 29,153</u></b>	<b><u>\$ 1,447</u></b>	<b><u>\$ 30,600</u></b>
<b>All Other - Current</b>			
Employer Contributions & Payroll Taxes	\$ 6,589	\$ 0	\$ 6,589
WCF Advances	7,269	0	7,269
Other Advances	1,674	0	1,674
Liability for Deposit Funds	(515)	0	(515)
Resources Payable to Treasury	1	0	1
Subsidy Payable to Treasury	0	0	0
<b>All Other - Non-Current</b>			
Unfunded FECA Liability	<u>0</u>	<u>6,593</u>	<u>6,593</u>
<b>Total All Other</b>	<b><u>\$ 15,018</u></b>	<b><u>\$ 6,593</u></b>	<b><u>\$ 21,611</u></b>
<b>Other Liabilities - Non-Federal</b>			
<b>Superfund - Current</b>			
Unearned Advances, Non- Federal	<u>\$ 49,809</u>	<u>\$ 0</u>	<u>\$ 49,809</u>
<b>All Other - Current</b>			
Unearned Advances, Non- Federal	\$ 5,044	\$ 0	\$ 5,044
Liability for Deposit Funds, Non-Federal	12,261	0	12,261
<b>All Other - Non-Current</b>			
Capital Lease Liability	<u>0</u>	<u>35,800</u>	<u>35,800</u>
<b>Total All Other</b>	<b><u>\$ 17,305</u></b>	<b><u>\$ 35,800</u></b>	<b><u>\$ 53,105</u></b>

The Other Liabilities, both intragovernmental and Non-Federal, for September 30, 2002, are as follows:

<b>Other Liabilities - Intragovernmental</b>	<b><u>Covered by</u></b>	<b><u>Not Covered by</u></b>	<b><u>Total</u></b>
	<b><u>Budgetary Resources</u></b>	<b><u>Budgetary Resources</u></b>	
<b>Superfund - Current</b>			
Employer Contributions & Payroll Taxes	\$ 3,169	0	\$ 3,169
Other Advances	2,470	0	2,470
Advances, HRSTF Cashout	16,618	0	16,618
Deferred HRSTF Cashout	30	0	30
<b>Superfund - Non-Current</b>			
Unfunded FECA Liability	<u>0</u>	<u>1,440</u>	<u>1,440</u>
<b>Total Superfund</b>	<b><u>\$ 22,287</u></b>	<b><u>\$ 1,440</u></b>	<b><u>\$ 23,727</u></b>
<b>All Other - Current</b>			
Employer Contributions & Payroll Taxes	\$ 13,883	\$ 0	\$ 13,883
WCF Advances	4,379	0	4,379
Other Advances	1,435	0	1,435
Liability for Deposit Funds	(91)	0	(91)
Resources Payable to Treasury	2	0	2
Subsidy Payable to Treasury	371	0	371
<b>All Other - Non-Current</b>			
Unfunded FECA Liability	<u>0</u>	<u>6,402</u>	<u>6,402</u>
<b>Total All Other</b>	<b><u>\$ 19,979</u></b>	<b><u>\$ 6,402</u></b>	<b><u>\$ 26,381</u></b>
 <b>Other Liabilities - Non-Federal</b>			
<b>Superfund - Current</b>			
Unearned Advances, Non-Federal	<u>\$ 45,515</u>	<u>0</u>	<u>45,515</u>
<b>All Other - Current</b>			
Unearned Advances, Non-Federal	\$ 6,569	\$ 0	\$ 6,569
Liability for Deposit Funds, Non-Federal	4,181	0	4,181
<b>All Other - Non-Current</b>			
Capital Lease Liability	<u>0</u>	<u>36,729</u>	<u>36,729</u>
<b>Total All Other</b>	<b><u>\$ 10,750</u></b>	<b><u>\$ 36,729</u></b>	<b><u>\$ 47,479</u></b>

**Note 13. Leases**

The Capital Leases as of September 30, 2003 and 2002, consist of the following:

Capital Leases, All Other Funds:

<b><u>Summary of Assets Under Capital Lease:</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2002</u></b>
Real Property	\$ 40,913	\$ 40,913
Personal Property	<u>622</u>	<u>701</u>
<b>Total</b>	<b>\$ <u>41,535</u></b>	<b>\$ <u>41,614</u></b>
Accumulated Amortization	\$ <u>16,605</u>	\$ <u>14,889</u>

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). EPA has capital leases for seven shuttle buses terminating in FY 2007. The real property leases terminate in fiscal years 2010, 2013, and 2025. The charges are expended out of the Environmental Programs and Management (EPM) appropriation. The total future minimum lease payments of the capital leases are listed below.

<b><u>Future Payments Due:</u></b>	<b><u>All Others</u></b>
<b>Fiscal Year</b>	
2004	\$ 6,439
2005	6,439
2006	6,439
2007	6,331
2008	6,295
After 5 Years	<u>77,309</u>
Total Future Minimum Lease Payments	109,252
Less: Imputed Interest	<u>(73,452)</u>
<b>Net Capital Lease Liability</b>	<b>\$ <u>35,800</u></b>
<b>Liabilities not Covered by Budgetary Resources (See Note 12)</b>	<b>\$ <u>35,800</u></b>

**Operating Leases:**

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

EPA has five direct operating leases for land and buildings housing scientific laboratories and/or computer facilities during FY 2003. 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 (U.S. Department of Labor). Two of these operating leases that were due to expire in FY 2002 were extended: one until FY 2003 and the other on a monthly basis. Two others expire in fiscal years 2017 and 2020. The fifth lease that expired in FY 2001 was extended until FY 2007. The charges are expended from the EPM appropriation. The total minimum future costs of operating leases are listed below.

<b><u>Fiscal Year</u></b>	<b><u>Superfund</u></b>	<b><u>All Others</u></b>	<b><u>Total Land &amp; Buildings</u></b>
2004	\$ 0	\$ 108	\$ 108
2005	0	87	87
2006	0	87	87
2007	0	81	81
2008	0	74	74
Beyond 2008	<u>0</u>	<u>772</u>	<u>772</u>
<b>Total Future Minimum Lease Payments</b>	<b>\$ 0</b>	<b>\$ 1,209</b>	<b>\$ 1,209</b>

***Note 14. Pension and Other Actuarial Liabilities***

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, 2003 and 2002, consisted of the following:

	<b><u>FY 2003</u></b>		<b><u>FY 2002</u></b>	
	<b><u>Superfund</u></b>	<b><u>All Other</u></b>	<b><u>Superfund</u></b>	<b><u>All Other</u></b>
<b>FECA Actuarial Liability</b>	<b>\$ 7,937</b>	<b>\$ 36,159</b>	<b>\$ 7,698</b>	<b>\$ 31,759</b>

The FY 2003 present value of these estimated outflows are calculated using a discount rate of 3.84 percent in the first year, and 4.35 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

**Note 15. Cashout Advances, Superfund**

Cashouts are funds received by EPA, a state, or another Potentially Responsible Party 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, All Other Funds**

As of September 30, 2003 and 2002, the Unexpended Appropriations consisted of the following for All Other Funds:

<b><u>Unexpended Appropriations:</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2002</u></b>
Unobligated		
Available	\$ 1,797,410	\$ 1,725,016
Unavailable	41,667	52,896
Undelivered Orders	<u>8,929,159</u>	<u>9,145,977</u>
<b>Total</b>	<b><u>\$ 10,768,236</u></b>	<b><u>\$ 10,923,889</u></b>

**Note 17. Amounts Held by Treasury**

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

**Superfund (Audited)**

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 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. (See Note 36 for more information on the status of this trust fund.)

