

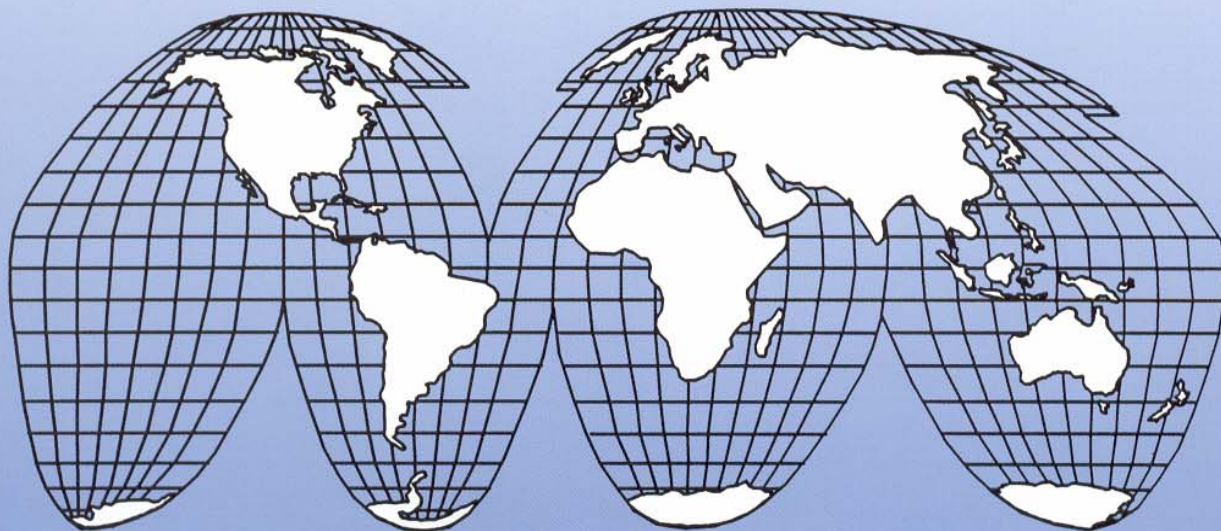
USAID

OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003

Audit Report No. 0-000-05-001-C

November 15, 2004



Washington, DC



November 15, 2004

MEMORANDUM

TO: CFO/FM, Lisa D. Fiely

FROM: AIG/A, Bruce N. Crandlemire

A handwritten signature in black ink, reading "Bruce N. Crandlemire".

SUBJECT: Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003 (Report No. 0-000-05-001-C)

The Office of Inspector General (OIG) is transmitting its *Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003*. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. For FY 2004, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (Treasury) by November 15, 2004.

The Office of Inspector General has issued unqualified opinions on all five of USAID's principal financial statements for fiscal year 2004.

With respect to internal control, our report discusses one material internal control weakness and six reportable conditions identified during the audit. The material internal control weakness is related to USAID's process for reviewing and reporting on its quarterly accrued expenditures and accounts payable (*See page 10*). The reportable conditions address USAID's need to (1) improve its certification process for mapping strategic objectives to performance goals; (2) reconcile its Fund Balance with the U.S. Treasury; (3) improve recognition and reporting over its accounts receivable; (4) perform regular intragovernmental reconciliations; (5) analyze and deobligate unliquidated obligations; and (6) improve its system for preparing its Management's Discussion and Analysis.

This report contains five recommendations to improve USAID's internal control over financial management, the preparation of its annual financial statements, and its compliance with laws and regulations.

We have received and considered your response to our findings and recommendations in the draft audit report (*see page 29*). Based on your response, we have accepted your comments as management decisions. Please forward information related to the resolution of these findings to the Office of Management, Planning, and Innovation for acceptance and final action (*see Appendix II for USAID's Management Comments*).

We appreciate the cooperation and courtesies that your staff extended to the OIG during the audit. The Office of Inspector General is looking forward to working with you on our audit of the fiscal year 2005 financial statements.

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Summary of Results

In our opinion, USAID's consolidated balance sheet, consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing present fairly, in all material respects, the financial position of USAID as of September 30, 2004 and 2003, and its net cost, net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles (*see page 7*).

Our audit identified one material internal control weakness and six reportable internal control conditions (*see page 9*).

The material internal control weakness is identified as follows:

- USAID's process for reviewing and reporting its quarterly accrued expenditures and accounts payable needs improvement.

The reportable conditions relate to USAID's need to improve its:

1. Certification process for mapping its strategic objectives to its performance goals
2. Reconciliation of its Fund Balance with the U.S. Treasury
3. Process for recognizing and reporting its accounts receivable
4. Intragovernmental reconciliation process
5. Process for deobligating unliquidated obligations
6. System for preparing its Management's Discussion & Analysis

Our audit identified reportable noncompliance related to requirements of the Federal Financial Management Improvement Act, as follows:

- USAID's new core financial system is not deployed
- Funds control
- The U.S. Standard General Ledger at the transaction level

The other reportable instance of noncompliance identified in our audits relates to USAID's compliance with Section 620(q) and the Brooke Amendment of the Foreign Assistance Act of 1961.

Background

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 80 countries, 36 of which have operational accounting stations. In fiscal year 2004, USAID had total obligation authority of about \$14.2 billion.

Under the Government Management Reform Act of 1994, USAID is required to annually submit audited financial statements to the Office of Management and Budget (OMB) and the U.S. Treasury. Pursuant to this Act, for FY 2004, USAID has prepared the following:

- Consolidated Balance Sheet,
- Consolidated Statement of Changes in Net Position,
- Consolidated Statement of Net Cost,
- Combined Statement of Budgetary Resources,
- Consolidated Statement of Financing,
- Notes to the principal financial statements,
- Other Required Supplementary Information, and
- Management's Discussion and Analysis.

Audit Objective

Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary resources for fiscal years 2004 and 2003?

In our opinion, the financial statements referred to above present fairly, in all material respects, in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of nets costs to budgetary resources as of September 30, 2004 and 2003 and for the years then ended.

In accordance with *Government Auditing Standards*, we have also issued our reports (dated November 15, 2004) on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

Independent Auditor's Report on USAID's Financial Statements

Auditor's Opinion

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2004 and 2003, and the consolidated statements of changes in net position, consolidated statements of net cost, combined statements of budgetary resources, and consolidated statements of financing of USAID for the years ended September 30, 2004 and 2003.

We conducted our audits in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary resources as of September 30, 2004 and 2003 and for the years then ended.

Management's Discussion and Analysis, Required Supplementary Information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with USAID officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated November 15, 2004 on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

Independent Auditor's Report on Internal Control

Report on Internal Control

We have audited the consolidated balance sheet of USAID as of September 30, 2004 and 2003. We have also audited the consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing for the fiscal years ended September 30, 2004 and 2003, and have issued our report thereon dated November 15, 2004. We conducted the audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2004 and 2003, we considered its internal control over financial reporting by obtaining an understanding of the agency's internal control, 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 system of internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. 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 control. Consequently, we do not provide an opinion on internal control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions. Under standards established 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 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 control, misstatements, losses, or noncompliance may occur and not be detected. Our consideration of internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted certain matters (discussed in

the following paragraphs) involving internal control and its operation that we consider to be reportable conditions, and one matter that we consider to be a material weakness.

The material weakness relates to USAID's need to improve its process for reviewing and reporting its quarterly accrued expenditures and accounts payable.

The reportable conditions relate to USAID's need to improve its:

1. Certification process for mapping its strategic objectives to its performance goals.
2. Reconciliation of its Fund Balance with the U.S. Treasury.
3. Process for recognizing and reporting its accounts receivable.
4. Intragovernmental reconciliation process.
5. Process for deobligating unliquidated obligations.
6. System for preparing its Management's Discussion & Analysis.

We also noted other matters involving the internal control over financial reporting, which we reported to USAID management in a separate letter dated November 15, 2004.

With respect to internal control related to performance measures reported in USAID's Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

Material Weakness

USAID's Process for Reviewing and Reporting Its Quarterly Accrued Expenditures and Accounts Payable Needs Improvement

In our testing of USAID's accrued expenditures at selected overseas missions and bureaus in Washington, DC, the OIG determined that existing controls over the accruals process needed improvement. USAID's accrued expenditures and accounts payable recorded in the core accounting system were less accurate because of deficiencies and unresolved training needs of USAID's Certifying Technical Officers. The OIG proposed, and USAID made, \$254 million of adjustments to more accurately present accrued expenditures and accounts payable reported on USAID's financial statements.

According to USAID's Automated Directives System (ADS) 631, financial documentation represents any documentation that impacts on or results in financial activity. It is not limited to documentation within the financial

management operations but includes any source material resulting in a financial transaction. Contracting Technical Officers (CTOs), Loan Officers, Grants Officers, Strategic Objective teams, and others are responsible for retaining financial documentation and ensuring its availability for audit. ADS 631 also states that the Obligation Manager must gather cost data—such as supporting project documentation, activity reports, delivery reports, or fixed reoccurring expenses—for the accruals exercise and then compare the data to payment histories and advances to estimate quarterly accruals.

The OIG found that USAID's amounts accrued via accrual worksheets at overseas missions and in Washington, DC lacked sufficient documentation to support accrual estimates and that such documentation could often not be produced subsequent to the recording of the estimates. We also found many accrual documentation errors, including incorrect calculations, misinterpretation of grantee information, and incorrect comparisons of estimated expenditure reports. In addition, we noted that USAID program managers did not have the training necessary to adequately estimate accruals.

At USAID, accrued expenditures are accounting estimates of services or goods rendered which have not been paid by USAID. In conducting quarterly accrual estimates, USAID relied on the efforts of CTOs at overseas missions and in Washington, DC. During FY 2004, these efforts were limited by the inability of USAID's overseas Mission Accounting Control System (MACS) to monitor various funding sources of the same project or program. Project managers and financial analysts had not documented their calculations or correspondence from grantees, their analysis of expenditure rates, or their review of accounting reports. Financial analysts estimating accruals also indicated that some accruals for completed projects are reported the same way for several quarters because missions have either not received disbursement data from USAID/Washington or because mission or Washington-based analysts have not received final vouchers indicating project completion.

USAID has taken action to address this situation. In previous years, simply identifying an individual responsible for providing accrual estimates was difficult. In response to an OIG recommendation made in FY 2004, USAID has worked with the contractor maintaining its core accounting system to improve the quality of this information. As a result of this work, the OIG can more easily locate USAID managers responsible for maintaining accrual estimates.

USAID has implemented OIG recommendations that have improved the overall process. Nevertheless, USAID's reported accounts payable and accrued expenditures are still vulnerable to material error, and annual pipeline information used at various levels of USAID management may be unreliable as long as CTOs are not trained to adequately perform quarterly accruals. In prior years, existing controls over the accruals process have been ineffective

and resulted in incomplete or inadequate written supporting documentation for many accrual transactions. To address this condition, the OIG is making the following recommendation.

Recommendation No 1: We recommend that USAID’s Chief Financial Officer, in coordination with USAID’s Office of Human Resources, update USAID’s Cognizant Technical Officer training course and Financial Management Overview training course to include sessions on developing and supporting quarterly accrual estimates. The training should include information on supporting documentation and on developing estimates in the absence of timely disbursement data necessary to develop accurate accruals.

Reportable Conditions

Certification Process for Mapping Strategic Objectives to Performance Goals Needs Improvement (Previously Reported as a Material Weakness)

USAID’s Bureau for Policy and Program Coordination (PPC) needs to improve the certification process for mapping its strategic objectives (SOs) to agency performance goals. While USAID has implemented OIG recommendations in improving PPC’s system for certifying strategic objective to performance goals, we identified problems that continue to affect USAID’s ability to obtain certifications on a timely and consistent basis. These problems occurred because USAID’s process for obtaining certifications was not always followed consistently or in a timely manner and because PPC’s Annual Reports Database was incomplete. As a consequence, the existing certification process may result in inaccurate information being reported on USAID’s Statement of Net Cost.

In response to an FY 2003 OIG audit recommendation, PPC instructed USAID operating units to certify that individual strategic objectives expending funds in FY 2004 were correctly assigned to one of its 34 separate performance goals. In January 2004, PPC forwarded two tables to USAID operating units—one identifying strategic objectives linked to performance goals and the other with unlinked strategic objectives—and instructed USAID operating units to certify the accuracy of strategic objectives assigned to USAID’s performance goals by April 30, 2004. This information was developed from PPC’s Annual Reports

Database (ARD), which contains all USAID strategic objectives active when the ARD was first created. PPC received all of the certifications from USAID’s operating units, with certifying officers’ statements and signatures, by May 14, 2004.

In June 2004, however, we determined that several strategic objectives which were either not contained in the ARD or were considered inactive by the certifying official at the time of the certification were not captured in the

certifications from mission directors. Many inactive strategic objectives which still had significant expenditure activity were not considered in PPC's initial request. Upon this discovery, PPC worked with USAID's Office of Financial Management and the bureau program offices to ensure that these strategic objectives were appropriately linked to agency performance goals (i.e. second round). Had these strategic objectives remained unassigned, USAID would have reported improperly allocated costs in its FY 2004 Statement of Net Cost.

PPC did not require individual certifications for the second round of validating strategic objectives of agency goal linkages. Instead, it accepted email correspondence from the operating units for these previously unassigned strategic objectives as evidence that these were legitimate changes made by an appropriate official. When the final table showing the attributions made during the second round was finished, PPC required the head of each bureau's program office to sign the table with the words, "I am satisfied with the way the listed SOs are attributed to Agency goals." If PPC does not implement a certification policy consistently throughout all USAID operating units, the overall quality of these certifications will be compromised.

Statement of Federal Financial Accounting Standard (SFFAS) No. 4 requires federal agencies to accumulate and report the costs of its activities on a regular and consistent basis for management information purposes. SFFAS No. 4 states that reliable information on the costs of federal programs and activities is crucial for effective management of government operations. The information supplied to internal and external users should be reliable and useful in making evaluations or decisions.