The following reflects the Superfund Trust Fund maintained by the U.S. Department of Treasury as of September 30, 2003 and 2002. The amounts contained in these statements have been provided by the Treasury and are audited. Outlays represent amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

**SUPERFUND FY 2003**

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
<b>Undistributed Balances</b>			
Available for Investment	\$ 0	\$ 866	\$ 866
Total Undisbursed Balance	0	866	866
Interest Receivable	0	37	37
Investments, Net of Discounts	<u>2,599,744</u>	<u>(83,634)</u>	<u>2,516,110</u>
Total Assets	<u>\$ 2,599,744</u>	<u>\$ (82,731)</u>	<u>\$ 2,517,013</u>
<b>Liabilities &amp; Equity</b>			
Equity (Note 36)	<u>\$ 2,599,744</u>	<u>\$ (82,731)</u>	<u>\$ 2,517,013</u>
Total Liabilities and Equity	<u>\$ 2,599,744</u>	<u>\$ (82,731)</u>	<u>\$ 2,517,013</u>
<b>Receipts</b>			
Corporate Environmental	\$ 0	\$ (99,355)	\$ (99,355)
Cost Recoveries	0	146,502	146,502
Fines & Penalties	<u>0</u>	<u>2,873</u>	<u>2,873</u>
Total Revenue	0	50,020	50,020
Appropriations Received	0	632,307	632,307
Interest Income	<u>0</u>	<u>48,945</u>	<u>48,945</u>
Total Receipts	<u>0</u>	<u>731,272</u>	<u>731,272</u>
<b>Outlays</b>			
Transfers to/from EPA, Net	1,278,068	(1,278,068)	0
Transfers to CDC	<u>0</u>	<u>(80,200)</u>	<u>(80,200)</u>
Total Outlays	<u>1,278,068</u>	<u>(1,358,268)</u>	<u>(80,200)</u>
Net Income	<u>\$ 1,278,068</u>	<u>\$ (626,996)</u>	<u>\$ 651,072</u>

**SUPERFUND FY 2002**

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
<b>Undistributed Balances</b>			
Available for Investment	\$ <u>0</u>	\$ <u>1,876</u>	\$ <u>1,876</u>
Total Undisbursed Balance	0	1,876	1,876
Interest Receivable	0	12,973	12,973
Investments, Net of Discounts	<u>2,762,430</u>	<u>534,572</u>	<u>3,297,002</u>
Total Assets	\$ <u><u>2,762,430</u></u>	\$ <u><u>549,421</u></u>	\$ <u><u>3,311,851</u></u>
<b>Liabilities &amp; Equity</b>			
Equity (Note 36)	\$ <u>2,762,430</u>	\$ <u>549,421</u>	\$ <u>3,311,851</u>
Total Liabilities and Equity	\$ <u><u>2,762,430</u></u>	\$ <u><u>549,421</u></u>	\$ <u><u>3,311,851</u></u>
<b>Receipts</b>			
Corporate Environmental	\$ 0	\$ 7,466	\$ 7,466
Cost Recoveries	0	248,252	248,252
Fines & Penalties	<u>0</u>	<u>1,444</u>	<u>1,444</u>
Total Revenue	0	257,162	257,162
Appropriations Received	0	676,292	676,292
Interest Income	<u>0</u>	<u>110,577</u>	<u>110,577</u>
Total Receipts	<u><u>0</u></u>	<u><u>1,044,031</u></u>	<u><u>1,044,031</u></u>
<b>Outlays</b>			
Transfers to EPA	1,329,490	(1,329,490)	0
Transfers to CDC	<u>0</u>	<u>(49,502)</u>	<u>(49,502)</u>
Total Outlays	<u>1,329,490</u>	<u>(1,378,992)</u>	<u>(49,502)</u>
Net Income	\$ <u><u>1,329,490</u></u>	\$ <u><u>(334,961)</u></u>	\$ <u><u>994,529</u></u>

***LUST (Audited)***

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2003 and 2002 there were no fund receipts from cost recoveries. The following represents LUST Trust Fund as maintained by Treasury. The amounts contained in these statements 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 2003**

	<b><u>EPA</u></b>	<b><u>Treasury</u></b>	<b><u>Combined</u></b>
<b>Undistributed Balances</b>			
Available for Investment	\$ 0	\$ 12,377	\$ 12,377
Total Undisbursed Balance	0	12,377	12,377
Interest Receivable	0	25,834	25,834
Investments, Net of Discounts	<u>66,574</u>	<u>2,022,279</u>	<u>2,088,853</u>
Total Assets	<u>\$ 66,574</u>	<u>\$ 2,060,490</u>	<u>\$ 2,127,064</u>
<b>Liabilities &amp; Equity</b>			
Equity	<u>\$ 66,574</u>	<u>\$ 2,060,490</u>	<u>\$ 2,127,064</u>
Total Liabilities and Equity	<u>\$ 66,574</u>	<u>\$ 2,060,490</u>	<u>\$ 2,127,064</u>
<b>Receipts</b>			
Highway TF Tax	\$ 0	\$ 177,340	\$ 177,340
Airport TF Tax	0	12,241	12,241
Inland TF Tax	0	448	448
Refund Gasoline Tax	0	(2,064)	(2,064)
Refund Diesel Tax	0	(3,214)	(3,214)
Refund Aviation Tax	<u>0</u>	<u>(274)</u>	<u>(274)</u>
Total Revenue	0	184,477	184,477
Interest Income	<u>0</u>	<u>64,447</u>	<u>64,447</u>
Total Receipts	<u>0</u>	<u>248,924</u>	<u>248,924</u>
<b>Outlays</b>			
Transfers to/from EPA, Net	<u>71,843</u>	<u>(71,843)</u>	<u>0</u>
Total Outlays	<u>71,843</u>	<u>(71,843)</u>	<u>0</u>
Net Income	<u>\$ 71,843</u>	<u>\$ 177,081</u>	<u>\$ 248,924</u>



**LUST FY 2002**

	<u>EPA</u>	<u>Treasury</u>	<u>Combined</u>
<b>Undistributed Balances</b>			
Available for Investment	\$ 0	\$ 12,232	\$ 12,232
Total Undisbursed Balance	0	12,232	12,232
Interest Receivable	0	22,531	22,531
Investments, Net of Discounts	<u>80,875</u>	<u>1,848,646</u>	<u>1,929,521</u>
Total Assets	<u>\$ 80,875</u>	<u>\$ 1,883,409</u>	<u>\$ 1,964,284</u>
<b>Liabilities &amp; Equity</b>			
Equity	<u>\$ 80,875</u>	<u>\$ 1,883,409</u>	<u>\$ 1,964,284</u>
Total Liabilities and Equity	<u>\$ 80,875</u>	<u>\$ 1,883,409</u>	<u>\$ 1,964,284</u>
<b>Receipts</b>			
Highway TF Tax	\$ 0	\$ 173,351	\$ 173,351
Airport TF Tax	0	13,199	13,199
Inland TF Tax	0	474	474
Refund Gasoline Tax	0	(2,167)	(2,167)
Refund Diesel Tax	0	(3,357)	(3,357)
Refund Aviation Tax	<u>0</u>	<u>(310)</u>	<u>(310)</u>
Total Revenue	0	181,190	181,190
Interest Income	<u>0</u>	<u>67,563</u>	<u>67,563</u>
Total Receipts	<u>0</u>	<u>248,753</u>	<u>248,753</u>
<b>Outlays</b>			
Transfers to/from EPA, Net	<u>72,912</u>	<u>(72,912)</u>	<u>0</u>
Total Outlays	<u>72,912</u>	<u>(72,912)</u>	<u>0</u>
Net Income	<u>\$ 72,912</u>	<u>\$ 175,841</u>	<u>\$ 248,753</u>

***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 106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA 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 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.

There are currently four CERCLA 106(b) administrative claims. If the claimants are successful, the total losses on the administrative and judicial claims could amount to approximately \$55.4 million. The Environmental Appeals Board has not yet issued final decisions on any of these 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***

There are four 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 claim could amount to \$89.5 million. The largest claim (maximum amount \$73.1 million) was filed with GSA and the parties currently are in discovery. EPA is contesting the Federal Tort Claims Act action (\$15.36 million) and awaiting final Department of Labor decisions on two related claims (totaling \$1.05 million). The claimants' chance of success overall is characterized as reasonably possible.

### ***Judgement Fund***

In cases that are paid by the U.S. Treasury Judgement 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 judgement is assessed and the Judgement 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 judgement, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, Accounting for Treasury Judgement Fund Transactions.

As of September 30, 2003, there are no material claims pending in the Treasury Judgement Fund.

### ***Note 19. Exchange Revenues, Statement of Net Cost***

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

### ***Note 20. Environmental Cleanup Costs***

As of September 30, 2003, the EPA has two sites that require clean up stemming from its activities. Costs amounting to \$18 thousand may be paid out of the Treasury Judgement Fund. (The \$18 thousand represents the lower end of a range estimate, of which the maximum of the range will total \$30 thousand.) The claimants' chances of success are characterized as reasonably possible. As of September 30, 2002, EPA had one site requiring clean up with costs amounting to \$20 thousand that may have been paid out of the Treasury Judgement Fund. (The \$20 thousand represents the lower end of the range estimate, of which the maximum was \$200 thousand.) The claimant's chance of success was characterized as probable. 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.

#### **Accrued Cleanup Cost**

The EPA has 12 sites that will require future clean up associated with permanent closure and three sites with clean up presently underway. The estimated costs will be approximately \$9 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 2003 estimate for unfunded cleanup costs decreased by \$3.3 million from the FY 2002 estimate. This decrease is due in large part to the funding of the cleanup at several facilities in Denver and Research Triangle Park (RTP) associated with the ongoing consolidation at the Denver Federal Center and RTP Campus, respectively. Of the \$9 million in estimated cleanup costs, approximately \$2.7 million represents the estimated expense to close the current RTP facility. These costs will be incurred within the next year. The remaining amount represents the future decontamination and decommissioning costs of EPA's other research facilities. There was a net decrease of approximately \$1.2 million in funded cleanup costs from FY 2002 to FY 2003. EPA could also be potentially liable for cleanup costs, at a GSA-leased site; however, the amounts are not known.

### ***Note 21. Superfund State Credits***

Authorizing statutory language for Superfund and related Federal regulations require States to enter into Superfund State Contracts (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 ten percent cost share for remedial action costs incurred at privately owned or operated sites, and at least fifty 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, 2003, the total remaining state credits have been estimated at \$9.6 million. The estimated ending credit balance on September 30, 2002, was \$11.2 million.

**Note 22. Superfund Preauthorized Mixed Funding Agreements**

Under Superfund preauthorized mixed funding agreements, Potentially Responsible Parties (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 Section 111(a)(2) of CERCLA. Under Section 122(b)(1) of CERCLA, as amended by SARA, a PRP 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, 2003, EPA had 13 outstanding preauthorized mixed funding agreements with obligations totaling \$32.1 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. Income and Expenses from other Appropriations**

The Statement of Net Cost reports program costs that include the full costs of the program outputs and 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 FY 2003 and 2002, EPA had one appropriation which funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. The EPM appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities.

All of the expenses from EPM were distributed among EPA's two Reporting Entities: Superfund and All Others. 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 net effect of the Statement of Net Costs.

	<u>FY 2003</u>			<u>FY 2002</u>		
	<u>Income From Other Appropriations</u>	<u>Expenses From Other Appropriations</u>	<u>Net Effect</u>	<u>Income From Other Appropriations</u>	<u>Expenses From Other Appropriations</u>	<u>Net Effect</u>
Superfund	\$ 75,597	\$ (75,597)	\$ 0	\$ 114,297	\$ (114,297)	\$ 0
All Others	<u>(75,597)</u>	<u>75,597</u>	<u>0</u>	<u>(114,297)</u>	<u>114,297</u>	<u>0</u>
<b>Total</b>	<b>\$ <u>0</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>0</u></b>

**Note 24. 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 responsible parties' willingness and ability to pay.

	<u>FY 2003</u>	<u>FY 2002</u>
<b>Fines, Penalties and Other Misc Revenue (EPA)</b>	\$ <u>174,509</u>	\$ <u>95,489</u>
<b>Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts</b>		
Accounts Receivable	\$ 117,191	\$ 107,779
Less: Allowance for Doubtful Accounts	<u>(40,311)</u>	<u>(39,383)</u>
<b>Total</b>	\$ <u>76,880</u>	\$ <u>68,396</u>

**Note 25. Statement of Budgetary Resources**

Reconciliations of budgetary resources, obligations incurred, and outlays, as presented in the audited Statements of Budgetary Resources, to amounts included in the Budget of the United States Government for the years ended September 30, 2003 and 2002, are as follows:

<u>FY 2003</u>	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
<b>Superfund</b>			
<b>Statement of Budgetary Resources</b>	\$ 2,317,206	\$ 1,550,401	\$ 1,445,513
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>0</u>	<u>0</u>	<u>1,313</u>
<b>Budget of the United States Government</b>	\$ <u>2,317,206</u>	\$ <u>1,550,401</u>	\$ <u>1,446,826</u>
<b>All Other</b>			
<b>Statement of Budgetary Resources</b>	\$ 9,910,793	\$ 7,811,921	\$ 7,397,843
Less: Funds Reported by Other Federal Entities	(353)	0	(36)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>622</u>	<u>0</u>	<u>26</u>
<b>Budget of the United States Government</b>	\$ <u>9,911,062</u>	\$ <u>7,811,921</u>	\$ <u>7,397,833</u>

<u>FY 2002</u>	<u>Budgetary Resources</u>	<u>Obligations Incurred</u>	<u>Outlays</u>
<b>Superfund</b>			
<b>Statement of Budgetary Resources</b>	\$ 2,448,998	\$ 1,698,004	\$ 1,377,754
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>(17,463)</u>	<u>(17,463)</u>	<u>(1,313)</u>
<b>Budget of the United States Government</b>	<u>\$ 2,431,535</u>	<u>\$ 1,680,541</u>	<u>\$ 1,376,441</u>
<b>All Other</b>			
<b>Statement of Budgetary Resources</b>	\$ 9,807,912	\$ 7,762,664	\$ 7,012,562
Less: Funds Reported by Other Federal Entities	(24,419)	(24,066)	(24,582)
Adjustments to Unliquidated Obligations, Unfilled Customer Orders and Other	<u>0</u>	<u>(622)</u>	<u>(26)</u>
<b>Budget of the United States Government</b>	<u>\$ 9,783,493</u>	<u>\$ 7,737,976</u>	<u>\$ 6,987,954</u>

***Note 26. Recoveries and Permanently Not Available, Statement of Budgetary Resources***

Details of Recoveries of Prior Year Obligations and Permanently Not Available on the Statement of Budgetary Resources are represented by the following categories:

<b>Superfund</b>	<b>FY 2003</b>	<b>FY 2002</b>
Recoveries of Prior Year Obligations	\$ 124,797	\$ 230,628
Less: Rescinded Authority	<u>(8,274)</u>	<u>(2,000)</u>
Total	<u>\$ 116,523</u>	<u>\$ 228,628</u>
<b>All Others</b>	<b>FY 2003</b>	<b>FY 2002</b>
Recoveries of Prior Year Obligations	\$ 114,437	\$ 89,440
Less: Payments to Treasury	(3,101)	(6,834)
Rescinded Authority	(49,362)	(1,588)
Canceled Authority	<u>(23,719)</u>	<u>(33,870)</u>
Total	<u>\$ 38,255</u>	<u>\$ 47,148</u>

***Note 27. Unobligated Balances Available***

Availability of unobligated balances are shown comparatively for FY 2003 and FY 2002. The unexpired authority is available to be apportioned by the OMB for new obligations at the beginning of FY 2004. Expired authority is available for upward adjustments of obligations incurred as of the end of the fiscal year.

<b>Superfund</b>	<b><u>FY 2003</u></b>	<b><u>FY 2002</u></b>
Unexpired Unobligated Balance	\$ 766,786	\$ 726,589
Authority Not Available for Apportionment	0	24,386
Expired Unobligated Balance	19	19
<b>Total</b>	<b>\$ <u>766,805</u></b>	<b>\$ <u>750,994</u></b>

  

<b>All Others</b>	<b><u>FY 2003</u></b>	<b><u>FY 2002</u></b>
Unexpired Unobligated Balance	\$ 2,011,471	\$ 1,917,637
Authority Not Available for Apportionment	0	1,150
Expired Unobligated Balance	87,401	126,461
<b>Total</b>	<b>\$ <u>2,098,872</u></b>	<b>\$ <u>2,045,248</u></b>

**Note 28. Offsetting Receipts**

Distributed offsetting receipts credited to the general fund, special fund or trust fund receipt accounts offset gross outlays. For FY 2003 and 2002, the following receipts were generated from these activities:

<b>Superfund</b>	<b><u>FY 2003</u></b>	<b><u>FY 2002</u></b>
Trust Fund Recoveries	146,502	\$ 248,252
<b>Total</b>	<b><u>146,502</u></b>	<b><u>\$ 248,252</u></b>

  

<b>All Others</b>	<b><u>FY 2003</u></b>	<b><u>FY 2002</u></b>
Special Fund Environmental Service	11,649	\$ 11,358
Trust Fund Appropriation	632,307	676,292
<b>Total</b>	<b><u>643,956</u></b>	<b><u>\$ 687,650</u></b>

**Note 29. 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 FY 2003 and 2002, the following line items are reconciled to the increases or decreases in those liabilities.