Recommendation No 2: We recommend that the USAID Chief Financial Officer, in coordination with the Assistant Administrator of the Policy and Program Coordination Division:

- 2.1 Ensure that annual certifications of strategic objectives to agency goals, which are made when information from the Annual Reports Database are finalized, are conducted consistently by all USAID operating units.**
- 2.2 Include all active strategic objectives expending funds in the Annual Reports Database.**

USAID's Process for Reconciling Its Fund Balance with the U.S. Treasury Needs Improvement (Repeat Finding)

Because of the significance of the unsupported year-end adjustments, the OIG determined that USAID's approach and internal controls over its fund balance reconciliation process need enhancement. USAID did not develop written narratives on unreconciled conditions of its fund balance accounts

documenting the reasons for making year-end adjustments to resolve \$392 million of differences between its balances and the pre-closing balances reported on the year-end closing statement provided by the U.S. Treasury's Financial Management Service (FMS). While preparing the year-end closing statement, USAID made adjustments of \$95 million net (\$392 million in absolute value) to bring its balances in agreement with the U.S. Treasury on the year-end closing statement and annual financial statement. This is compared to the \$35 million net amount (\$201 million in absolute dollar value) that was reported in FY 2003.

The U.S. Department of Treasury's guidance for reconciling fund balances requires that federal agencies research and resolve differences reported by the U.S. Treasury on a monthly basis. Agencies must also resolve all differences between the balances reported in their general ledger fund balance with the U.S. Treasury accounts and the balances reported by the U.S. Treasury. This guidance stipulates three months as a reasonable period for clearing the differences. U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its fund balance with the U.S. Treasury account. The procedures further state that an agency can adjust its fund balance with the U.S. Treasury account balance only after clearly establishing the causes for any errors and properly correcting those errors. In addition, the procedures state that an agency should document "month cleared" (the accounting month that the discrepancy was adjusted), accounting periods, required explanations, and brief narratives that disclose the cause of the discrepancy.

According to GAO's *Standards for Internal Control in Federal Government*, deficiencies found during ongoing monitoring should be communicated to the individual responsible for the particular function and also to at least one level of management above that individual. Serious matters should be reported to top management. This directive states that federal program managers should continually seek ways to improve accountability and to minimize and improve operational problems. USAID federal managers must seek, identify and report specific operational problems that should be disclosed based on the review of USAID's monthly fund balance reconciliations.

The OIG identified several problems that continue to limit USAID's ability to reconcile and correct differences between its reported fund balances and the control balances reported by the FMS. Specifically, USAID did not regularly document the conditions resulting in unreconciled conditions. USAID spent considerable time resolving timing differences associated with unreconciled amounts but was not able to implement procedures to quickly research and resolve other types of reconciling items. Also, authorized USAID officials did not review, certify, or sign monthly reconciliation documents, in accordance with TFM 5100. The OIG determined that because of these problems, it was not clear whether USAID clearly established and reported the conditions to the USAID managers for the function and whether USAID properly corrected

reconciling items and unreconciled conditions of the fund balance accounts. Moreover, USAID's overseas missions continue to have large unreconciled balances because they have not been able to implement procedures to reconcile items quickly and because accounting stations responsible for several client missions do not consistently receive documentation to support unreconciled transactions. As a result, USAID had to make an adjustment to reconcile its Fund Balance with the U.S. Treasury.

This condition does not have a material impact on the *Fund Balance with Treasury* line item reported on USAID's FY 2004 Balance Sheet; Note 2, *Fund Balances with Treasury*, or on amounts reported as unobligated balances on USAID's *Schedule of Budgetary Resources by Major Appropriation* for the year ended September 30, 2004.

In FY 2003, USAID implemented a new reporting system that has been used to determine its missions' reconciling items at the end of each accounting period. We determined that this new system was designed to track all reconciling items that existed between USAID's overseas mission records and FMS records, and allowed USAID access to information on these differences.

We identified similar reconciliation conditions in a previous audit report and made recommendations for corrective action by USAID management. As of September 30, 2004, in a cash reconciliation directive for USAID's overseas missions, USAID had taken action to implement those recommendations by identifying common problems that cause timing differences and other unreconciled conditions, and ways to avoid common problems. The information in USAID's cash reconciliation procedures referenced the U.S. Treasury's guidance (*Fund Balance with Treasury Reconciliation Procedures*) for identifying common errors or problems.

Because USAID is currently developing procedures to respond to a previous recommendation, we are not making a new recommendation to address the unreconciled condition between USAID's overseas missions and the Department of Treasury. We will review these procedures during the FY 2005 financial statement audit. However, because USAID/Washington continues to record unsupported and undocumented adjustments to its year-end fund balance to bring this account into agreement with the U.S. Treasury, we are including the following recommendation to USAID management:

Recommendation No. 3: We recommend that USAID's Chief Financial Officer require USAID's Office of Financial Management to develop and implement specific written desk procedures requiring documenting and reporting processes for the narratives of (1) conditions of reconciling items and (2) unreconciled conditions of fund balance accounts for the reconciliation of the Fund Balance

with Treasury, that incorporate and enhance existing USAID and federal guidance.

USAID's Process for Recognizing and Reporting Its Accounts Receivable Needs Improvement (Repeat Finding Previously Reported as a Material Weakness)

USAID's process for receivables due to USAID needs improvement in ensuring that all receivables are accounted for and validated in the amount reported for accounts receivable in its financial statements. Currently, USAID records receivables after its missions and the Office of Acquisition and Assistance (OAA) notify OFM that employees, vendors, contractors, and grantees owe funds to USAID. Overall, USAID still does not have an integrated system for ensuring that its accounts receivable are complete, and no single person in USAID is solely responsible for ensuring that USAID accounts receivable are accurate for interim and year-end financial reporting.

SFFAS No. 1, paragraph 40 to 52, *Accounts Receivable*, requires the recognition (recording) of accounts receivable when a claim to cash or other assets has been established. The establishment of accounts receivable cannot occur on a timely basis unless there are adequate procedures in place for recognizing and reporting them at the end of each accounting period. Such a system does not exist at USAID for its overseas locations.

The OIG determined that USAID had inadequate supervisory controls for ensuring that USAID officials completely determined and reported all validated receivables to the USAID Office of Financial Management. Approximately \$5 million of USAID's accounts receivable that have been outstanding for two years or more were not validated as of September 30, 2004.

Since it has not fully implemented policies and procedures for its overseas missions and its Office of Acquisition and Assistance to immediately recognize accounts receivable, USAID had to rely on its web-based data collection tool to determine the year-end accounts receivable balances for its overseas missions. USAID continues to lack an integrated financial management system with the ability to recognize and account for its worldwide accounts receivable. This internal control weakness was reported in a previous audit report¹ and USAID is still in the process of integrating its financial management systems. Because this systemic weakness continues to exist, we have included it as a reportable condition in this report. However, we are not including an additional recommendation to address the condition. We will continue to monitor USAID's progress in implementing the OIG's previously recommended corrective actions.

¹ Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls and Compliance for Fiscal Years 2003 and 2002. Report No. 0-000-04-001-C, dated November 14, 2003.

USAID's Intragovernmental Reconciliation Process Needs Improvement

USAID did not reconcile its significant intragovernmental activities and balances with its federal trading partners throughout fiscal year 2004. The U.S. Department of Treasury's Financial Management Service (FMS) reported \$14.6 billion in intragovernmental balances at USAID in its 4th quarter Intragovernmental Summary Report. However, the summary report identified \$10.4 billion of differences between transactions reported by USAID and those reported by USAID's federal trading partners. These differences were reported by FMS in several reports, including the Material Differences/Status of Disposition Certification (MD/SD) Report identifying differences by federal trading partner and differences in reported intragovernmental activity by reciprocal category.² Although USAID reconciled material differences identified by FMS in its quarterly MD/SD Report in accordance with Treasury Financial Manual (TFM) Bulletin No. 2004-04, it did not consistently reconcile other significant differences by reciprocal category with its federal trading partners throughout FY 2004.

Section 11.3 of OMB Bulletin 01-09 requires federal agencies to perform quarterly reconciliations of intragovernmental transactions beginning in fiscal year 2003. These reconciliations are to be conducted in accordance with the FMS *Federal Intragovernmental Transactions Accounting Policies Guide*. Beginning in the quarter ending March 31, 2004, FMS implemented its Intragovernmental Management Control Plan to address a material weakness cited by the Government Accountability Office (GAO) in the Financial Report of the United States Government. TFM Part 2, Chapter 4706.1 (TFM 4706.10) further references the requirements of OMB Bulletin 01-09. FMS monitors the intragovernmental payment and collection (IPAC) process for the entire federal government and accumulates daily IPAC transactions among all federal agencies using its Intragovernmental Reporting and Analysis System. To facilitate the quarterly FMS reports, FMS developed a reconciliation process based on a reciprocal category concept. As of September 30, 2004, FMS identified \$10.4 billion of unreconciled differences between USAID and 37 separate federal agencies and one unassigned agency.

USAID did not reconcile other significant activities and balances for fiscal year 2004 because it did not effectively assign the necessary staff resources to reconcile its quarterly activities and balances with federal trading partners and promptly resolve differences. On the other hand, these same federal trading partners have not always attempted to do the same with USAID. As a result of the reportable condition, year-end balances in USAID's intragovernmental line items reported on the financial statements may be misstated.

² For example, federal interests are recorded in pairings of related U.S. Standard General Ledger accounts (federal interest receivable, interest payable, appropriation transfers in/out, revenue and expense and budgetary accounts).

The OIG determined that, in accordance with TFM Bulletin No. 2004-04, USAID could begin to reconcile significant activities and balances in FY 2004 on a quarterly basis for most activities and balances identified in the MD/SD. USAID has taken actions to address those material differences reported by FMS in the MD/SD every quarter. USAID has also informed the OIG of its plan to reconcile all differences exceeding \$100 million with federal trading partners. We will review USAID's implementation of this plan in future audits.

In the second quarter of FY 2004, after FMS submitted MD/SD reports to federal agencies, USAID began performing intragovernmental reconciliations of reported material differences. As a result, USAID discovered that activity differences with federal trading partners occurred because of timing differences and reporting errors between federal agencies. In one instance, USAID resolved \$856 million of activity differences resulting from erroneously reporting a trading partner code. Unresolved differences with federal trading partners may also be reported in the MD/SD because of accounting errors or differences in accounting methodologies.

Because USAID did not begin to resolve other significant differences in fiscal year 2004, however, we are making the following recommendation:

Recommendation No 4: We recommend that USAID's Chief Financial Officer direct its Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners, in accordance with the requirements of the *Federal Intragovernmental Transactions Accounting Policies Guide*, issued by the Department of Treasury's Financial Management Service.

Unliquidated Obligations Were Not Always Deobligated as Necessary (Repeat Finding)

USAID needs to improve its determination process for deobligating unliquidated obligations. At fiscal year-end, USAID's records show about \$61 million of unliquidated obligations that were not deobligated as necessary and may no longer be needed for their original obligation purpose. In response to a previous OIG audit recommendation, USAID's Business Transformation Executive Committee (BTEC) reviewed approximately \$80 million in inactive obligations of \$100,000 or more during FY 2004 and coordinated with USAID Bureaus to review those inactive obligations and to make a determination regarding the deobligation of those funds. As of the fiscal year-end, however, USAID had not determined whether approximately \$15 million of those inactive obligations could be deobligated because USAID Bureaus did not report their determination of those inactive obligations to the BTEC. USAID also did not deobligate about

\$46 million in other inactive obligations from current USAID records because its bureaus did not develop support for these determinations or report their results to USAID. As a result, as of September 30, 2004, about \$61 million in inactive obligations still remained unliquidated that could be available for deobligation. This represents a decrease from the \$119 million in unliquidated obligations reported in our FY 2003 audit. More than 51 percent of the \$61 million is over the \$100,000 threshold established by USAID for periodic review and deobligation as necessary. Consequently, remaining unliquidated amounts will not be available to USAID for other purposes.

USAID's Automated Directives System (ADS) 621.3.15, *Annual Certification of Unexpended Balances*, states, "As part of the annual budget process, Assistant Administrators, independent office directors, and mission directors must certify whether unexpended balances are necessary for ongoing programs." The directive further requires that when conducting reviews of obligations to identify funds that must be deobligated, obligation managers and others involved in the review process should consider circumstances that could result in excessive or unneeded obligation balances. According to ADS 621.3.13, where there is an unobligated balance that has remained unchanged for twelve months or more and there is no evidence of receipt of services and/or goods during that same 12-month period, the remaining balances may no longer be needed. But ADS 621 does not identify an appropriate way of reviewing unliquidated obligations, including guidance on the use of aging to determine their validity.

In FY 2002, USAID's Business Transformation Executive Committee working group reviewed 576 awards with performance periods ending on or before September 30, 2000, and having unliquidated obligation balances of \$100,000 or more. As a result of the group's review, USAID deobligated about \$100 million of the reported unliquidated obligations related to the 576 awards. However, because USAID has not fully institutionalized business processes and policy and procedural improvements, many other unliquidated obligations may be available for deobligation.

In FY 2004, USAID had taken actions to implement our previously reported recommendations by (1) expanding procedural guidance for reviews needed to identify unliquidated obligations that are no longer needed, and (2) including both ad hoc reports and core accounting system reports to assist USAID Bureaus in reviewing unliquidated obligations and making determinations regarding the deobligation of funds. Despite that improvement, as of September 30, 2004, USAID did not resolve approximately \$61 million in inactive obligations in these reports. As a result, USAID was unable to provide its program managers and oversight agencies with amounts available for other purposes. This reportable condition does not have any material impact on the Statement of Budgetary Resources.

USAID's Accrual Reporting System requires USAID's obligation managers to review approve system-generated expenses based on recorded unliquidated obligations. If this system is maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. We will continue to review USAID's progress in reviewing inactive obligations in our FY 2005 financial statement audit.