<b>Statement of Financing lines FY 2003:</b>	<b>Superfund</b>	<b>Trust</b>	<b>All Other</b>	<b>Combined</b>
	<b>Fund</b>	<b>Funds</b>	<b>Funds</b>	<b>Total</b>
Components requiring or generating resources in future periods:				
Increase in annual leave liability	\$ 1,088	\$	5,647	\$ 6,735
Increases in environmental liabilities	0		(3,276)	(3,276)
Increase in workers compensation costs	246		4,591	4,837
<b>Total</b>	<b>\$ <u>1,334</u></b>	<b>\$</b>	<b><u>6,962</u></b>	<b>\$ <u>8,296</u></b>
<b>Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items</b>				
Unfunded Annual Leave Liability	\$ 1,088	\$	5,888	\$ 6,976
Unfunded Contingent Liability	0		(2)	(2)

Unfunded Workers Compensation Liability	7	191	198
Actuarial Workers Compensation Liability	239	4,400	4,639
Subsidy Payable to Treasury	0	(371)	(371)
Unfunded Clean-up Costs Liability	0	(3,274)	(3,274)
Negative subsidy entries	0	201	201
Subsidy re-estimate entries	0	(71)	(71)
Total	\$ 1,334	\$ 6,962	\$ 8,296

**Statement of Financing lines FY 2002:**

	Superfund Trust Fund	All Other Funds	Combined Total
Resources that fund expenses recognized in prior periods	\$ (1,590)	\$ (399)	\$ (1,989)
Increases in environmental liabilities	0	578	578
Total	\$ (1,590)	\$ 179	\$ (1,411)

**Increases (Decreases) in Liabilities Not Covered by Budgetary Resources and Reconciling Items**

Unfunded Annual Leave Liability	\$ 2,206	\$ 5,375	\$ 7,581
Unfunded Contingent Liability	(3,778)	(6,000)	(9,778)
Unfunded Workers Compensation Liability	14	61	75
Actuarial Workers Compensation Liability	(32)	(143)	(175)
Subsidy Payable to Treasury	0	(942)	(942)
Unfunded Clean-up Costs Liability	0	578	578
Negative subsidy entries	0	616	616
Subsidy re-estimate entries	0	634	634
Total	\$ (1,590)	\$ 179	\$ (1,411)

**Note 30. Costs Not Assigned to Goals**

FY 2003's Statement of Net Cost by Goal has \$12.8 million in gross costs not assigned to goals. This amount is comprised of decreases of \$3.3 million in environmental cleanup costs, \$1.4 million in bad debt expenses, and \$1.2 million in capitalized overhead charges; offset by increases of \$0.4 million in undistributed Federal payroll-related costs, \$3.8 million in depreciation expenses not assigned, \$0.2 million in imputed costs, \$0.3 million in other unfunded expenses, and \$14 million in operating program expenses.

For FY 2002's Statement of Net Cost by Goal, -\$4.8 million in gross costs were not assigned to goals. This amount was comprised of decreases of \$6 million in unfunded contingent liabilities and \$2.5 million in bad debt expenses; offset by increases of \$2 million interest on borrowing, \$0.6 million in environmental cleanup costs, \$0.6 million in undistributed Federal payroll-related costs, and \$0.5 million in other interest costs.

**Note 31. Transfers-In and Out, Statement of Changes in Net Position**

Appropriation Transfers, In/Out:

For FY 2003 and 2002, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of nonexpenditure transfers which 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:

<b>Fund/Type of Account</b>	<b>Super-fund FY 2003</b>	<b>Super-fund FY 2002</b>	<b>All Other Funds FY 2003</b>	<b>All Other Funds FY 2002</b>
GSA Building Fund	\$ 0	\$ 0	0	\$ 23,948
EPM (from current year balances)	0	0	4,550	3,750
EPM (from prior year balances)	0	0	0	500
STAG	0	0	0	400
Total Appropriation Transfers	\$ 0	0	4,550	28,598
Net Transfers from Invested Funds*	1,278,068	1,329,490	71,843	72,912
Allocations Rescinded*	8,274	0	470	0
Total of Net Transfers on Statement of Budgetary Resources	\$ <u>1,286,342</u>	<u>1,329,490</u>	<u>76,863</u>	\$ <u>101,510</u>

\* *Portion of transfers on Statement of Budgetary Resources that are not part of Appropriation Transfers on Statement of Changes in Net Position*

Transfers In/Out Without Reimbursement, Budgetary:

For FY 2003 and 2002, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of transfers to or from other Federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. A breakdown of the transfers-in and transfers-out, expenditure and nonexpenditure, follows:

<b>Type of Transfer/Funds</b>	<b>Superfund FY 2003</b>	<b>Superfund FY 2002</b>	<b>All Others FY 2003</b>	<b>All Others FY 2002</b>
Transfers-in(out), expenditure, Superfund to S&T fund	\$ (85,608)	\$ (36,891)	\$ 85,608	\$ 36,891
Transfers-in(out), expenditure, Superfund to OIG fund	(12,659)	(11,867)	12,659	11,867
Transfers-out, nonexpenditure, from Superfund to other Federal agencies	(5,155)	(5,188)		
Transfer-out, expenditure, to Superfund Special Accounts	(9,642)			
Transfers-out, nonexpenditure, from Treasury trust fund to CDC	(80,200)	(49,502)		
Transfers-in, nonexpenditure, Oil Spill			15,480	15,000
Transfer-in(out), cancelled funds	2,133		(2,133)	(86)
Total Transfers in(out) without Reimbursement, Budgetary	\$ <u>(191,131)</u>	\$ <u>(103,448)</u>	\$ <u>111,614</u>	\$ <u>63,672</u>

Transfers In/Out without Reimbursement, Other Financing Sources:

For FY 2003 and 2002, Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of 1) transfers of property, plant and equipment between EPA funds and 2) transfers 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:

Type of Transfer/Funds	Superfund FY2003	Superfund FY 2002	All Others FY2003	All Others FY 2002
Transfer-in(out) of property, between Superfund and EPM	\$ 84	\$ 47	\$ (84)	\$ (47)
Transfer-out of prior year negative subsidy, to be paid in following year			371	(371)
Adjustment to transfer-out of prior year negative subsidy, paid out in current year and adjusted to funded expenses			0	816
Total Transfers in(out) without Reimbursement, Budgetary	\$ 84	\$ 47	\$ 287	\$ 398

***Note 32. 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 Office of Personnel Management (OPM) trust funds. These amounts are recorded as imputed costs and imputed financing for the 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 2003 were \$17.8 million and \$103.2 million for Superfund and All Other Funds, respectively. For FY 2002, the estimates were \$14.7 million and \$83 million for Superfund and All Other Funds, respectively.

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgement 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 Judgement Fund Transactions. For FY 2003 entries for Judgement Fund payments totaled \$2.2 million and \$5 million for Superfund and All Other Funds, respectively. For FY 2002, no Judgement Fund payments were made on EPA’s behalf.

***Note 33. Payroll and Benefits Payable***

The amounts that relate to payroll and benefits payable to EPA employees for the years ending September 30, 2003 and 2002, are detailed in the following tables.

<b>FY 2003 Payroll and Benefits Payables</b>	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>Superfund - Current</b>			
Accrued Funded Payroll and Benefits	\$ 4,097	\$ 0	\$ 4,097
Withholdings Payable	3,007	0	3,007
Employer Contributions Payable, non Federal (TSP)	197	0	197
Other Post-employment Benefits Payable	3	0	3
Accrued Unfunded Annual Leave		23,735	23,735
<b>Total - Superfund - Current</b>	<b>\$ 7,304</b>	<b>\$ 23,735</b>	<b>\$ 31,039</b>

<b>All Other Funds - Current</b>			
Accrued Funded Payroll and Benefits	\$ 17,645	\$ 0	\$ 17,645
Withholdings Payable	14,366	0	14,366
Employer Contributions Payable, non Federal (TSP)	940	0	940
Other Post-employment Benefits Payable	33	0	33
Accrued Funded Leave, WCF	320	0	320
Accrued Unfunded Annual Leave		109,487	109,487
<b>Total - All Other Funds - Current</b>	<b>\$ 33,304</b>	<b>\$ 109,487</b>	<b>\$ 142,791</b>

<b>FY 2002 Payroll and Benefits Payables</b>	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>Superfund - Current</b>			
Accrued Funded Payroll and Benefits	\$ 9,146	\$ 0	\$ 9,146
Withholdings Payable	6,897	0	6,897
Employer Contributions Payable, non Federal (TSP)	443	0	443
Other Post-employment Benefits Payable	3	0	3
Accrued Unfunded Annual Leave	0	22,647	22,647
<b>Total - Superfund - Current</b>	<b>\$ 16,489</b>	<b>\$ 22,647</b>	<b>\$ 39,136</b>

<b>All Other Funds - Current</b>			
Accrued Funded Payroll and Benefits	\$ 41,309	\$ 0	\$ 41,309
Withholdings Payable	30,233	0	30,233
Employer Contributions Payable, non Federal (TSP)	1,943	0	1,943
Other Post-employment Benefits Payable	29	0	29
Accrued Funded Leave, WCF	320	0	320
Accrued Unfunded Annual Leave	0	103,598	103,598
<b>Total - All Other Funds - Current</b>	<b>\$ 73,834</b>	<b>\$ 103,598</b>	<b>\$ 177,432</b>

**Note 34. Other Adjustments, Statement of Changes in Net Position**

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of rescissions to appropriated funds and cancellations of funds that expired five years earlier. These amounts affected Unexpended Appropriations for All Other Funds for FY 2003 and 2002.