USAID's System for Preparing Its Management's Discussion and Analysis Needs Improvement (Repeat Finding)

OMB Bulletin 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence³ and completeness⁴ assertions relevant to the performance measures included in the MD&A and (b) report on those internal controls that have not been properly designed and placed in operation.

The MD&A is a narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*, requires the MD&A to be included in each annual financial statement as required supplementary information. OMB Bulletin 01-09 provides additional guidance for preparing the MD&A.

Based on a limited review of USAID's system to collect and report performance information in the draft MD&A for FY 2004, the OIG identified the following weakness:

- USAID's current system does not allow the reporting of agency-wide performance results for the current year. Certain performance information for FY 2004 indicating the extent to which programs were achieving their objectives is based on results achieved in FY 2003. For example, Section 1.6 *Most Important Results and Continuing Challenges* does not identify targets against which to compare results. Although these results include predominantly FY 2004 information, FY 2003 information is included as well. Therefore, Section 1.6 of the MD&A for FY 2004 does not provide a clear picture of planned and actual performance for fiscal year 2004 and does not adequately reflect the actual costs for the current fiscal year.

³ This management assertion deals with whether information included in the MD&A actually occurred during the given period.

⁴ This management assertion deals with whether all performance results which should be presented have been included.

USAID has made notable improvements to this year's draft MD&A over the FY 2003 MD&A in two major ways:

- The draft MD&A for FY 2004 reported more current-year results in meeting the criteria set by OMB than the prior year's MD&A. USAID's present ability to compare the estimated current-year results against established goals and targets is a significant step in the right direction.
- The draft MD&A for FY 2004 uses USAID's New Strategic Planning Framework and Goal Structure – *Joint USAID/State Strategic Plan* – between the State Department and USAID. The new framework is designed to represent a more coherent, concise and logical reflection of how the Department and USAID organize their work towards given results/outcomes.

As the OIG reported in previous years, we recommend that USAID continue its efforts to improve its system for collecting, summarizing, and preparing actual performance information included in the MD&A. Specifically, USAID needs to further refine its current system so that the MD&A contains a clear picture of USAID's planned performance goals and targets for the current year and a comparison of these goals with actual results for the current year.

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

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

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Independent Auditor's Report on Compliance With Laws and Regulations

Report on Compliance with Laws and Regulations

We have audited the consolidated balance sheet of USAID as of September 30, 2004 and 2003. We have also audited the consolidated statement of changes in net position, consolidated statement of net cost, combined statement of budgetary resources, and consolidated statement of financing for the fiscal years ended September 30, 2004 and 2003, and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

USAID management is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID'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 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to USAID.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed an instance of noncompliance with Section 620(q) of the Foreign Assistance Act of 1961, and the Brooke Amendment.

Under FFMIA, we are required to report whether USAID's financial management systems substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements. The results of our tests disclosed three instances in which USAID's financial management systems did not substantially comply with FFMIA requirements.

Our tests of compliance with selected provisions of laws and regulations disclosed instances of noncompliance considered to be reportable under *Government Auditing Standards*. However, our objective was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Noncompliance Other than FFMIA

620(q)/Brooke Amendment Report is not Functioning as a Proper Notice

Since March 2004, the USAID-prepared 620(q)/Brooke Amendment Violation Report has not properly reflected the status of foreign governments in violation or potential violation of Section 620(q) of the Foreign Assistance Act of 1961 and the Brooke Amendment to the Foreign Operations Appropriations Act of 1999. Section 620(q) prohibits the provision of federal assistance to any foreign government in default, for more than six months, on its loan obligations to the U.S. The Brooke Amendment identifies the same sanctions for foreign governments in default for more than one year. In May 2004, USAID should have identified a foreign government in the potential 620(q) violation category for failure to fulfill its loan obligations. This foreign government was not listed on the report until they were in Brooke violation in October 2004 after having received \$22.5 million in new obligations from USAID subsequent to May 2004. USAID's Loan Management Division (LMD) did not notify the foreign government of its potential 620(q)/Brooke violation with the appropriate 45-day or 120-day notice. Although USAID is rescheduling a portion of the foreign government's loans, LMD did not effectively monitor several loans in arrears that were not undergoing rescheduling. Also because Riggs Bank (USAID's loan servicing agent) does not submit its reports on delinquent loans directly to USAID's Chief Financial Officer (CFO) in addition to LMD, the CFO could not effectively monitor the entire loan management process. LMD did not ensure that payments were made on these loans and did not have current written procedures for preparing and maintaining the 620(q)/Brooke Amendment Violation Report, particularly with respect to reviewing potential violations for countries undergoing loan rescheduling.

ADS 623.3.5.7 Monitoring 620(q)/Brooke states that LMD has the primary responsibility for monitoring 620(q) and Brooke compliance using Department of Defense and Export Import Bank information and internally developed reports on delinquency, and for notifying bureaus and missions when a USAID loan payment is past due. At least one follow-up to this initial message is sent on USAID loan arrearages stating that, unless payment is received, 620(q) or Brooke (if applicable) apply on a specific date. This message must provide a warning of about 45 days for either 620(q) or Brooke dates.

Because the report is not properly prepared, management's ability to properly monitor countries that are in potential or current violation is impaired; the foreign governments may not be properly notified within at least 45 days of their potential violation to allow time to prevent the violation; and USAID and other federal agencies may commit new obligations after a particular country moves into noncompliance with 620(q) or Brooke.

Recommendation No. 5: We recommend that USAID's Chief Financial Officer update written procedures related to the preparation of the 620(q)/Brooke Amendment Violation Report; the monitoring of non-rescheduled loans for countries under rescheduling; and the receipt of loan delinquency reports from its loan servicing agent.

Reportable Noncompliance with FFMIA (Repeat Finding)

OIG reported that USAID's financial management systems did not substantially comply with system requirements under FFMIA.⁵ USAID's reportable noncompliance conditions related to (1) USAID's new core financial management system at overseas missions not being deployed, (2) funds control issues in USAID's core financial management system in Washington, and (3) USAID's financial management system compliance with the U.S. Standard General Ledger at the transaction level for its overseas missions. As a result, during FY 2004, USAID relied on a combination of outdated legacy systems; informal, unofficial records; and a core financial management system which suffered from technical and operational problems.

According to FFMIA, federal agencies must implement and maintain financial management systems that comply substantially with federal financial management system requirements. The Act states that users should have on-line access to, or receive daily reports on, the status of funds to perform analysis or make decisions. OMB Circular A-11 states that an agency that is not in compliance with FFMIA must prepare a remediation plan. The purpose of a remediation plan is to identify activities planned and underway that will allow USAID to achieve substantial compliance with FFMIA. Remediation plans must include the resources, remedies, interim target dates, and responsible officials. Further, the remediation target dates must be within three years of the date the system was determined not to be substantially compliant.

In response to our previous audit reports, USAID closed computer security as a material weakness in March 2004 and implemented a new core financial system at five missions. Currently, USAID plans to complete worldwide deployment of the system by the second quarter of fiscal year 2006. The integration of the procurement system is planned to occur at that time. Compliance with financial management system requirements will depend upon the completion of successful implementation of the systems. The OIG will

⁵ Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 2000 (Audit Report No. 0-000-01-006-F, February 26, 2001); Reports on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Year 1999 (Audit Report No. 0-000-00-006-F, February 18, 2000); and Audit of the Extent to Which USAID's Financial Management System Meets Requirements Identified in the Federal Financial Management Improvement Act of 1996 (Audit Report No. A-000-98-003-P, March 2, 1998).

continue to monitor USAID's progress in becoming substantially compliant with FFMIA.

New Core Financial Management System Is Not Deployed

While USAID did begin overseas deployment of its new core financial system, it did not implement the deployment of the new core financial management system for other overseas missions. Pilot deployment took place at USAID missions in Colombia, Egypt, Ghana, Nigeria and Peru in June 2004. According to USAID officials, all 38 accounting stations will be converted to the new system by the spring of 2006.

OMB Circular A-127, *Financial Management Systems*, prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Section 7 of the Circular identifies the requirements that federal financial systems should meet. In January 2001, OMB issued guidance, *Revised Guidance for the Federal Financial Management Improvement Act*, to supplement Office of Management and Budget Circular A-127. The purpose of the guidance is to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements that an agency must meet and USAID's ability to meet financial management system requirements is contingent upon successful overseas deployment of its new financial system.

In 2004, the Department of State (State) and USAID submitted a joint Office of Management and Budget A-300 budget submission. That budget submission stated that State and USAID will share a core financial system but maintain separate databases due to the very different business processes and information requirements. Joint State and USAID operations are to begin in October 2005.

Funds Control Problem in the Core Accounting System

Although USAID has enhanced its financial management systems, it continued to use a separate system to process obligations for its overseas missions because it has not integrated the systems to further strengthen funds control. As a result, USAID's financial system may not have provided users with complete, accurate, and timely financial information needed for decision-making purposes.

According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, each federal agency is responsible for establishing a funds control system that will ensure that the agency does not obligate or expend funds in excess of those appropriated or apportioned. The Circular also states that

multi-year unobligated funds remaining available at year-end must be reapportioned in the upcoming fiscal year.

In January 2003,⁶ the OIG reported that, because USAID did not have an integrated financial management system, it used a separate system to process obligations for its overseas missions. As such, the appropriation amount displayed as available after the roll-up of mission obligations was overstated by the amount of these same mission obligations. To compensate for this weakness, USAID allowed only a few users to apportion funds. Further, those users had access to records held outside of USAID's core accounting system to track mission obligations and determine the correct amount available for apportionment. Because this issue should be corrected with the deployment of the core financial system to the overseas missions, we did not make any recommendations. The OIG will continue to monitor USAID's progress in deploying its core financial system overseas.

USAID's Core Financial Management System for Overseas Mission Activities Did Not Comply with the U.S. General Ledger Standard at the Transaction Level

Because the Mission Accounting and Control System continued to operate as the financial system for overseas missions, USAID has not recorded mission activities using the standard general ledger at the transaction level to support financial reporting and meet requirements. Therefore, USAID cannot ensure that transactions are posted properly and consistently from mission to mission.

FFMIA requires agencies to implement and maintain systems that comply substantially with, among other things, the United States Standard General Ledger (USSGL) at the transaction level. This requires the agency's recording of financial events to be consistent with all applicable account descriptions and posting models/attributes reflected in the standard general ledger issued by the Department of the Treasury, Financial Management Service.

The OIG previously determined that USAID did not substantially comply with the USSGL at the transaction level. Specifically, in fiscal year 2001, the OIG reported that USAID did not record mission activities—accounting for approximately 52 percent of USAID's total net cost of operations—using the standard general ledger at the transaction level. This occurred because USAID recorded mission activities in the Mission Accounting and Control System—a computer-based system that did not have a standard general ledger chart of accounts. Instead, the Mission Accounting and Control System uses transaction codes to record transactions.

⁶ Report on USAID's Consolidated Financial Statements, Internal Controls And Compliance for Fiscal Year 2002, (Audit Report No. 0-000-03-001-C, January 24, 2003)

USAID needs to record mission activities using the standard general ledger at the transaction level to support financial reporting and meet FFMIA requirements. USAID plans to convert all of its accounting stations to its new core financial system by the Spring of 2006. The OIG will continue to monitor USAID's progress in deploying its core financial system overseas.

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

Office of Inspector General

USAID, Office of Inspector General
November 15, 2004

Evaluation of Management Comments

We have received USAID's management comments to the findings and recommendations included in our draft report. USAID management agreed with the material weakness and the reportable conditions. USAID management noted that they were extremely pleased that the OIG was able to issue unqualified opinions on all of USAID's principal financial statements. USAID management also stated they were pleased that the draft report fairly presented their progress and remaining challenges. We have evaluated USAID management comments on the recommendations and have reached management decisions on all five recommendations. The following is a brief summary of USAID's management comments on each of the five recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

USAID management agreed with Recommendation No. 1 and commented that they will agree to work with other responsible offices to implement this recommendation. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation in our FY 2005 GMRA audit.

Recommendation No. 2

USAID management agreed with Recommendation Nos. 2.1 and 2.2 and noted that they will agree to work with the Office of Policy and Program Coordination to implement this recommendation. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation in our FY 2005 GMRA audit.

Recommendation No. 3

USAID management agreed with Recommendation No. 3 and stated they will agree to implement and continue to engage overseas staff in this process. USAID management has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation and will continue to monitor the development and attainment of specific written desk procedures in our FY 2005 GMRA audit.

Recommendation No. 4

USAID management agreed with Recommendation No. 4. USAID management has set a target completion date of September 30, 2005. We

agree with the management decision on this recommendation. We will monitor the quarterly intragovernmental reconciliations and ensure the requirements of the Federal Intragovernmental Transactions Accounting Policies Guide are achieved in our FY 2005 GMRA audit.

Recommendation No. 5

USAID management agreed with Recommendation No. 5 and has set a target completion date of September 30, 2005. We agree with the management decision on this recommendation. In our FY 2005 GMRA audit, we will monitor USAID's progress in compliance with Section 620(q) of the Foreign Assistance Act.

See **Appendix II** for USAID's management comments.

**Scope and
Methodology**

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

The Office of Inspector General is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The Office of Inspector General is also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit (2) testing whether USAID's financial management systems substantially comply with the three FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Accountability Report.

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

- Anti-Deficiency Act
- Improper Payments Act
- Prompt Payment Act
- Debt Collection and Improvement Act
- Federal Credit Reform Act.
- OMB Bulletin 01-09
- Foreign Assistance Act of 1961

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

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2004 and 2003. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

With respect to the Management's Discussion and Analysis (MD&A), we did not perform an audit. However, we gained an understanding of USAID's system of collecting and reporting performance information. We did not assess the quality of the performance indicators and performed only limited tests to assess the controls established by USAID. Based on our limited tests of the measurement and presentation of performance results reported in the MD&A, we identified certain weaknesses that, in our judgment, affected USAID's portrayal of performance results as required by prescribed guidelines. We conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

In forming our opinion, the OIG considered potential aggregate errors exceeding \$309 million for any individual statement to be material to the presentation of the overall financial statements.



November 12, 2004

MEMORANDUM

TO: AIG/A, Bruce N. Crandlemire

FROM: CFO, Lisa D. Fiely /s/

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2004 and 2003 (Report No. 0-000-05-001-C)

Fiscal year 2004 was another significant year for federal financial management at USAID. We are pleased that your draft report so fairly presents both our progress and our remaining challenges. We are extremely pleased that you are able to issue unqualified opinions on all of USAID's five principal financial statements. We wish to recognize the OIG's dedication and cooperation throughout the audit process, and the excellent counsel and support the auditors provided to us. We also appreciate your acknowledgement of the improvements that we have made throughout the year to improve financial systems and processes.

Following are our management decisions regarding the proposed audit recommendations:

Material Weakness: USAID's Process for Reviewing and Reporting its Quarterly Accrued Expenditures and Accounts Payable Needs Improvement.

Recommendation 1: We recommend that USAID's Chief Financial Officer update USAID's Cognizant Technical Officer training course and Financial Management Overview training course to include sessions on developing and supporting quarterly accrual estimates. The training should include information on supporting documentation, and on developing estimates in the absence of timely disbursement data necessary to develop

accurate accruals.

Management Decision: We agree to work with other responsible offices to implement this recommendation. Target completion date is September 30, 2005.

Reportable Condition: Certification Process for Mapping Strategic Objectives to Performance Goals Needs Improvement (Previously Reported as a Material Weakness).

Recommendation No 2: We recommend that the USAID Chief Financial Officer, in coordination with the Assistant Administrator of the Bureau for Policy and Program Coordination:

- 2.1 Ensure that annual certifications of strategic objectives to Agency goals, which are made when information from the Annual Reports Database is finalized, are conducted consistently by all USAID operating units.
- 2.2 Include all active strategic objectives expending funds in the Annual Reports Database.

Management Decision: We agree to work with PPC to implement these recommendations. Target completion date is September 30, 2005.

USAID's Process for Reconciling its Fund Balance with the U.S. Treasury Needs Improvement (Repeat Finding).

Recommendation 3: We recommend that USAID's Chief Financial Officer require its Office of Financial Management to develop and implement specific written desk procedures requiring documenting and reporting processes for the narratives of: (1) conditions of reconciling items and (2) unreconciled conditions of fund balance accounts, for the reconciliation of the fund balance with Treasury that incorporate and enhance existing USAID and federal guidance.

Management Decision: We agree to implement recommendation 3 and will continue to engage overseas staff in this process. Target completion date is

September 30, 2005.

Reportable Condition: USAID's Intragovernmental Reconciliation Process Needs Improvement.

Recommendation 4: We recommend that USAID's Chief Financial Officer direct its Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners, in accordance with the requirements of the *Federal Intragovernmental Transactions Accounting Policies Guide*, issued by the Department of Treasury's Financial Management Service.

Management Decision: We agree to implement recommendation 4. Target completion date is September 30, 2005.

Noncompliance Other than FFMIA: 620(q)/Brooke Amendment Report not Functioning as a Proper Notice

Recommendation No. 5: We recommend that USAID's Chief Financial Officer update written procedures related to the preparation of the 620(q)/Brooke Amendment Violation Report; the monitoring of non-rescheduled loans for countries under rescheduling; and the receipt of loan delinquency reports from its loan servicing agent.

Management Decision: We agree to implement recommendation 5. Target completion date is September 30, 2005.

In closing, I would like to restate USAID's commitment to continual improvement in financial management. That commitment permeates throughout the Agency. We will continue the improvements made in the last few years as we work further to develop and implement the fundamental long-term solutions needed to address the internal control weaknesses cited in your report. Both the OIG and USAID management recognize that it is only through implementation of our financial system worldwide that we will be able to overcome many of the weaknesses cited in your audit report.

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**Status of
Uncorrected
Findings and
Recommendations
from Prior Audits
That Affect the
Current Audit
Objectives**

Office of Management and Budget (OMB) Circular A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after a final report is issued. Corrective action should proceed as rapidly as possible. The following audit recommendations directed to USAID either have not been corrected or final action has not been completed as of September 30, 2004. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

**Report on USAID's Financial Statements, Internal Controls, and Compliance for Fiscal Year 1998
Audit Report No. 0-000-99-001-F, March 1, 1999**

Recommendation No. 1: Because the Chief Financial Officer lacks the authority called for in the CFO Act, we recommend that the Chief Financial Officer collaborate with the Assistant Administrator for Management, Chief Information Officer, and Bureau for Policy and Program Coordination to:

- 1.1 Determine the specific responsibility, authority, and resources needed to meet the requirements of the Chief Financial Officers Act of 1990, which assigns the Chief Financial Officer responsibility to: (1) develop and maintain an integrated accounting and financial management system that meets federal financial system requirements, federal accounting standards, and the U.S. Standard General Ledger at the transaction level; (2) approve and manage financial management system design and enhancement projects; and (3) develop a financial management system that provides for systematic measurement of performance.

Recommendation is pending final action by USAID.

**Report on USAID'S Consolidated Financial Statements, Internal Controls and Compliance for Fiscal-Year 2002
Audit Report No. 0-000-03-001-C, January 24, 2003**

Recommendation No. 2: We recommend that the Chief Financial Officer:

- 2.2 Reconcile the mission adjustment account in the general ledger to the cumulative amounts in the mission ledgers and resolve differences between the general ledger and the mission ledgers.

Recommendation is pending final action by USAID.

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Financial Highlights

USAID's financial statements, which appear in the Financial Section of this Report, received for the second consecutive year an unqualified audit opinion issued by the USAID Office of the Inspector General. Preparing these statements is part of the Agency's goal to improve financial management and provide accurate and reliable information useful for assessing performance and allocating resources. Agency management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

USAID prepares consolidated financial statements that include a Balance Sheet, a Statement of Net Cost, a Statement of Changes in Net Position, a Statement of Budgetary Resources and a Statement of Financing. These statements summarize the financial activity and position of the agency. Highlights of the financial information presented on the principal statements are provided below.

Overview of Financial Position

Assets. The Consolidated Balance Sheet shows the Agency had Total Assets of \$24 billion at the end of 2004. This represents a 10.1% increase over previous year's Total Assets of \$21.8 billion. This is primarily the result of increases in USAID's overall Budget Authority, which increased by over \$700 million in FY 2004.

Table 1: The Agency's assets reflected in the Consolidated Balance Sheet are summarized in the following table (*dollars in thousands*):

	2004	2003	2002
Fund Balance with Treasury	\$15,854,926	\$14,215,414	\$11,897,972
Loans Receivables, Net	6,108,252	5,696,597	5,997,453
Accounts Receivables, Net	1,100,968	1,200,387	527,485
Cash, Advances and Other Assets	847,807	623,477	638,377
Property, Plant and Equipment, Net & Inventory	117,718	88,360	74,690
Total Assets	\$24,029,671	\$21,824,235	\$19,135,977

Fund Balances with Treasury and Loans Receivable, Net comprise the majority of USAID's assets. Together they account for over 90% of total assets for 2004, 2003 and 2002. USAID maintains funds with Treasury to pay its operating and program expenses. These funds increased by \$1.6 billion (11.5%) and represent the largest asset dollar amount change from FY 2003.

Existing loans receivables, net of estimated allowances for loan losses, decrease over time as a result of collections. Loan receivables, Net experienced a 7.2% increase from FY 2003. The overall increase in Loans receivable balance was because the decrease to the credit balance of this year's estimated allowance for losses on loans exceeded the

decrease to the debit balance of gross loans receivable attributable to loan collections.

The largest percentage change in assets line items on the Balance Sheet occurred in Advances and Prepayments, an increase of 59.9% (from \$350 million in FY 2003 to \$560 million in FY 2004). This increase is due to letter of credit draw down activities and the lag in liquidation reporting by grantees.

The table below presents USAID's asset type by percentage for fiscal year 2004.

Table 2: Percentage of Assets by Type, FY 2004

Assets by Type	Percentage
Fund Balance with Treasury	66.0%
Loans Receivables, Net	25.4%
Accounts Receivables, Net	4.6%
Cash, Advances and Other Assets	3.5%
Property, Plant and Equipment, Net & Inventory	0.5%
Total	100%

Liabilities. As presented on the Consolidated Balance Sheet, the Agency had almost \$10 billion in Total Liabilities at the end of 2004. This amount represents a \$642 million, or 6.9% increase in Total Liabilities from the prior year. Liabilities are summarized in the following table (*dollars in thousands*):

Table 3:

	2004	2003	2002
Debt & Due to U.S. Treasury	\$6,145,006	\$5,748,890	\$5,875,919
Accounts Payable	1,990,001	1,870,077	1,171,533
Loan Guaranty Liability	1,039,937	1,159,415	1,048,751
Other Liabilities	803,847	553,500	396,139
Total Liabilities	\$9,973,791	\$9,331,882	\$8,492,342

As reflected in Table 3, Credit Program Liabilities consisting mainly of Debt, amounts payable to U.S. Treasury and Loan Guaranty Liability account for most of USAID's Total Liabilities for 2004, 2003 and 2002. Debt and Due to Treasury combined represented 61.6 % of Total Liabilities for FY 2004. The Loan Guaranty Liability comprised 10.4 % of Total Liabilities for FY 2004.

Debt and Due to Treasury combined increased by 6.9%, or \$396 million, from FY 2003. Loan Guaranty Liability, which is associated with USAID's guarantees of loans made

by private lending institutions, decreased by 10.3% or by \$119 million from FY 2003.

The largest percentage change in Liabilities occurred in the Other Liabilities line items. Combined Federal and non-Federal Other Liabilities increased by 44.3%, or \$245 million, from FY2003. This change is primarily a result of increases in the liability for undisbursed loans and related subsidy re-estimates.

The table below presents USAID's percentage of liabilities by type for fiscal year 2004 (*dollars in thousands*):

Table 4: Percentage of Liabilities by Type, FY 2004

Liabilities by Type, FY 2004	Percentage
Debt & Due to U.S. Treasury	61.6%
Accounts Payable	20.0 %
Loan Guaranty Liability	10.4%
Other Liabilities	8.0%
Total	100.0%

Ending Net Position. Net Position is the sum of the Unexpended Appropriations and Cumulative Results of Operations. USAID's Net Position at the end of 2004 on the Consolidated Balance Sheet and the Consolidated Statement of Changes in Net Position was \$14 billion, a \$1.6 billion increase from the previous fiscal year. Unexpended Appropriations of \$13.4 billion or 95.3% represent funds appropriated by the Congress for use over multiple years that were not expended by the end of FY 2004.

Results of Operations

The results of operations are reported in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position.

The Consolidated Statement of Net Cost presents the Agency's gross and net cost for its strategic goals. The net cost of operations is the gross (i.e., total) cost incurred by the Agency, less any exchange (i.e., earned) revenue. The Schedule of Net Cost categorizes costs and revenues by strategic and performance goal and responsibility segments. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. For the

Agency, the technical and geographical bureaus (e.g., Global Health or Latin America/Caribbean) are considered a responsibility segment. Information on the Bureaus can be found in Note 17.

The presentation of program results by strategic goals is based on the Agency's current joint State/USAID Strategic Plan established pursuant to the Government Performance and Results Act of 1993. In accordance with current guidance, prior year data is also presented according to the corresponding strategic goal for comparative presentation.

The Agency's total net cost of operations for 2004, after intra-agency eliminations, was \$10.6 billion. The strategic objective, Social and Environmental Issues represents the

largest investment for the Agency at 40.9% of the Agency's net cost of operations. The net cost of operations for the remaining strategic objectives varies from .3% to 32%. Following is a breakout of net cost by Strategic Goal.

Table 5: Net Program Costs by Strategic Goal, FY 2004

Where the Funds Go – Net Program Costs (Dollars in Thousands)	Dollar Amount
Regional Stability	\$ 652,999
Counterterrorism	129,465
International Crime and Drugs	76,789
Democracy and Human Rights	1,277,058
Economic Prosperity and Security	3,374,522
Social and Environmental Issues	4,311,791
Humanitarian Response	650,659
Management and Organizational Excellence	45,986
Other	34,313
Total	\$10,553,582

The Consolidated Statement of Changes in Net Position presents the accounting items that caused the net position section of the balance sheet to change since the beginning of the fiscal year. The statement comprises two major components: Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations increased by \$1.6 billion or 13.7% from FY 2003 to FY 2004. The growth in Unexpended Appropriations was due principally to the continued increase in budget authority received to rebuild the Agency's programs, including increased funding for Iraq Reconstruction Assistance.

Cumulative Results of Operations amount to \$660 million as of September 30, 2004, a decrease of 7.6% from the \$714 million balance a year earlier. This balance is the cumulative difference, for all previous fiscal years through 2004, between funds available to USIAD from all financing sources and the net cost of USAID.

The Combined Statement of Budgetary Resources provides information on how budgetary resources were made available to the Agency for the year and their status at fiscal year-end. For the year, USAID had total budgetary resources of \$14.6 billion, an increase of 9.3 % from the 2003 level. Budget authority of \$11 billion, consisted of \$9.2 billion for appropriations and \$1.8 billion in net appropriation transfers. USAID incurred obligations of \$11.4 billion for the year, a 13.1% increase from the \$10.1 billion of obligations incurred during 2003.

Table 6 below, reflects the funds that the Agency received during 2004 and how these funds were used.

Where the Funds Come From (Dollars in Thousands)	Dollar Amount
Appropriations and Transfers	\$11,072
Unobligated Carry Over Balances (Net)	1,229
Other	1,129
Total	\$13,430

The Combined Statement of Financing reconciles the resources available to the Agency to finance operations with the net costs of operating the Agency's programs. Some operating costs, such as depreciation, do not require direct financing sources.