	<b>FY 2003</b>	<b>FY 2002</b>
Rescissions to General Appropriations	\$ 48,147	\$ 1,588
Canceled General Authority	<u>23,719</u>	<u>33,872</u>
<b>Total Other Adjustments</b>	<b>\$ <u>71,866</u></b>	<b>\$ <u>35,460</u></b>

**Note 35. Nonexchange Revenue, Statement of Changes in Net Position**

The Nonexchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position for FY 2003 and 2002 are comprised of the following items:

<b>FY 2003</b>	<b>Superfund Trust Fund</b>	<b>All Other Funds</b>	<b>Combined Total</b>
Interest on Trust Fund Investments	\$ 48,945	\$ 64,447	\$ 113,392
Tax Revenue, Net of Refunds*	(99,355)	184,477	85,122
Fines and Penalties Revenue	718	0	718
Special Receipt Fund Revenue	<u>0</u>	<u>11,591</u>	<u>11,591</u>
Total Nonexchange Revenue	<b>\$ <u>(49,692)</u></b>	<b>\$ <u>260,515</u></b>	<b>\$ <u>210,823</u></b>
<b>FY 2002</b>	<b>Superfund Trust Fund</b>	<b>All Other Funds</b>	<b>Combined Total</b>
Interest on Trust Fund Investments	\$ 110,577	\$ 67,563	\$ 178,140
Tax Revenue, Net of Refunds	7,466	181,190	188,656
Fines and Penalties Revenue **	(10,005)	0	(10,005)
Special Receipt Fund Revenue	<u>0</u>	<u>11,358</u>	<u>11,358</u>
Total Nonexchange Revenue	<b>\$ <u>108,038</u></b>	<b>\$ <u>260,111</u></b>	<b>\$ <u>368,149</u></b>

\* In FY 2003, the Superfund trust fund refunded \$99,355 thousand in previously accrued corporate environmental taxes.

\*\* FY 2002 fines and penalties revenue included the following negative items: a \$9,664 thousand write-off and \$1,339 thousand allowance for uncollectible accounts.

***Note 36. Hazardous Substance (Superfund) Trust Fund Balance***

In FY 2003, the EPA received an appropriation for Superfund of \$1.264 billion. The funding source for the appropriation consisted of \$632 million from the Superfund Trust Fund, and \$632 million from Treasury's general fund. Treasury's Bureau of Public Debt (BPD), the manager of 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. The Superfund Trust Fund has a liability to EPA for previously appropriated funds as of September 30, 2003 and 2002 of \$2.6 billion and \$3.3 billion, respectively. Unappropriated funds available for future appropriations as of September 30, 2003 and 2002 was \$0 and \$549 million, respectively.

During FY 2003, the Superfund Trust Fund revenue from cost recoveries and investment interest was less than anticipated. In addition, the Internal Revenue Service issued approximately \$99 million in corporate net tax refunds that were previously deposited in the Trust Fund. Due to these circumstances, and when combined with the FY 2003 Superfund appropriation, the amount appropriated to EPA for Superfund activities exceeded the assets available for appropriation in the Trust Fund as of September 30, 2003 by \$82.7 million. The Agency expects the Trust Fund to continue to receive revenues from cost recoveries and investment interest. Nevertheless, such revenue is not expected to be sufficient to cover the same level of funding from the Trust Fund as in past years. In EPA's view, the shortfall for FY 2003 will be covered by the collection of cost recoveries and receipt of interest income to the Trust Fund over time.

**Environmental Protection Agency  
Required Supplemental Information  
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*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.

*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 2003).

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
4	Government Printing Office					\$ 68	\$ 823
11	Executive Office of the President				127		
12	Department of Agriculture			58	36		
13	Department of Commerce			1	49	4	19
14	Department of Interior			13,589	758		
15	Department of Justice			101	(15)	58	
17	Department of the Navy			58	321		
18	U. S. Postal Service			47			594
19	Department of State			19	(61)		2,418
20	Department of the Treasury	2,516,147	2,114,684	36	130		
21	Department of the Army			11,081	159		
31	Nuclear Regulatory Commission			2	1		
45	Equal Employment Opportunity Commission				64		
47	General Services Administration			14	20		
49	National Science Foundation				36		
57	Department of the Air Force			92	(4)		

Trading Partner Code	Agency	Investments		Accounts Receivable		Other	
		Superfund	All Other	Superfund	All Other	Superfund	All Other

61	Consumer Product Safety Commission				3		
64	Tennessee Valley Authority				6		
68	EPA (between Superfund and All Other)					89,789	7,269
69	Department of Transportation		18			7,995	
70	Department of Homeland Security					15,950	
72	Agency for International Development					617	
75	Department of Health and Human Services		528			1,146	
80	National Aeronautics and Space Administration					39	
86	Department of Housing and Urban Development					29	
89	Department of Energy		124			1,308	
96	US Army Corps of Engineers		156			827	
97	US Department of Defense		8,742			201	
99	Treasury General Fund					7	
0	Unassigned			(1)		403	(27)
Total		\$2,516,147	\$2,114,684	\$34,665	\$119,941	\$7,414	\$3,827

### *Intragovernmental Liabilities*

Trading Partner Code	Agency	Accounts Payable		Accrued Liabilities		Other Liabilities	
		Superfund	All Other	Superfund	All Other	Superfund	All Other
3	Library of Congress			\$ 6	\$ 150		\$ 60
4	Government Printing Office			51	1,297	(1)	489
5	General Accounting Office					(367)	(1)
10	The Judiciary						(18)
11	Executive Office of the President				3		16
12	Department of Agriculture			818	1,882	2,170	1,015
13	Department of Commerce	888		981	3,042		3,066
14	Department of Interior	901		4,359	2,957	49	308
15	Department of Justice	617	58	2,381	79	570	(117)
16	Department of Labor	2,258		210	502	1,447	6,612
17	Department of the Navy	351		20	73	873	(319)
18	United States Postal Service			1	364	14	1
19	Department of State			1	269		716

Trading Partner Code	Agency	Superfund	All Other	Superfund	All Other	Superfund	All Other
20	Department of the Treasury			38	200	143	4
21	Department of the Army			27		2,334	(17)
24	Office of Personnel Management			79	549	1,004	4,745

31	US Nuclear Regulatory Commission		6		16		
33	Smithsonian Institution			3	17		(57)
36	Dept. of Veterans Affairs			5	60		74
45	EEOC				18		(68)
47	General Services Administration	377		4,505	37,445	10,767	(20,885)
49	National Science Foundation			6	13		45
57	Department of the Air Force					2,386	
59	Nat'l Foundation on Arts and Humanities			12			
64	Tennessee Valley Authority				159		59
68	EPA (between Superfund and All Others)	86,087		3,702			7,269
69	Department of Transportation			4,169	4,159		8,968
70	Department of Homeland Security	15,318		22	48		(420)
73	Small Business Administration				17		
75	Department of Health and Human Services	16		1,139	8,547		8,150
80	National Aeronautics and Space Administration				187		31
86	Department of Housing and Urban Development						418
89	Department of Energy			370	4,167		(335)
93	Federal Mediation Service				10		
95	Independent Agencies				495	1,490	
96	US Army Corps of Engineers	650	160	15,564	1,793		5
97	Office of the Secretary of Defense	(351)	1	163	482	7,346	4
99	Treasury General Fund					375	1,793
0	Unassigned	(38)	16	302	538		
	Total	<u>106,697</u>	<u>618</u>	<u>38,934</u>	<u>69,538</u>	<u>30,600</u>	<u>21,611</u>

For All Other Funds' remaining intragovernmental liabilities, \$21,189 thousand in Debt is assigned to the Department of the Treasury (trading partner Code 20), and \$78,776 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 Bureau of Public Debt, the Department of Labor, and the OPM. EPA has also been in contact with several other Federal agencies to reconcile non-fiduciary intragovernmental balances for year-end as required.



*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.

	<u>Superfund</u>	<u>All Others</u>
Intragovernmental Earned Revenue	\$16,682	\$124,233
Associated Costs to generate above Revenue (Budget Functional Classification 304)	16,682	124,233

**Environmental Protection Agency  
Required Supplemental Information  
Supplemental Statement of Budgetary Resources  
As of September 30, 2003  
(Dollars in Thousands)**