Limitations to the Financial Statements

The financial statements have been prepared to report the financial position and results of operations of USAID, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of USAID, in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that USAID is a component of the U.S. Government, a sovereign entity.

Appendix IV

**U.S. Agency for International Development
CONSOLIDATED BALANCE SHEET
As of September 30, 2004 and 2003
(in thousands)**

	2004	2003 (Audited)
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 15,854,926	\$ 14,215,414
Accounts Receivable (Note 3)	1,031,168	1,134,074
Other Assets (Note 4)	30,920	32,998
Total Intragovernmental	16,917,014	15,382,486
Cash and Other Monetary Assets (Note 5)	257,201	240,412
Accounts Receivable, Net (Note 3)	69,800	66,313
Loans Receivable, Net (Note 6)	6,108,252	5,696,597
Inventory and Related Property (Note 7)	35,764	24,027
General Property, Plant, and Equipment, Net (Note 8 and 9)	81,954	64,333
Advances and Prepayments (Note 4)	559,686	350,067
Total Assets	24,029,671	21,824,235
LIABILITIES (Note 16)		
Intragovernmental		
Accounts Payable (Note 10)	29,523	27,299
Debt (Note 11)	111,081	79,165
Due to U.S. Treasury (Note 11)	6,033,925	5,669,725
Other Liabilities (Note 12, 13, and 14)	420,574	14,843
Total Intragovernmental	6,595,103	5,791,032
Accounts Payable (Note 10)	1,960,478	1,842,778
Loan Guarantee Liability (Note 6)	1,039,937	1,159,415
Federal Employees and Veteran's Benefits (Note 14)	24,523	27,400
Other Liabilities (Note 12)	353,750	511,257
Total Liabilities	9,973,791	9,331,882
Commitments and Contingencies (Note 15)		
NET POSITION		
Unexpended Appropriations	13,395,387	11,777,877
Cumulative Results of Operations	660,493	714,476
Total Net Position	14,055,880	12,492,353
Total Liabilities and Net Position	\$ 24,029,671	\$ 21,824,235

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2004 and 2003
(in thousands)

	2004		2003 (Audited)	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ 714,476	\$ 11,777,877	\$ 578,345	\$ 10,065,290
Prior period adjustments (Note 19)	-	-	1,690	-
Beginning Balances, as adjusted	714,476	11,777,877	580,035	10,065,290
Budgetary Financing Sources:				
Appropriations Received		9,186,373		10,536,974
Appropriations transferred-in/out		2,122,641		113,059
Other adjustments (recissions, etc)	-	(49,538)	-	(51,797)
Appropriations used	9,641,966	(9,641,966)	8,885,648	(8,885,648)
Nonexchange revenue	-			
Donations and forfeitures of cash and cash equivalents	83,683		100,316	
Transfers-in/out without reimbursement	763,675		1,128,139	
Other budgetary financing sources	-			
Other Financing Sources:				
Transfers-in/out without reimbursement	1,823			
Imputed financing from costs absorbed by others	8,452		13,902	
Total Financing Sources	10,499,599	1,617,510	10,128,005	1,712,588
Net Cost of Operations	10,553,582		9,993,565	
Ending Balances	\$ 660,493	\$ 13,395,387	\$ 714,476	\$ 11,777,877

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COSTS
For the Years Ended September 30, 2004 and 2003
(in thousands)

Goal	2004	2003
Regional Stability		
Intragovernmental	13,161	19,196
With the Public	641,109	369,695
Total Costs	654,270	388,891
Less Earned Revenues	(1,271)	(618)
Net Program Costs	652,999	388,273
Counterterrorism		
Intragovernmental	16,604	805
With the Public	112,915	77,010
Total Costs	129,519	77,815
Less Earned Revenues	(54)	(26)
Net Program Costs	129,465	77,789
International Crime and Drugs		
Intragovernmental	4,383	3,052
With the Public	72,701	112,848
Total Costs	77,084	115,901
Less Earned Revenues	(295)	(98)
Net Program Costs	76,789	115,803
Democracy and Human Rights		
Intragovernmental	20,209	27,999
With the Public	1,260,638	875,203
Total Costs	1,280,847	903,202
Less Earned Revenues	(3,789)	(892)
Net Program Costs	1,277,058	902,309
Economic Prosperity and Security		
Intragovernmental	118,496	170,453
With the Public	3,270,365	3,644,744
Total Costs	3,388,861	3,815,198
Less Earned Revenues	(14,339)	(82,596)
Net Program Costs	3,374,522	3,732,602
Social and Environmental Issues		
Intragovernmental	357,063	301,995
With the Public	4,021,570	3,296,720
Total Costs	4,378,633	3,598,715
Less Earned Revenues	(66,842)	(103,951)
Net Program Costs	4,311,791	3,494,764
Humanitarian Response		
Intragovernmental	173,977	72,002
With the Public	542,815	1,034,835
Total Costs	716,792	1,106,837
Less Earned Revenues	(66,133)	(2,318)
Net Program Costs	650,659	1,104,519
Management and Organizational Excellence		
Intragovernmental	5,388	18,839
With the Public	41,022	136,522
Total Costs	46,410	155,361
Less Earned Revenues	(424)	(592)
Net Program Costs	45,986	154,769
Public Diplomacy and Public Affairs		
Intragovernmental	152	1,738
With the Public	34,338	21,054
Total Costs	34,490	22,792
Less Earned Revenues	(177)	(56)
Net Program Costs	34,313	22,736
Net Costs of Operations	10,553,582	9,993,565

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2004 and 2003
(in thousands)

	FY 2004 Budgetary	FY 2004 Credit Program Financing	FY 2003 Budgetary	FY 2003 Credit Program Financing
Budgetary Resources				
Budget Authority				
Appropriations Received	\$ 9,260,278	-	10,801,068	\$ -
Borrowing Authority (Note 20)	-	-	-	62,886
Net Transfers	1,812,100	-	(436,693)	-
Other	-	-	-	-
Total Budget Authority	11,072,378	-	10,364,375	62,886
Unobligated Balance:				
Beginning of Period	2,288,520	981,619	1,592,265	798,979
Net Transfers, Actual	96,959	-	(1,684)	-
Total Unobligated Balance	2,385,479	981,619	1,590,581	798,979
Spending Authority from Offsetting Collections:				
Earned	-	-	-	-
Collected	906,735	218,325	892,844	208,543
Receivable from Federal Sources	(237)	-	(5,961)	11,328
Change in Unfilled Customer Orders	-	-	-	-
Advance Received	4,594	-	(331)	-
Anticipated for Rest of Year, Without Advances	-	-	-	-
Subtotal	911,092	218,325	886,552	219,871
Recoveries of Prior Year Obligations	140,910	3,955	158,594	14,180
Permanently Not Available	(1,079,492)	(1,184)	(712,773)	(465)
Total Budgetary Resources	13,430,367	1,202,715	12,287,329	1,095,451
Status of Budgetary Resources:				
Obligations Incurred Direct (Note 20)	11,174,333	234,102	9,973,855	113,832
Unobligated Balance, Available	2,224,129	968,613	2,172,882	981,619
Unobligated Balance, Unavailable	31,905	-	140,592	-
Total Status of Budgetary Resources	13,430,367	1,202,715	12,287,329	1,095,451
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period (Note 20)	10,573,245	1,597	9,431,741	26,868
Obligated Balance Transferred, Net	-	-	1,819	-
Obligated Balance, Net, End of Period:	-	-	-	-
Accounts Receivable	(3,691)	-	(3,832)	-
Unfilled Customer Orders From Federal Sources	-	-	-	-
Undelivered Orders	11,284,640	10,604	9,209,121	1,731
Accounts Payable	1,469,017	427	1,367,956	(135)
Outlays:				
Disbursements	8,722,076	220,712	8,680,899	113,597
Collections	(1,122,466)	(2,595)	(892,551)	(208,543)
Subtotal	7,599,610	218,117	7,788,348	(94,946)

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF FINANCING
For the years ended September 30, 2004 and 2003
(in thousands)

	2004	2003
<i>Resources Used to Finance Activities:</i>		
Budgetary Resources Obligated		
Obligations Incurred (Note 20)	11,408,435	9,862,659
Appropriations transferred to/from other agencies (net)	1,206,427	1,665,639
Total Obligations Incurred (Note 21)	12,614,862	11,528,299
Less: Spending authority from offsetting collections and recoveries (Note 20)	(1,274,282)	(1,278,792)
Spending authority transferred to/from other agencies (net)	172,331	(53,366)
Total spending authority from offsetting collections and recoveries	(1,446,613)	(1,332,159)
Net Obligations	11,168,250	10,196,140
Other Resources		
Donated and Credit Program Revenue	(123,505)	(170,456)
Imputed Financing From Costs Absorbed by Others	8,452	13,902
	11,053,196	10,039,586
<i>Total Resources Used to Finance Activities</i>		
<i>Resources Used to Finance Items not Part of the Net Cost of Operations</i>		
Change in budgetary resources obligated for goods, services and benefits ordered, but not yet provided	(1,397,036)	(1,318,994)
Resources that fund expenses recognized in prior periods	3,163	20
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit Program collections which increase liabilities for loan guarantees or allowances for subsidy	1,070,144	1,091,885
Other	(218)	(6,057)
Resources that finance the acquisition of assets	20,159	80,309
<i>Total Resources Used to Finance items not part of net cost of operations</i>	(303,788)	(152,837)
<i>Total Resources Used to Finance Net Cost of Operations</i>	10,749,409	9,886,749
<i>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</i>		
Components Requiring or Generating Resources in Future Periods (Note 20):		
Increase in annual leave liability	1,242	2,168
Upward/Downward reestimates of credit subsidy expense	(208,678)	98,115
Increase in exchange revenue receivable from the public	37,031	36,435
Total	(170,405)	136,718
Components not Requiring or Generating Resources		
Depreciation and Amortization	15,186	6,925
Revaluation of assets or liabilities	(805)	3,133
Other	(39,802)	(39,960)
Total	(25,421)	(29,902)
<i>Total components of net cost of operations that will not require or generate resources in the current period</i>	(195,827)	106,816
<i>Net Cost of Operations</i>	10,553,582	9,993,565

U.S. Agency for International Development
CONSOLIDATING BALANCE SHEET
As of September 30, 2004
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Eliminating Entries	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury	\$ 1,227,679	\$ 14,163,133	\$ 368,349	\$ 1,034	\$ 33,255	\$ 61,476	\$ -	\$ 15,854,926
Accounts Receivable	300,147	-	804,700	-	-	-	(73,679)	1,031,168
Other Assets	-	30,554	366	-	-	-	-	\$ 30,920
Total Intragovernmental	1,527,826	14,193,687	1,173,415	1,034	33,255	61,476	(73,679)	16,917,014
Cash and Other Monetary Assets	50	-	257,151	-	-	-	-	257,201
Accounts Receivable, Net	46,927	17,330	1,014	0	-	4,529	-	69,800
Loans Receivable, Net	6,108,252	-	-	-	-	-	-	6,108,252
Inventory and Related Property	-	28,551	7,213	-	-	-	-	35,764
General Property, Plant, and Equipment, Net	-	935	81,019	-	-	-	-	81,954
Advances and Prepayments	160	504,190	51,655	2,300	1,380	1	-	559,686
Total Assets	7,683,215	14,744,693	1,571,467	3,334	34,635	66,006	(73,679)	24,029,671
LIABILITIES								
Intragovernmental								
Accounts Payable	19,098	40,898	878	-	-	42,328	(73,679)	29,523
Debt	111,081	-	-	-	-	-	-	111,081
Due to U.S. Treasury	6,033,925	-	-	-	-	-	-	6,033,925
Other Liabilities	407,959	-	8,086	-	-	4,529	-	420,574
Total Intragovernmental	6,572,063	40,898	8,964	-	-	46,857	(73,679)	6,595,103
Accounts Payable	45,708	1,460,177	444,827	1,590	8,176	-	-	1,960,478
Loan Guarantee Liability	1,039,937	-	-	-	-	-	-	1,039,937
Federal Employees and Veteran's Benefits	-	-	24,523	-	-	-	-	24,523
Other Liabilities	7,810	-	300,324	-	26,468	19,148	-	353,750
Total Liabilities	7,665,518	1,501,075	778,638	1,590	34,644	66,005	(73,679)	9,973,791
Commitments and Contingencies								
NET POSITION								
Unexpended Appropriations	42,557	13,209,745	143,085	-	-	-	-	13,395,387
Cumulative Results of Operations	(24,859)	33,873	649,745	1,743	(9)	-	-	660,493
Total Net Position	17,698	13,243,618	792,830	1,743	(9)	-	-	14,055,880
Total Liabilities and Net Position	\$ 7,683,216	\$ 14,744,693	\$ 1,571,468	\$ 3,333	\$ 34,635	\$ 66,005	\$ (73,679)	\$ 24,029,671

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET POSITION
For the period ended September 30, 2004
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Beginning Balances	\$ (58,154)	\$ 11,616,448	\$ 931,022	\$ 3,288	\$ (251)	\$ -	\$ 12,492,353
Prior period adjustments	-	-	-	-	-	-	-
Beginning Balances, as adjusted	(58,154)	11,616,448	931,022	3,288	(251)	-	12,492,353
Budgetary Financing Sources:							
Appropriations Received	108,114	8,256,500	821,759	-	-	-	9,186,373
Appropriations transferred-in/out	13,386	2,081,554	27,701	-	-	-	2,122,641
Other adjustments (recissions, etc)	(1,372)	(43,703)	(4,463)	-	-	-	(49,538)
Appropriations used	-	-	-	-	-	-	-
Nonexchange revenue	-	-	-	-	-	-	-
Donations and forfeitures of cash and cash equivalents	-	-	67,194	-	16,489	-	83,683
Transfers-in/out without reimbursement	-	-	763,675	-	-	-	763,675
Other budgetary financing sources	-	-	-	-	-	-	-
Other Financing Sources:							
Donations and forfeitures of property	-	-	-	-	-	-	-
Transfers-in/out without reimbursement	1,823	-	-	-	-	-	1,823
Imputed financing from costs absorbed by others	-	-	8,452	-	-	-	8,452
Other	-	-	-	-	-	-	-
Total Financing Sources	121,951	10,294,351	1,684,318	-	16,489	-	12,117,109
Net Cost of Operations	(46,099)	(8,667,181)	(1,822,510)	(1,545)	(16,247)	-	(10,553,582)
Ending Balances	\$ 17,698	\$ 13,243,618	\$ 792,830	\$ 1,743	\$ (9)	\$ -	\$ 14,055,880