	STAG	Environ- mental Programs & Manage- ment	Science and Technology	FIFRA	LUST Trust Fund	All Other	Total All Other
<b>BUDGETARY RESOURCES</b>							
Budgetary Authority:							
Appropriations Received	\$ 3,859,994	\$ 2,111,604	\$ 720,821	\$ 0	\$ 0	\$ 731,931	\$ 7,424,350
Borrowing Authority							0
Net Transfers		4,550			72,313		76,863
Other							0
Unobligated Balances:							
Beginning of Period	1,365,927	354,150	225,477	376	3,227	96,091	2,045,248
Net Transfers, Actual							0
Anticipated Transfers Balance							0
Spending Authority-Offsetting Collections							
Earned and Collected	4,853	86,932	5,526	22,838	28	153,526	273,703
Receivable from Federal Sources		6,423	1,247			(2,596)	5,074
Change in Unfilled Customer Orders							
Advance Received		(1,470)	807	216		(19,915)	(20,362)
Without Advance from Federal Sources		(54,402)	194			25,735	(28,473)
Anticipated for Rest of Year							
Transfers from Trust Funds			83,475			12,660	96,135
Total Spending Authority from Collections	\$ 4,853	\$ 37,483	\$ 91,249	\$ 23,054	\$ 28	\$ 169,410	\$ 326,077
Recoveries of Prior Year Obligations	97,227	11,437	3,475	168	231	1,899	114,437
Permanently Not Available	(25,090)	(32,011)	(10,675)		(470)	(7,936)	(76,182)
Total Budgetary Resources	\$ <u>5,302,911</u>	\$ <u>2,487,213</u>	\$ <u>1,030,347</u>	\$ <u>23,598</u>	\$ <u>75,329</u>	\$ <u>991,395</u>	\$ <u>9,910,793</u>
<b>STATUS OF BUDGETARY RESOURCES</b>							
Obligations Incurred:							
Direct	\$ 3,902,080	\$ 2,098,541	\$ 731,821	\$ 0	\$ 71,433	\$ 735,720	\$ 7,539,595
Reimbursable		92,976	4,292	22,708		152,350	272,326
Total Obligations Incurred	\$ 3,902,080	\$ 2,191,517	\$ 736,113	\$ 22,708	\$ 71,433	\$ 888,070	\$ 7,811,921
Unobligated Balances:							
Apportioned	1,400,831	227,577	277,195	890	3,896	101,082	2,011,471
Exempt from Apportionment							0
Unobligated Balances Not Available		68,119	17,039			2,243	87,401
Total Status of Budgetary Resources	\$ <u>5,302,911</u>	\$ <u>2,487,213</u>	\$ <u>1,030,347</u>	\$ <u>23,598</u>	\$ <u>75,329</u>	\$ <u>991,395</u>	\$ <u>9,910,793</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>							
Obligations Incurred, Net	\$ 3,800,000	\$ 2,142,597	\$ 641,389	\$ (514)	\$ 71,174	\$ 716,761	\$ 7,371,407
Obligated Balances, Net - Beginning	8,236,011	700,676	563,359	2,621	81,819	24,166	9,608,652
Accounts Receivable		22,103	83,297			12,637	118,037
Unfilled Customer Orders-Federal Sources		124,890	10,768			89,216	224,874
Undelivered Orders	(7,857,036)	(583,687)	(475,383)	149	(76,421)	(85,205)	(9,077,583)
Accounts Payable	(495,044)	(203,829)	(93,556)	(1,053)	(7,886)	(46,176)	(847,544)
Total Outlays	\$ <u>3,683,931</u>	\$ <u>2,202,750</u>	\$ <u>729,874</u>	\$ <u>1,203</u>	\$ <u>68,686</u>	\$ <u>711,399</u>	\$ <u>7,397,843</u>
Disbursements	\$ 3,688,785	\$ 2,288,212	\$ 779,435	\$ 24,258	\$ 68,714	\$ 857,529	\$ 7,706,933
Collections	(4,854)	(85,462)	(49,561)	(23,055)	(28)	(146,130)	(309,090)
Less: Offsetting Receipts						(643,956)	(643,956)
Net Outlays	\$ <u>3,683,931</u>	\$ <u>2,202,750</u>	\$ <u>729,874</u>	\$ <u>1,203</u>	\$ <u>68,686</u>	\$ <u>67,443</u>	\$ <u>6,753,887</u>

**Environmental Protection Agency  
 Required Supplemental Information  
 Working Capital Fund  
 Supplemental Balance Sheet  
 As of September 30, 2003  
 (Dollars in Thousands)**

	<u>Unaudited</u>
<b>ASSETS</b>	
Intragovernmental	
Fund Balance With Treasury	\$ 57,780
Accounts Receivable, Net Federal	23,869
Other	595
Total Intragovernmental	\$ <u>82,244</u>
General Property, Plant and Equipment, Net	10,919
Other Non Federal Assets	51
Total Assets	\$ <u><u>93,214</u></u>
<b>LIABILITIES</b>	
Intragovernmental	
Accounts Payable & Accrued Liabilities, Federal	\$ 24,595
Other Federal Liabilities	25,500
Total Intragovernmental	\$ <u>50,095</u>
Accounts Payable & Accrued Liabilities, Non Federal	9,836
Payroll and Benefits Payable Non Federal	1,513
Total Liabilities	\$ <u><u>61,444</u></u>
<b>NET POSITION</b>	
Cumulative Results of Operations	\$ <u>31,770</u>
Total Net Position	<u>31,770</u>
Total Liabilities and Net Position	\$ <u><u>93,214</u></u>

**Environmental Protection Agency  
Required Supplemental Information  
Working Capital Fund  
Supplemental Statement of Net Cost  
For the Year Ended September 30, 2003  
(Dollars in Thousands)**

	<b>Unaudited</b>
<b>COSTS</b>	
Intragovernmental	\$ 70,863
With the Public	61,351
Total Costs	\$ 132,214
Less:	
Earned Revenues, Federal	130,499
Earned Revenues, Non Federal	0
Total Earned Revenues	\$ 130,499
<b>NET COST OF OPERATIONS</b>	<b>\$ 1,715</b>

**Environmental Protection Agency  
Required Supplemental Information  
Working Capital Fund  
Supplemental Statement of Changes in Net Position  
For the Year Ended September 30, 2003  
(Dollars in Thousands)**

	<b>Unaudited</b>
Net Position - Beginning of Period	\$ 31,025
Prior Period Adjustments	0
Beginning Balances, as adjusted	\$ 31,025
Other Financing Sources:	
Transfers In/Out	(111)
Imputed Financing Sources	2,571
Total Other Financing Sources	\$ 2,460
Net Cost of Operations	(1,715)
Net Position - End of Period	\$ 31,770

**Environmental Protection Agency  
Required Supplemental Information  
Working Capital Fund  
Supplemental Statement of Budgetary Resources  
For the Year Ended September 30, 2003  
(Dollars in Thousands)**

	<b>Unaudited</b>
<b>BUDGETARY RESOURCES</b>	
Budgetary Authority:	
Appropriations Received	\$ 0
Borrowing Authority	
Net Transfers	
Other	
Unobligated Balances:	
Beginning of Period	27,162
Net Transfers, Actual	
Anticipated Transfers Balance	
Spending Authority from Offsetting Collections:	
Earned and Collected	130,506
Receivable from Federal Sources	0
Change in Unfilled Customer Orders	
Advance Received	(19,800)
Without Advance from Federal Sources	22,408
Anticipated for Rest of Year	
Transfers from Trust Funds	
Total Spending Authority from Offsetting Collections	\$ 133,114
Recoveries of Prior Year Obligations	239
Permanently Not Available	0
Total Budgetary Resources	\$ <u>160,515</u>
<b>STATUS OF BUDGETARY RESOURCES</b>	
Obligations Incurred:	
Reimbursable	\$ 138,191
Unobligated Balances:	
Apportioned	22,324
Exempt from Apportionment	0
Unobligated Balances Not Available	0
Total Status of Budgetary Resources	\$ <u>160,515</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>	
Obligations Incurred, Net	\$ 4,838
Obligated Balances, Net - Beginning of Period	30,218
Accounts Receivable	114
Unfilled Customer Orders from Federal Sources	26,083
Undelivered Orders	(26,944)
Accounts Payable	(34,710)
Total Outlays	\$ <u>(401)</u>
Disbursements	\$ 110,305
Collections	(110,706)
Less: Offsetting Receipts	0
Net Outlays	\$ <u>(401)</u>

**Environmental Protection Agency  
Required Supplemental Information  
Working Capital Fund  
Supplemental Statement of Financing  
For the Year Ended September 30, 2003  
(Dollars in Thousands)**

	<b>Unaudited</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES:</b>	
Budgetary Resources Obligated	
Obligations Incurred	\$ 138,191
Less: Spending Authority from Offsetting Collections and Recoveries	(133,353)
Obligations Net of Offsetting Collections and Recoveries	\$ 4,838
Less: Offsetting Receipts	0
Net Obligations	\$ 4,838
Other Resources	
Transfers In/Out Without Reimbursement, Property	\$ (111)
Imputed Financing Sources	2,571
Other (+/-)	0
Income from Other Appropriations	0
Net Other Resources Used to Finance Activities	\$ 2,460
Total Resources Used To Finance Activities	\$ 7,298
 <b>RESOURCES USED TO FINANCE ITEMS NOT PART OF NET COST OF OPERATIONS</b>	
Change in Budgetary Resources Obligated	\$ (6,487)
Resources that Fund Prior Period Expenses	
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	
Credit Program Collections Increasing Loan Liabilities for Guarantees of Subsidy Allowances	
Offsetting Receipts Not Affecting Net Cost of Operations	
Resources that Finance the Acquisition of Assets	(6,151)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	
Total Resources Used to Finance Items Not Part of Net Cost of Operations	\$ (12,638)
Total Resources Used to Finance the Net Cost of Operations	\$ (5,340)
 <b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>	
Components Requiring or Generating Resources in Future Periods	
Increase in Annual Leave Liability	\$ 86
Increase in Environmental and Disposal Liability	
Upward/Downward Reestimates of Credit Subsidy Expense	
Increase in Exchange Revenue Receivable from the Public	
Increase in workers compensation costs	
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	\$ 86
Components Not Requiring or Generating Resources	
Depreciation and Amortization	\$ 6,089
Revaluation of Assets or Liabilities	0
Other Expenses Not Requiring Budgetary Resources	880
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	\$ 6,969
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	\$ 7,055
Net Cost of Operations	\$ 1,715