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
 For the period ended September 30, 2004
 (in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Credit-Financing	Allocations	Total
Budgetary Resources:									
Budget Authority	\$ 176,499	\$ 9,788,686	\$ 849,460	\$ -	\$ 18,905	\$ -	\$ -	\$ 238,828	\$ 11,072,378
Unobligated Balances - Beginning of Period	368,508	1,785,630	37,384	2,694	1,995	-	981,619	189,268	3,367,098
Spending Authority from Offsetting Collections	851,779	22,640	29,148	4,930	-	-	218,325	2,595	1,129,417
Recoveries of Prior-Year Obligations	2,709	103,085	17,583	115	703	-	3,955	16,715	144,865
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	-
Permanently Not Available	(1,031,253)	(43,703)	(4,462)	-	-	-	(1,184)	(74)	(1,080,676)
Total Budgetary Resources	368,242	11,656,338	929,113	7,739	21,603	-	1,202,715	447,332	14,633,082
Status of Budgetary Resources:									
Obligations Incurred	189,933	9,776,106	846,333	5,255	19,576	-	234,102	337,130	11,408,435
Unobligated Balances-Available	178,048	1,860,642	80,734	2,484	2,027	-	968,613	100,194	3,192,742
Unobligated Balances-Unavailable	261	19,590	2,046	-	-	-	-	10,008	31,905
Total Status of Budgetary Resources	368,242	11,656,338	929,113	7,739	21,603	-	1,202,715	447,332	14,633,082
Relationship of Obligations to Outlays:									
Obligated Balance, Net, Beginning of Period	(5,842)	9,082,772	175,584	751	21,259	-	1,597	1,298,721	10,574,842
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-	-
Obligated Balance, Net, End of Period	34,791	11,218,291	196,964	1,252	31,229	-	11,031	1,267,439	12,760,997
Outlays:									
Disbursements	146,611	7,537,501	807,589	4,638	8,903	-	220,712	216,834	8,942,788
Collections	(851,798)	(22,639)	(27,475)	(2,229)	-	-	(218,325)	(2,595)	(1,125,061)
Less: Offsetting Receipts	-	-	-	-	-	-	-	-	-
Net Outlays	\$ (705,187)	\$ 7,514,862	\$ 780,114	\$ 2,409	\$ 8,903	\$ -	\$ 2,387	\$ 214,239	\$ 7,817,727

Appendix IV

**U.S. Agency for International Development
CONSOLIDATING STATEMENT OF FINANCING
For the period ended September 30, 2004
(in thousands)**

	Credit	Program	Operating	Revolving	Trust	Other	Total
<i>Resources Used to Finance Activities:</i>							
Budgetary Resources Obligated							
Obligations Incurred	424,035	10,113,235	846,333	5,255	19,577	-	11,408,435
Appropriations transferred to/from other agencies (net)	-	256,235	950,192	-	-	-	1,206,427
Total Obligations Incurred	424,035	10,369,470	1,796,525	5,255	19,577	-	12,614,862
Less: Spending authority from offsetting collections and recoveries	(1,076,768)	(145,035)	(46,731)	(5,045)	(703)	-	(1,274,282)
Spending authority transferred to/from other agencies (net)	-	14,218	(186,549)	-	-	-	(172,331)
Total Spending authority from offsetting collections and recoveries	(1,076,768)	(130,817)	(233,280)	(5,045)	(703)	-	(1,446,613)
Net Obligations	(652,733)	10,238,653	1,563,245	210	18,874	-	11,168,249
Other Resources							
Donated and Credit Program Revenue	(123,611)	(24)	130	-	-	-	(123,505)
Imputed Financing From Costs Absorbed by Others	-	-	8,452	-	-	-	8,452
Net other resources used to finance activities	(123,611)	(24)	8,582	-	-	-	(115,053)
<i>Total resources used to finance activities</i>	(776,344)	10,238,629	1,571,827	210	18,874	-	11,053,196
<i>Resources Used to Finance Items not Part of the Net Cost of Operations:</i>							
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(40,013)	(1,556,081)	200,094	1,295	(2,331)	-	(1,397,036)
Resources that fund expenses recognized in prior periods	-	-	3,163	-	-	-	3,163
Budgetary offsetting collections and receipts that do not affect net cost of operations	-	-	-	-	-	-	-
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,070,104	-	-	40	-	-	1,070,144
Other	-	-	(218)	-	-	-	(218)
Resources that finance the acquisition of assets	974	(13,679)	32,864	-	-	-	20,159
<i>Total resources used to finance items not part of net cost of operations</i>	1,031,065	(1,569,760)	235,903	1,335	(2,331)	-	(303,788)
<i>Total resources used to finance net cost of operations</i>	254,721	8,668,869	1,807,730	1,545	16,543	-	10,749,408
<i>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</i>							
Components Requiring or Generating Resources in Future Periods:							
Increase in annual leave liability	122	-	1,416	-	(296)	-	1,242
Upward/Downward reestimates of credit subsidy expense	(208,678)	-	-	-	-	-	(208,678)
Other	-	-	37,031	-	-	-	37,031
Total components of net cost of operations that will require or generate resources in future periods	(208,556)	-	38,447	-	(296)	-	(170,405)
Components not Requiring or Generating Resources							
Depreciation and Amortization	-	262	14,924	-	-	-	15,186
Revaluation of assets or liabilities	-	-	(805)	-	-	-	(805)
Other	(66)	(1,950)	(37,786)	-	-	-	(39,802)
Total components of net cost of operations that will not require or generate resources	(66)	(1,688)	(23,667)	-	-	-	(25,421)
<i>Total components of net cost of operations that will not require or generate resources in the current period</i>	(208,622)	(1,688)	14,780	-	(296)	-	(195,826)
Net Cost of Operations	46,099	8,667,181	1,822,510	1,545	16,247	-	10,553,582

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET COSTS
For the period ended September 30, 2004
(in thousands)

Goal	Credit	Operating	Other	Program	Operating	Trust	IntraAgency Elimination	Total
Regional Stability								
<i>Close, strong, and effective U.S. ties with allies</i>								
Intragovernmental	-	1,904	-	700	1	-	(6)	2,599
With the Public	-	10,435	-	62,069	24	108	(152)	72,484
Total Costs	-	12,339	-	62,769	25	108	(158)	75,083
Less Earned Revenues	-	(183)	-	(304)	(15)	-	64	(438)
Net Program Costs	-	12,156	-	62,465	10	108	(94)	74,645
<i>Existing and emergent regional conflicts are contained or resolved</i>								
Intragovernmental	-	2,998	-	7,584	2	-	(22)	10,562
With the Public	-	16,432	-	553,180	38	171	(1,196)	568,625
Total Costs	-	19,430	-	560,764	40	171	(1,218)	579,187
Less Earned Revenues	-	(287)	-	(645)	(23)	-	122	(833)
Net Program Costs	-	19,143	-	560,119	17	171	(1,096)	578,354
Counterterrorism								
<i>Coordinated international prevention and response to terrorism</i>								
Intragovernmental	-	-	-	16,325	-	-	(34)	16,291
With the Public	-	-	-	-	-	-	-	-
Total Costs	-	-	-	16,325	-	-	(34)	16,291
Less Earned Revenues	-	-	-	-	-	-	-	-
Net Program Costs	-	-	-	16,325	-	-	(34)	16,291
<i>Stable political and economic conditions</i>								
Intragovernmental	-	197	-	117	-	-	(1)	313
With the Public	-	1,080	-	112,059	2	11	(237)	112,915
Total Costs	-	1,277	-	112,176	2	11	(238)	113,228
Less Earned Revenues	-	(19)	-	(41)	(2)	-	8	(54)
Net Program Costs	-	1,258	-	112,135	-	11	(230)	113,174
International Crime and Drugs								
<i>International trafficking in drugs, persons, and other illicit goods</i>								
Intragovernmental	-	1,689	-	2,702	1	-	(9)	4,383
With the Public	-	9,261	-	63,476	21	96	(153)	72,701
Total Costs	-	10,950	-	66,178	22	96	(162)	77,084
Less Earned Revenues	-	(162)	-	(163)	(13)	-	43	(295)
Net Program Costs	-	10,788	-	66,015	9	96	(119)	76,789
Democracy and Human Rights								
<i>Develop transparent and accountable democratic institutions</i>								
Intragovernmental	-	17,398	-	559	9	-	(38)	17,928
With the Public	-	95,372	-	1,130,065	219	990	(2,574)	1,224,072
Total Costs	-	112,770	-	1,130,624	228	990	(2,612)	1,242,000
Less Earned Revenues	-	(1,669)	-	(2,237)	(133)	-	517	(3,522)
Net Program Costs	-	111,101	-	1,128,387	95	990	(2,095)	1,238,478
<i>Universal standards protect human rights</i>								
Intragovernmental	-	2,030	-	255	1	-	(5)	2,281
With the Public	-	11,130	-	25,371	26	116	(77)	36,566
Total Costs	-	13,160	-	25,626	27	116	(82)	38,847
Less Earned Revenues	-	(195)	-	(95)	(16)	-	39	(267)
Net Program Costs	-	12,965	-	25,531	11	116	(43)	38,580
Economic Prosperity and Security								
<i>Enhanced food security and agricultural development</i>								
Intragovernmental	-	12,054	-	19,572	6	-	(66)	31,566
With the Public	-	66,077	-	275,287	152	686	(718)	341,484
Total Costs	-	78,131	-	294,859	158	686	(784)	373,050
Less Earned Revenues	-	(1,156)	-	(718)	(92)	-	251	(1,715)
Net Program Costs	-	76,975	-	294,141	66	686	(533)	371,335
<i>Increased trade and investment</i>								
Intragovernmental	-	8,438	-	15,933	4	-	(51)	24,324
With the Public	-	46,254	-	206,863	106	480	(532)	253,171
Total Costs	-	54,692	-	222,796	110	480	(583)	277,495
Less Earned Revenues	-	(809)	-	(676)	(65)	-	198	(1,352)
Net Program Costs	-	53,883	-	222,120	45	480	(385)	276,143
<i>Institutions, laws, and policies foster private sector led growth</i>								
Intragovernmental	6,305	21,625	-	24,174	11	-	(109)	52,006
With the Public	652	118,543	-	2,416,193	272	1,231	(5,324)	2,531,567
Total Costs	6,957	140,168	-	2,440,367	283	1,231	(5,433)	2,583,573
Less Earned Revenues	(5,067)	(2,074)	-	(4,869)	(166)	-	1,559	(10,617)
Net Program Costs	1,890	138,094	-	2,435,498	117	1,231	(3,874)	2,572,956
<i>Secure and stable financial and energy markets</i>								
Intragovernmental	-	6,347	-	4,272	3	-	(22)	10,600
With the Public	-	34,795	-	109,210	80	361	(303)	144,143
Total Costs	-	41,142	-	113,482	83	361	(325)	154,743
Less Earned Revenues	-	(609)	-	(93)	(49)	-	96	(655)
Net Program Costs	-	40,533	-	113,389	34	361	(229)	154,088
Social and Environmental Issues								
<i>Broader access to quality education with an emphasis on primary school completion</i>								
Intragovernmental	-	17,454	-	28,395	9	-	(96)	45,762
With the Public	-	95,681	-	423,604	219	994	(1,092)	519,406
Total Costs	-	113,135	-	451,999	228	994	(1,188)	565,168
Less Earned Revenues	-	(1,674)	-	(699)	(134)	-	321	(2,186)
Net Program Costs	-	111,461	-	451,300	94	994	(867)	562,982

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Basis of Presentation**

These financial statements report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the applicable form and content requirements of the Office of Management and Budget (OMB) Bulletin 01-09, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

USAID accounting policies follow generally accepted accounting principles for the Federal government, as recommended by the Federal Accounting Standards Advisory Board (FASAB). The FASAB has been recognized by the American Institute of Certified Public Accountants (AICPA) as the official accounting standard set for the Federal government. These standards have been agreed to, and published by the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Comptroller General.

B. Reporting Entity

Established in 1961 by President John F. Kennedy, USAID is the independent U.S. Government agency that provides economic development and humanitarian assistance to advance United States economic and political interests overseas.

Programs

The financial statements reflect the various program activities, shown by appropriation in the financial statements, which include such programs as the Iraq Relief and Reconstruction Fund, Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Special Assistance Initiatives, International Disaster Assistance, Child Survival and Disease, Transition Initiatives, and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Iraq Relief and Reconstruction Fund

This new fund supports necessary expenses related to providing humanitarian assistance in and around Iraq and to carrying out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq. These include costs of: (1) water/sanitation infrastructure; (2) feeding and food distribution; (3) supporting relief efforts related to refugees, internally displaced persons, and vulnerable individuals, including assistance

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

for families of innocent Iraqi civilians who suffer losses as a result of military operations; (4) electricity; (5) healthcare; (6) telecommunications; (7) economic and financial policy; (8) education; (9) transportation; (10) rule of law and governance; (11) humanitarian demining; and (12) agriculture.

Economic Support Fund

Programs funded through this account provide economic assistance to select countries in support of efforts to promote stability and U.S. security interests in strategic regions of the world.

Development Assistance

This program provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. The program promotes broad-based, self-sustaining economic growth and supports initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

Assistance for the New Independent States of the Former Soviet Union

This account provides funds for a program of assistance to the independent states that emerged from the former Soviet Union. These funds support U.S. foreign policy goals of consolidating improved U.S. security; building a lasting partnership with the New Independent States; and providing access to each other's markets, resources, and expertise.

Special Assistance Initiatives

This program provides funds to support special assistance activities. The majority of funding for this program was for democratic and economic restructuring in Central and Eastern European countries consistent with the objectives of the Support for East European Democracy (SEED) Act. All SEED Act programs support one or more of the following strategic objectives: promoting broad-based economic growth with an emphasis on privatization, legal and regulatory reform and support for the emerging private sector; encouraging democratic reforms; and improving the quality of life including protecting the environment and providing humanitarian assistance.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued*International Disaster Assistance*

Funds for the International Disaster Assistance Program provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters such as famines, floods, hurricanes and earthquakes. The program also provides assistance in disaster preparedness, and prevention and mitigation.

Child Survival and Disease

This program provides economic resources to developing countries to support programs to improve infant and child nutrition, with the aim of reducing infant and child mortality rates; to reduce HIV transmission and the impact of the HIV/AIDS pandemic in developing countries; to reduce the threat of infectious diseases of major public health importance such as polio, and malaria; and to expand access to quality basic education for girls and women.

Transition Initiatives

This account funds humanitarian programs that provide post-conflict assistance to victims of natural and man-made disasters. Until FY 2001, this type of assistance was funded under the International Disaster Assistance account.

*Direct and Guaranteed Loans:**Direct Loan Program*

These loans are authorized under Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. Direct Loans are issued in both U.S. dollars and the currency of the borrower. Foreign currency loans made “with maintenance of value” place the risk of currency devaluation on the borrower, and are recorded in equivalent U.S. dollars. Loans made “without maintenance of value” place the risk of devaluation on the U.S. Government, and are recorded in the foreign currency of the borrower.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued*Urban and Environmental Program*

The Urban and Environmental (UE) program, formerly the Housing Guarantee Program, extends guaranties to U.S. private investors who make loans to developing countries to assist them in formulating and executing sound housing and community development policies that meet the needs of lower income groups.

Micro and Small Enterprise Development Program

The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises. The MSED program had one new loan guarantee for FY 2004. Although the MSED program is still active, the bulk of USAID's new loan guarantee activity is handled through the Development Credit Authority (DCA) program.

Israeli Loan Guarantee Program

Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to \$10 billion in loans from commercial sources, to be borrowed in \$2 billion annual increments. Borrowing was completed under the program during Fiscal Year 1999, with approximately \$9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions guarantees for Israel, not to exceed \$9 billion and \$1.3 billion in guarantees were resting with USAID. In FY 2003, Congress authorized a second portfolio of loan issued under this portfolio during FY 2003.

Ukraine Guarantee Program

The Ukraine Export Credit Insurance Program was established with the support of the Export-Import Bank of the U.S. to assist Ukrainian importers of American goods. The program commenced operations in Fiscal Year 1996 and expired in Fiscal Year 1999. The Ukraine Financing Account was closed out in FY 2002.

Development Credit Authority

The first obligations for USAID's new Development Credit Authority (DCA) were made in FY 1999. DCA allows missions and other offices to use loans and loan guarantees to achieve their development objectives when it can be shown that: 1) the project generates enough revenue to cover the debt service including

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

USAID fees, 2) there is at least 50% risk-sharing with a private-sector institution, and 3) the DCA guarantee addresses a financial market failure in-country and does not “crowd-out” private sector lending. DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

Fund Types

The accompanying consolidated financial statements for USAID include the accounts of all funds under USAID’s control. Most of the fund accounts relate to general fund appropriations. USAID also has special fund, revolving fund, trust fund, deposit funds, capital investment fund, receipt account, and budget clearing accounts.

General fund appropriations and the Special fund are used to record financial transactions under Congressional appropriations or other authorization to spend general revenue.

Revolving funds are established by law to finance a continuing cycle of operations, with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress.

Trust funds are credited with receipts generated by the terms of the trust agreement or statute. At the point of collection, these receipts are unavailable, depending upon statutory requirements, or available immediately.

The capital investment fund contains no year funds to provide the Agency with greater flexibility to manage investments in technology systems and facility construction that the annual appropriation for Operating Expenses does not allow.

Deposit funds are established for (1) amount received for which USAID is acting as a fiscal agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods or services received, and (4) monies held waiting distribution on the basis of legal determination.

C. Basis of Accounting

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, 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 on, and controls of, the use of federal funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position have been prepared on an accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules. Finally, the Statement of Financing has been prepared to reconcile budgetary to financial (proprietary) accounting information.

D. Budgets and Budgetary Accounting

The components of USAID's budgetary resources include current budgetary authority (that is, appropriations and borrowing authority) and unobligated balances remaining from multi-year and no-year budget authority received in prior years. Budget authority is the authorization provided by law to enter into financial obligations that result in immediate or future outlays of federal funds. Budgetary resources also include reimbursement and other income (that is, spending authority from offsetting collections credited to an appropriation of fund account) and adjustments (that is, recoveries of prior year obligations).

Unobligated balances associated with appropriations that expire at the end of the fiscal year remain available for obligation adjustments, but not new obligations, until that account is canceled. When accounts are canceled five years after they expire, amounts are not available for obligations or expenditure for any purpose and are returned to Treasury.

Pursuant to Section 511 of USAID's Appropriations Act for certain purposes under the Foreign Assistance Act of 1961, as amended, shall remain available for obligation for an extended period if such funds are initially obligated within their initial period of availability.

E. Revenues and Other Financing Sources

USAID receives the majority of its funding through congressional appropriations --annual, multi-year, and no-year appropriations -- that may be used within statutory limits. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the agency also receives allocation transfers from the U.S. Department of Agriculture (USDA) Commodity Credit Corporation, the Executive Office of the President, and the Department of State.

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

borrowing authority from U.S. Treasury, proceeds from the sale of overseas real property acquired by USAID, and advances from foreign governments and international organizations.

Revenues are recognized as financing sources to the extent that they were payable to USAID from other agencies, other governments and the public in exchange for goods and services rendered to others.

F. Fund Balances with the U.S. Treasury

Cash receipts and disbursements are processed by the U.S. Treasury. The balances with Treasury are primarily appropriated funds that are available to pay current liabilities and finance authorized purchase commitments, but they also include revolving, deposit, and trust funds.

G. Foreign Currency

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end. Additionally, some USAID host countries contribute funds for the overhead operation of the host mission and the execution of USAID programs. These funds are held in trust and reported in U.S. dollar equivalents on the balance sheet and statement of net costs.

H. Accounts Receivable

Accounts receivable consist of amounts due mainly from foreign governments but also from other Federal agencies and private organizations. USAID regards amounts due from other Federal agencies as 100 percent collectible. The Agency establishes an allowance for uncollectible accounts receivable for non-loan or revenue generating sources that have not been collected for a period of over one year.

I. Loans Receivable

Loans are accounted for as receivables after funds have been disbursed. For loans obligated before October 1, 1991 (the pre-credit reform period), loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on a net present value method prescribed by OMB that takes into account country risk and projected cash flows.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the net present value of the cost to the USG of making the loan. This cost, known as “subsidy”, takes into account all cash inflows and outflows associated with the loan, including the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, and offsets from fees and other estimated cash flows. This allowance is re-estimated when necessary and changes reflected in the operating statement.

Loans have been made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without “Maintenance of Value” (MOV). Those with MOV place the currency exchange risk upon the borrowing government; those without MOV place the risk on USAID. Foreign currency exchange gain or loss is recognized on those loans extended without MOV, and reflected in the net credit programs receivable balance.

Credit program receivables also include origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivables (subrogated and rescheduled) are due from foreign governments as a result of defaults for pre-1992 guaranteed loans. Receivables are stated net of an allowance for uncollectible accounts, determined using an OMB approved net present value default methodology.

While estimates of uncollectible loans and interest are made using methods prescribed by OMB, the final determination as to whether a loan is collectible is also affected by actions of other U.S. Government agencies.

J. Advances and Prepayments

Funds disbursed in advance of incurred expenditures are recorded as advances. Most advances consist of funds disbursed under letters of credit to contractors and grantees. The advances are liquidated and recorded as expenses upon receipt of expenditure reports from the recipients.

K. Inventory and Related Property

USAID’s inventory and related property is comprised of operating materials and supplies. Some operating materials and supplies are held for use and consist mainly of computer paper and other expendable office supplies not in the hands of the user. USAID also has materials and supplies in reserve for foreign disaster assistance stored at strategic sites around the world. These consist of tents, vehicles, and water purification units. The Agency also has birth control supplies stored at several sites.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

USAID's office supplies are deemed items held for use because they are tangible personal property to be consumed in normal operations. Agency supplies held in reserve for future use are not readily available in the market, or there is more than a remote chance that the supplies will be needed, but not in the normal course of operations. Their valuation is based on cost and they are not considered "held for sale". USAID has no supplies categorizable as excess, obsolete, or unserviceable operating materials and supplies.

L. Property, Plant and Equipment

USAID capitalizes all property, plant and equipment that has an acquisition cost of \$25,000 or greater and a useful life of two years or more. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost and depreciated using the straight-line method. Real property is depreciated over 20 years, nonexpendable personal property is depreciated over 3 to 5 years, and capital leases are depreciated according to the terms of the lease. The Agency operates land, buildings, and equipment that are provided by the General Services Administration. Rent for this property is expensed. Internal use software that has development costs of \$300,000 or greater is capitalized. Deferred maintenance amounts are immaterial with respect to the financial statements.

M. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by USAID as the result of transactions or events that have already occurred. However, no liability can be paid by the Agency without an appropriation or borrowing authority. Liabilities for which an appropriation has not been enacted are therefore classified as liabilities not covered by budgetary resources (unfunded liabilities), and there is no certainty that the appropriations will be enacted. Also, these liabilities can be abrogated by the U.S. Government, acting in its sovereign capacity.

N. Liabilities for Loan Guarantees

The Credit Reform Act (CRA) of 1990, which became effective on October 1, 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of CRA was to more accurately measure the cost of Federal credit programs and to place the cost of such programs on a budgetary basis equivalent to other Federal spending. Consequently, commencing in fiscal 1992, USAID cannot make new loans or guarantees without an appropriation available to fund the cost of making the loan or guarantee. This cost is known as "subsidy".

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

For USAID's loan guarantee programs, when guarantee commitments are made, an obligation for subsidy cost is recorded in the program account. This cost is based on the net present value of the estimated net cash outflows to be paid by the Program as a result of the loan guarantees, except for administrative costs, less the net present value of all cash inflows to be generated from those guarantees. When the loans are disbursed, the subsidy cost is disbursed from the program account to a financing account.

For loan guarantees made before the CRA (pre-1992), the liability for loan guarantees represents an unfunded liability. Footnote 6 presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement for USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

O. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

P. Retirement Plans and Post Employment Benefits

USAID recognizes its share of the cost of providing future pension benefits to eligible employees over the period of time the employees provide the related services. The pension expense recognized in the financial statements equals the current service cost for USAID employees for the accounting period less the amount contributed by the employees. The measurement of the service cost requires the use of an actuarial cost method and assumptions. OPM administers these benefits and provides the factors that USAID applies to report the cost. The excess of the pension expense over the amount contributed by USAID and employees represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM. This cost is considered imputed cost to USAID.

USAID recognizes a current-period expense for the future cost of post retirement health benefits and life insurance for its employees while they are still working. USAID accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and USAID do not make contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed by USAID are reported on the Statement of Financing and the Statement of Net Cost.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**Q. Net Position**

Net position is the residual difference between assets and liabilities. It is composed of unexpended appropriations and cumulative results of operations.

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.
- Cumulative results of operations are also part of net position. This account reflects the net difference between (1) expenses and losses and (2) financing sources, including appropriations, revenues and gains, since the inception of the activity.

R. Non-entity Assets

Non-entity fund balances are amounts in Deposit Fund accounts. These include such items as: funds received from outside sources where the government acts as fiscal agent, monies the government has withheld awaiting distribution based on legal determination, and unidentified remittances credited as suspense items outside the budget. For USAID, non-entity assets are minimal in amount and as reflected in Note 3, composed solely of accounts receivables, net of allowances.