**Environmental Protection Agency  
 Required Supplemental Stewardship Information  
 For the Year Ended September 30, 2003  
 (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. The Environmental Protection Agency's (EPA) 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 both risk assessment and risk management. Science 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. Science provides the crucial underpinning 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 effects of the environment on children's health, 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 2003, the full cost of the Agency's Research and Development activities totaled over \$700 million. Below is a breakout of the expenses (dollars in thousands):

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Programmatic Expenses	543,777	541,117	555,794	559,218	593,295
Allocated Expenses	58,728	59,523	90,039	123,307	106,971

***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. Beyond 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):

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Construction Grants	414,528	55,766	63,344	149,841	15,845
Clean Water SRF	925,744	1,564,894	1,548,270	1,389,048	1,295,394
Safe Drinking Water SRF	387,429	588,116	728,921	708,528	842,936
Other Infrastructure Grants	245,606	212,124	282,914	367,259	582,091
Allocated Expenses	213,117	266,299	424,999	576,536	493,349

### ***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, 2003 the Agency possesses the following land and land rights:

Superfund Sites with Easements	
Beginning Balance	31
Additions	1
Withdrawals	<u>1</u>
Ending Balance	<u><u>31</u></u>
Superfund Sites with Land Acquired	
Beginning Balance	24
Additions	2
Withdrawals	<u>1</u>
Ending Balance	<u><u>25</u></u>

### ***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):

	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Training and Awareness Grants	46,630	49,265	48,697	49,444	47,827
Fellowships	10,239	9,570	11,451	8,728	6,572
Allocated Expenses	6,142	6,472	9,744	12,827	9,808

**SUMMARY OF OIG'S AUDIT REPORT**

Audit Report 2004-1-00021, November 21, 2003  
Full electronic version of complete audit report  
at: <http://www.epa.gov/oigearth>

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## Inspector General's Report on EPA's Fiscal 2003 and 2002 Financial Statements

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The Administrator  
U.S. Environmental Protection Agency

We have audited the consolidating balance sheets of the U.S. Environmental Protection Agency (EPA, or the Agency) and its subsidiary funds, the Superfund Trust Fund (Superfund) and All Other Appropriated Funds (All Other), as of September 30, 2003 and 2002, and the related consolidating statements of net cost, changes in net position and financing, and consolidated statements of net cost by goal, custodial activity, and combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expenses of grantees, contractors, and other Federal agencies. Our audit work pertaining to these expenses included testing only within EPA. Audits of grants, contracts, and interagency agreements performed at a later date may disclose questioned costs of an amount undeterminable at this time. In addition, the United States Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds.<sup>2</sup> The United States Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the United States Treasury, and not EPA, is responsible for these activities, our audit work did not cover these activities.

As more fully described in Note 36 to the financial statements, the Superfund Trust Fund, managed by the U.S. Treasury Bureau of Public Debt, transferred funds to EPA in excess of the assets available to be transferred by \$82.7 million in fiscal 2003. EPA's view is that the shortfall for fiscal 2003 will be covered by the collection of cost recoveries and receipt of interest income over time. In our opinion, because cost recoveries have declined and the investment principal upon which the interest is earned has steadily decreased, the current deficit of \$82.7 million and future Superfund Trust Fund appropriations would have to be covered by appropriations from the Treasury's general fund in order for the Superfund Trust Fund to continue operations.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to OIG operations that are presented in the financial statements. The amounts included for the OIG are not material

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<sup>2</sup>The Leaking Underground Storage Tank Trust Fund is included in the All Other Appropriated Funds column of the financial statements.

to EPA's financial statements. The OIG is organizationally independent with respect to all other assets of the Agency's activities.

In our opinion, the consolidating financial statements present fairly, in all material respects, the consolidated and individual assets, liabilities, net position, net cost, net cost by goal, changes in net position, budgetary resources, reconciliation of net cost to budgetary obligations and custodial activity of the U.S. Environmental Protection Agency and its subsidiary funds, the Superfund Trust Fund and All Other Appropriated Funds, as of and for the years ended September 30, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America.

### **Review of EPA's Required Supplemental Stewardship Information, Required Supplemental Information, and Management Discussion and Analysis**

We inquired of EPA's management as to their methods for preparing Required Supplemental Stewardship Information (RSSI), Required Supplemental Information, and Management Discussion and Analysis, and reviewed this information for consistency with the financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion.

We did not identify any material inconsistencies between the information presented in EPA's financial statements and the information presented in EPA's RSSI, Required Supplemental Information, and Management Discussion and Analysis. OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, requires agencies to report, as Required Supplemental Information, their intragovernmental assets and liabilities by Federal trading partner. We did find EPA continues to experience difficulties in reconciling some of its intragovernmental transactions due to some Federal entities not providing information for reconciliations. (see Attachment 2 for additional details on this issue).

### **Evaluation of Internal Controls**

As defined by OMB, internal control, as it relates to the financial statements, is a process, effected by the Agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

**Reliability of financial reporting** - Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and RSSI in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

**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.

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

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing

procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal controls and, accordingly, we do not express an opinion on internal controls.

Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be reportable conditions, although none of the reportable conditions is believed to be a material weakness.

In addition, we considered EPA's internal control over the RSSI by obtaining an understanding of the Agency's internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on these internal controls and, accordingly, we do not express an opinion on such controls.

Finally, with respect to internal controls related to performance measures presented in *EPA's Fiscal Year 2003 Annual Report*, Section 1, Overview and Analysis (which addresses requirements for a Management's Discussion and Analysis), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not express an opinion on such controls.

## **Reportable Conditions**

Reportable conditions are internal control weakness matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the organization's ability to meet the OMB objectives for financial reporting discussed above. In evaluating the Agency's internal control structure, we identified eight reportable conditions, as follows:

### **Documentation and Approval of Standard Vouchers**

EPA's Financial Reports and Analysis Branch did not always adequately document standard vouchers for transfer requests from Treasury to EPA Trust Fund accounts (Superfund and Leaking Underground Storage Tank Trust Funds) prior to the transactions being entered into the Integrated Financial Management System (IFMS). The Branch uses a formula to determine the amount of the monthly transfer, but occasionally requests additional funds to be transferred along with the calculated amount. Specifically, the Agency requested additional funds in 10 transfers with no documentation to support the request. Establishing written procedures to calculate the monthly transfer process would reduce the potential for errors occurring.

### **Improvement Needed in EPA's Interagency Agreement Invoice Approval Process**

EPA project officers did not always fulfill their oversight duties related to reviewing and approving interagency agreement invoices. We continued to find instances where project officers at EPA did not receive supporting cost documentation to substantiate invoice amounts and approve invoices for payment. We found instances in five program offices where project officers regularly approved invoices without the detailed documentation to support costs. Without proper identification of accounting information and a review of the cost documentation, transactions may be recorded in the accounting system with limited assurance that invoices are valid, appropriate, and allowable under the terms and conditions of the interagency agreement, and that costs are charged to the appropriate goal/objective. We recommend that the Agency determine the root cause of the problem and develop effective procedures to ensure that project officers properly manage the entire process.

### **Improvement Needed in Reconciling State Superfund Contracts Unearned Revenue**

EPA did not reconcile the unearned revenue from State Superfund Contracts (SSC). When EPA assumes the lead for a Superfund site remedial action in a State, the SSC clarifies EPA's and the State's responsibilities to complete the remedial action. EPA records a liability (unearned revenue), when billing a State for its share of the estimated site costs. EPA recognizes earned revenue as costs are incurred on the site. We found that EPA did not reconcile the unearned revenue from SSCs to the general ledger. Financial Management Division did not prepare a reconciliation because they relied on an analysis of current year account activity. As a result, EPA could not ensure the accuracy of the SSC unearned revenue accounts, which totaled approximately \$29 million.

### **EPA Did Not Promptly Record Marketable Securities Received in Fiscal 2003**

EPA did not promptly record marketable securities received in fiscal 2003 from companies in settlement of debts. As of September 30, 2003, stocks and warrants with an aggregate value of \$1,922,512 were not recorded in EPA's accounting system. The securities were not recorded because the regional financial management offices receiving the securities either were waiting on guidance from headquarters, or were awaiting receipt of a settlement agreement.

### **IFMS Suspense File Needs to Be Reconciled to General Ledger**

For fiscal 2003, the IFMS suspense file was not in compliance with Joint Financial Management Improvement Program (JFMIP) requirement TD-04 -- that the Application Program Interface provide internal controls, such as control totals and record counts, to ensure integrity. Specifically, no formal process or written procedures existed for reconciling financial data processed from the suspense file to the general ledger accounts. The suspense file is important because it receives input of financial transactions from IFMS users and many other financial and mixed systems, which are to be posted to the

general ledger accounts. The IFMS contractor created custom reports for analysis purposes, which represented the best available data, although the contractor would not confirm that either the status or dollar amount were accurate. Our subsequent analysis of the account did not indicate that the suspense file contained transactions that were not posted to the proper accounting period. However, we are still concerned about the number of uncleared transactions that could remain in the suspense file due to the current lack of automated controls. These incomplete, rejected, and held transactions could be incorrectly processed in the wrong fiscal period, creating the potential to affect the Agency's financial data.

### **Automated Application Processing Controls for IFMS Could Not Be Assessed**

We continue to be unable to assess the adequacy of the automated internal control structure as it relates to automated input, processing, and output controls for IFMS. IFMS applications have a direct and material impact on the Agency's financial statements. Therefore, an assessment of each application's automated input, processing, and output controls, as well as compensating manual controls, is necessary to determine the reliance we can place on the financial statements. During past financial statement audits, we attempted to evaluate controls without systems documentation, but these alternatives proved to be inefficient and impractical.

### **Further Improvements Needed in Managing EPA's Accounts Receivable**

We noted two issues that negatively impact EPA's accounting for accounts receivable. First, we noted numerous instances where the financial management offices did not timely record receivables due to late submission of supporting documentation from Department of Justice, Regional Counsel, or the program offices. Failure to record receivables promptly could result in EPA not collecting monies due timely. Second, one regional financial management office did not properly calculate its allowance for doubtful accounts as the region did not prepare quarterly allowance calculations and update its percentage analysis formulas. As a result, the allowance was overstated \$35,772,165 and \$8,052,967 for "Superfund" and "All Other," respectively. The Agency subsequently properly adjusted the accounts.

### **Internal Controls for Correcting Errors in IFMS Need Improvement**

EPA's Financial Systems Branch bypassed IFMS manual online data entry controls when making a systemic correction of erroneous transactions. Rather than using the journal voucher process to correct the errors, the Branch had a programmer reverse the transactions by processing negative debits and positive credits. The correction resulted in 7,336 negative debit and positive credit transactions totaling \$222 million. As a result, the audit trail for these transactions was hidden and basic evidence requirements for the transactions were circumvented.

Attachment 1 describes each of the above reportable conditions in more detail, and contains our recommendations on actions that should be taken to correct these conditions. We have also reported other less significant matters involving the internal control structure and its operation in separate position papers during the course of our audit. We will not be issuing a separate management letter.

## **Comparison of EPA'S FMFIA Report with Our Evaluation of Internal Controls**

OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's Federal Managers Financial Integrity Act (FMFIA, or Integrity Act) report that relate to the financial statements and identify material weaknesses disclosed by audit that were not reported in the Agency's FMFIA report. EPA reported on Integrity Act decisions in EPA's *Fiscal Year 2003 Annual Report*. For a discussion on Agency-reported Integrity Act management issues, please refer to EPA's *Fiscal Year 2003 Annual Report*, Section I, Overview and Analysis.

For reporting under FMFIA, material weaknesses are defined differently than they are for financial statement audit purposes. OMB Circular A-123, *Management Accountability and Control*, defines a material weakness as a deficiency that the Agency head determines to be significant enough to be reported outside the Agency.

For financial statement audit purposes, OMB defines material weaknesses in internal control as reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements or RSSI being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Agency did not report any material weaknesses for fiscal 2003 as part of the Integrity Act process. Our financial statement audit did not detect any material weaknesses that should have been reported as part of the Integrity Act process.

## **Tests of Compliance with Laws and Regulations**

EPA management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as supplemented by an OMB Memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*. The OMB guidance requires that we evaluate compliance with Federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. There are a number of ongoing investigations involving EPA's grantees and contractors that could disclose violations of laws and regulations, but a determination about these cases has not been made.

None of the noncompliances discussed below would result in material misstatements to the audited financial statements.

### **Federal Financial Management Improvement Act Noncompliance**



Under FFMIA, we are required to report whether the Agency’s financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. OMB Bulletin No. 01-02, as supplemented by an OMB memorandum dated January 4, 2001, *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, substantially changed the guidance for determining whether or not an Agency substantially complied with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The document is intended to focus Agency and auditor activities on the essential requirements of FFMIA. The document lists the specific requirements of FFMIA, as well as factors to consider in reviewing systems and for determining substantial compliance with FFMIA. It also provides guidance to Agency heads for developing corrective action plans to bring an Agency into compliance with FFMIA. To meet the FFMIA requirement, we performed tests of compliance with FFMIA section 803(a) requirements and used the OMB guidance, revised on January 4, 2001, for determining substantial noncompliance with FFMIA.

The results of our tests did not disclose any instances where the Agency’s financial management systems did not substantially comply with the applicable Federal accounting standard, the United States Standard General Ledger at the transaction level, or the Federal financial management system requirements.

We recognize improvements the Office of the Chief Financial Officer (OCFO) has made in cost accounting and believe that while there are still noncompliance issues with cost accounting, those noncompliances no longer meet OMB’s definition of substantial noncompliance. However, the Agency was not in compliance with Statement of Federal Financial Accounting Standards No. 4 that requires EPA to provide full costs per output to management in a timely fashion.

We identified two other FFMIA noncompliances, related to reconciliation of intragovernmental transactions and completion of the fiscal 1999 FFMIA remediation plan. However, these noncompliances do not meet the definition of substantial noncompliance as described in OMB guidance.

Our tests also noted one other instance of noncompliance with laws and regulations, related to the Treasury Financial Manual for preparation of SF 224 “Statement of Transactions.”

Attachment 2 provides additional details, as well as our recommendations on actions that should be taken on these matters. We have reported other less significant matters involving compliance with laws and regulations in position papers during our audit. We will not be issuing a separate management letter.

## **Prior Audit Coverage**

During previous financial or financial-related audits, weaknesses that impacted our audit objectives were reported in the following areas:

- Reconciliation and reporting intragovernmental transactions, assets and liabilities by Federal trading partner.
- Complying with Statement of Federal Financial Accounting Standards No. 4, including accounting for the cost to achieve goals and identifying and allocating indirect costs.
- Accounting for capitalized property.
- Recording accrued liabilities for grants.
- Interagency Agreement invoice approval process.
- Documenting EPA’s IFMS.

- Complying with Federal financial management system security requirements.
- Accounting for payments for grants funded from multiple appropriations.
- Preparation and Reconciliation of Statements of Transactions
- Documentation and approval of journal vouchers.
- Timely repayment of Asbestos Loan Debt to Treasury.
- Assessing automated application processing controls for IFMS.
- Reconciling Unearned Revenue for State Superfund Contracts.

Attachment 3, Status of Prior Audit Report Recommendations, summarizes the current status of corrective actions taken on prior audit report recommendations with corrective actions in process. The Chief Financial Officer, as the Agency's Audit Follow-up Official, oversees EPA's followup on audit findings and recommendations, including resolution and implementation of corrective actions. For these prior audits, final action occurs when the Agency completes implementation of the corrective actions to remedy weaknesses identified in the audit.

We acknowledge that many actions and initiatives have been taken to resolve prior financial statement audit issues. We also recognize that the issues we have reported are complex, and require extensive, long-term corrective actions and coordination by the Chief Financial Officer with various Assistant Administrators, Regional Administrators, and Office Directors before they can be completely resolved. A few issues have been unresolved for many years. The OIG will continue to work with the Office of Chief Financial Officer in helping to resolve all audit issues resulting from our financial statement audits.

### **Agency Comments and OIG Evaluation**

In a memorandum received November 10, 2003, OCFO responded to our draft report. OCFO noted that it is continuing to make progress in enhancing managerial cost accounting. Regarding our concerns related to the Superfund Trust Fund shortfall and the decline in cost recoveries, OCFO indicated the Superfund program will continue to operate as long as Congress continues to appropriate funds for it, and noted EPA's fiscal 2003 appropriation came from Trust Fund assets and the general fund. Further, OCFO indicated it would like to work with the OIG to allay concerns about suspense fund records.

The rationale for our conclusions and a summary of the Agency comments are included in the appropriate sections of this report, and the Agency's complete response is included as Appendix II to OIG's complete audit report.

This report is intended solely for the information and use of the management of EPA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Paul C. Curtis, Director  
Financial Audits  
Office of Inspector General  
U.S. Environmental Protection Agency  
November 16, 2003