S. Agency Costs

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program expenses by goal are obtained directly from Phoenix, the Agency general ledger. Mission related program expenses by goal area are obtained from the Mission Accounting and Control system (MACS). A cost allocation model is used to distribute operating expenses, including Management Bureau, Global Development Alliance, Trust Funds and Support Offices costs to specific goals. Expenses related to Credit Reform and Revolving Funds are directly applied to specific agency goals based on their objectives.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 2. FUND BALANCES WITH TREASURY (In Thousands)

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

Fund Balances	2004	2003
Trust Funds	\$33,255	\$23,253
Revolving Funds	1,435,616	1,312,955
Appropriated Funds	14,324,552	12,894,164
Other Funds	66,503	(14,958)
	<hr/>	<hr/>
Total	\$15,859,926	\$14,215,414
 Status of Fund Balance:		
	2004	2003
Unobligated Balance		
Available	\$1,193,906	\$3,260,019
Unavailable	18,142	7,294
Obligated Balance Not Yet Disbursed	14,647,878	10,948,101
	<hr/>	<hr/>
Total	\$15,859,926	\$14,215,414

As of September 30, 2004 there was a cash reconciliation difference of \$94.8 million between USAID and the Department of Treasury's Fund Balances. The difference as of September 30, 2003 was \$34.6 million. For FY 2004 and FY 2003 reporting purposes, USAID adjusted its fund balance by these differences to equal the Department of Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

accounts and the cash differences remain identified as such. USAID is currently performing a reconciliation of the \$94.8 million total amount in these accounts and will make adjustments accordingly.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 3. ACCOUNTS RECEIVABLE, NET (In Thousands)

The primary components of USAID's accounts receivable as of September 30, 2004 are as follows:

	Receivable Gross	Allowance Accounts 2004	Receivable Net	Receivable Net 2003
Entity				
Intragovernmental				
Appropriation Reimbursements				
from Federal Agencies	\$ 225	N/A	\$ 225	\$ 209
Accounts Receivable				
from Federal Agencies Disburs	300,131	N/A	300,131	
Less Intra-Agency Receivables	(73,679)		(73,679)	
Receivable from USDA	804,491	N/A	804,491	1,133,865
Total Intragovernmental	1,031,168	N/A	1,031,168	1,134,074
Accounts Receivable	72,144	(6,873)	65,271	61,983
Total Entity	1,103,313	(6,873)	1,096,440	1,196,057
Total Non-Entity	4,848	(320)	4,528	4,330
Total Receivables	\$ 1,108,161	\$ (7,193)	\$ 1,100,968	\$ 1,200,387

Reconciliation of Uncollectible Amounts (Allowance Accounts)

	2004	2003
Beginning Balance	\$9,501	\$14,346
Additions	(341)	1,636
Reductions	(1,967)	(6,481)
Ending Balance	\$7,193	\$9,501

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 3. ACCOUNTS RECEIVABLE, NET (In Thousands) - Continued

Entity intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance has been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible. Disbursing Authority Receivable from USDA consists of obligational authority from the U.S. Department of Agriculture's Commodity Credit Corporation. The authority is for payment of transportation costs incurred by USAID associated with the shipment of Title II and III commodities; Farmer-to-Farmer Technical Assistance Programs; and for assistance to private voluntary organizations, cooperatives, and international organizations. Collections against this receivable are realized when USAID requests a transfer of funds from USDA to cover incurred expenses.

All other entity accounts receivable consist of amounts managed by missions or USAID/Washington. These receivables consist of non-program related receivables such as overdue advances, unrecovered advances, audit findings, and any interest related to these types of receivables. A 100 percent allowance for uncollectible amounts is estimated for accounts receivable due from the public which are more than one year past due. Accounts receivable from missions are collected and recorded to the respective appropriation.

Interest receivable is calculated separately and there is no interest included in the accounts receivable listed above.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 4. ADVANCES AND PREPAYMENTS (In Thousands)

Advances and Prepayments as of September 30, 2004 and 2003 consisted of the following:

	2004	2003
Intragovernmental		
Advances to Federal Agencies	\$30,920	\$32,998
Total Intragovernmental	<u>30,920</u>	<u>32,998</u>
Advances to Contractors/ Grantees	487,441	290,433
Travel Advances	2,480	1,763
Advances to Host Country Governments and Institutions	46,620	38,785
Prepayments	11,108	5,660
Advances, Other	<u>12,037</u>	<u>13,425</u>
Total Advances and Prepayments	\$590,606	\$383,065

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 5. CASH AND OTHER MONETARY ASSETS (In Thousands)

Cash and Other Monetary Assets as of September 30, 2004 and 2003 are as follows:

Cash and Other Monetary Assets	2004	2003
Imprest Fund- Headquarters	\$280	\$140
UE and Micro and Small	50	50
Enterprise Fund Cash w/Fiscal Agent		
Foreign Currencies	256,871	240,222
Total Cash and Other Monetary Assets	<u>\$257,201</u>	<u>\$240,412</u>

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. USAID's cumulative balance of the Department of State provided imprest funds was \$4.6 million in FY 2004 and \$4.9 million in FY 2003. These imprest funds are not included in USAID's Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to \$256.9 million in FY 2004 and \$240.2 million in FY 2003. USAID does not have any non-entity cash or other monetary assets.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES

(In Thousands)

USAID operates the following loan and/or loan guarantee programs:

- Direct Loan Program (Direct Loan)
- Urban and Environmental Program (UE)
- Micro and Small Enterprise Development Program (MSED)
- Ukraine Export Insurance Credit Program (Ukraine)
- Israel Loan Guarantee Program (Israel Loan)
- Development Credit Authority Program (DCA)

Direct loans resulting from obligations made prior to FY 1992 are reported net of allowance for estimated uncollectible loans. Estimated losses from defaults on loan guarantees resulting from obligations made prior to FY 1992 are reported as a liability.

The Credit Reform Act of 1990 prescribes an alternative method of accounting for direct loans and guarantees resulting from obligations made after FY 1991. Subsidy cost, which is the net present value of the cash flows (i.e. interest rates, interest supplements, estimated defaults, fees, and other cash flows) associated with direct loans and guarantees, is required by the Act to be recognized as an expense in the year in which the direct loan or guarantee is disbursed. Subsidy cost is calculated by agency program offices prior to obligation using a model prescribed by the Office of Management and Budget (OMB). Subsidy relating to existing loans and guarantees is generally required to be reestimated on an annual basis to adjust for changes in risk and interest rate assumptions. Direct loans are reported net of an allowance for this subsidy cost (allowance for subsidy). The subsidy costs associated with loan guarantees are reported as loan guarantee liability.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with the loans and loan guarantees are provided in the following sections.

The following net loan receivable amounts are not the same as the proceeds that USAID would expect to receive from selling its loans. Actual proceeds may be higher or lower depending on the borrower and the status of the loan.

Summary of Loans Receivables, Net	<u>2004</u>	<u>2003</u>
Net Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)	\$ 5,780,368	\$ 5,334,382
Net Direct Loans Obligated After FY 1991 (Present Value Method)	32,248	7,829
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	295,636	354,386
Total Loans Receivable, Net as reported on the Balance Sheet	<u>\$ 6,108,252</u>	<u>\$ 5,696,597</u>

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Direct Loans

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)
as of September 30, 2004:

<u>Loan Programs</u>	<u>Loans Receivables Gross</u>	<u>Interest Receivable</u>	<u>Allowance For Loan Losses</u>	<u>Value of Assets Related to Direct loans</u>
Direct Loans	\$ 7,748,797	\$ 296,481	\$ 2,264,834	\$ 5,780,443
MSED	677	90	842	(75)
Total	<u>\$ 7,749,473</u>	<u>\$ 296,571</u>	<u>\$ 2,265,677</u>	<u>\$ 5,780,368</u>

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)
as of September 30, 2003:

<u>Loan Programs</u>	<u>Loans Receivables Gross</u>	<u>Interest Receivable</u>	<u>Allowance For Loan Losses</u>	<u>Value of Assets Related to Direct loans</u>
Direct Loans	\$ 8,272,378	\$ 322,098	\$ 3,260,015	\$ 5,334,461
MSED	1,360	90	1,529	(79)
Total	<u>\$ 8,273,738</u>	<u>\$ 322,188</u>	<u>\$ 3,261,544</u>	<u>\$ 5,334,382</u>

Direct Loans Obligated After FY 1991:
as of September 30, 2004:

<u>Loan Programs</u>	<u>Loans Receivables Gross</u>	<u>Interest Receivable</u>	<u>Allowance for Subsidy Cost (Present Value)</u>	<u>Value of Assets Related to Direct loans</u>
Direct Loans	\$ 259,542	\$ 9,774	\$ 237,215	\$ 32,101
MSED	150	24	27	148
Total	<u>\$ 259,693</u>	<u>\$ 9,798</u>	<u>\$ 237,242</u>	<u>\$ 32,248</u>

Direct Loans Obligated After FY 1991
as of September 30, 2003:

<u>Loan Programs</u>	<u>Loans Receivables Gross</u>	<u>Interest Receivable</u>	<u>Allowance for Subsidy Cost (Present Value)</u>	<u>Value of Assets Related to Direct loans</u>
Direct Loans	\$ 216,063	\$ 7,413	\$ 213,993	\$ 9,483
MSED	(908)	133	879	(1,654)
Total	<u>\$ 215,155</u>	<u>\$ 7,546</u>	<u>\$ 214,872</u>	<u>\$ 7,829</u>

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Total Amount of Direct Loans Disbursed

<u>Direct Loan Programs</u>	<u>FY 2004</u>	<u>FY 2003</u>
Direct Loans	\$ 8,008,339	\$ 8,488,798
MSED	827	452
Total	<u>\$ 8,009,166</u>	<u>\$ 8,489,250</u>

Subsidy Expense for Direct Loans by Program and Component:

Modifications and Reestimates (FY 2004)

<u>Direct Loan Programs</u>	<u>Total Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>
MSED	\$ -	\$ -	\$ (29)	\$ (29)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29)</u>	<u>\$ (29)</u>

Modifications and Reestimates (FY 2003)

<u>Direct Loan Programs</u>	<u>Total Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>
MSED	\$ -	\$ (49)	\$ (169)	\$ (218)
Total	<u>\$ -</u>	<u>\$ (49)</u>	<u>\$ (169)</u>	<u>\$ (218)</u>

Total Direct Loan Subsidy Expense

<u>Direct Loan Programs</u>	<u>FY 2004</u>	<u>FY 2003</u>
MSED	\$ (29)	\$ (218)
Direct Loans	-	-
Total	<u>\$ (29)</u>	<u>\$ (218)</u>

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Schedule for Reconciling Subsidy Cost Allowance Balances

(Post-1991 Direct Loans)

	<u>FY 2004</u>		
	<u>Direct Loan</u>	<u>MSED</u>	<u>Total</u>
Beginning Balance, Changes, and Ending Balance			
Beginning balance of the subsidy cost allowance	\$ 213,993	\$ 879	\$ 214,872
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs			
(b) Default costs (net of recoveries)			
(c) Fees and other collections			
(d) Other subsidy costs			
Total of the above subsidy expense components			
Adjustments:			
(a) Loan modifications	\$ -		\$ -
(b) Fees received			
(c) Foreclosed property acquired			
(d) Loans written off	-		-
(e) Subsidy allowance amortization	10,586	(717)	9,869
(f) Other	12,637	(107)	12,530
Ending balance of the subsidy cost allowance before reestimates	\$ 237,215	\$ 55	\$ 237,271
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimate			
(b) Technical/default reestimate		(29)	(29)
Total of the above reestimate components		(29)	(29)
Ending balance of the subsidy cost allowance	\$ 237,215	\$ 27	\$ 237,242

Schedule for Reconciling Subsidy Cost Allowance Balances

(Post-1991 Direct Loans)

	<u>FY 2003</u>		
	<u>Direct Loan</u>	<u>MSED</u>	<u>Total</u>
Beginning Balance, Changes, and Ending Balance			
Beginning balance of the subsidy cost allowance	\$ 186,673	\$ 468	\$ 187,141
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs			
(b) Default costs (net of recoveries)			
(c) Fees and other collections			
(d) Other subsidy costs			
Total of the above subsidy expense components			
Adjustments:			
(a) Loan modifications	\$ 25,654		\$ 25,654
(b) Fees received			
(c) Foreclosed property acquired			
(d) Loans written off	-		-
(e) Subsidy allowance amortization	3,356	630	3,987
(f) Other	(1,690)		(1,690)
Ending balance of the subsidy cost allowance before reestimates	\$ 213,993	\$ 1,098	\$ 215,091
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimate		(49)	(49)
(b) Technical/default reestimate		(169)	(169)
Total of the above reestimate components		(219)	(219)
Ending balance of the subsidy cost allowance	\$ 213,993	\$ 879	\$ 214,872

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Defaulted Guaranteed Loans

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2004

<u>Loan Guarantee Programs</u>		Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
UE		\$ 452,432	\$ 22,517	\$ 179,312	\$ 295,636
	Total	<u>\$ 452,432</u>	<u>\$ 22,517</u>	<u>\$ 179,312</u>	<u>\$ 295,636</u>

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2003

<u>Loan Guarantee Programs</u>		Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
UE		\$ 514,611	\$ 28,149	\$ 188,374	\$ 354,386
	Total	<u>\$ 514,611</u>	<u>\$ 28,149</u>	<u>\$ 188,374</u>	<u>\$ 354,386</u>

Defaulted Guaranteed Loans from Post-1991 Guarantees

In FY 2004, the UE Program experienced \$4.4 million in defaults on payments.

In FY 2003, the UE Program experienced \$7.1 million in defaults on payments.

Guaranteed Loans Outstanding:

Guaranteed Loans Outstanding (FY 2004):

<u>Loan Guarantee Programs</u>		Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE		\$ 1,832,755	\$ 1,832,755
MSED		76,400	38,200
Israel		12,322,417	12,322,417
DCA		789,799	341,500
	Total	<u>\$ 15,021,371</u>	<u>\$ 14,534,872</u>

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN
GUARANTEES (In Thousands) - Continued

Guaranteed Loans Outstanding (FY 2003):		
	Outstanding Principal, Guaranteed Loans, <u>Face Value</u>	Amount of Outstanding Principal <u>Guaranteed</u>
<u>Loan Guarantee Program</u>		
UE	\$ 1,954,929	\$ 1,954,929
MSED	95,542	48,492
Israel	10,789,083	10,789,083
DCA	549,631	235,866
Total	<u>\$ 13,389,184</u>	<u>\$ 13,028,369</u>

New Guaranteed Loans Disbursed (FY 2004):		
	Outstanding Principal, Guaranteed Loans, <u>Face Value</u>	Amount of Outstanding Principal <u>Guaranteed</u>
<u>Loan Guarantee Program</u>		
UE	\$ -	\$ -
MSED	5,000	2,500
DCA	250,233	109,417
Israel	3,350,000	3,350,000
Total	<u>\$ 3,605,233</u>	<u>\$ 3,461,917</u>

New Guaranteed Loans Disbursed (FY 2003):		
	Outstanding Principal, Guaranteed Loans, <u>Face Value</u>	Amount of Outstanding Principal <u>Guaranteed</u>
<u>Loan Guarantee Program</u>		
UE	\$ -	\$ -
MSED	100	50
DCA	267,446	133,723
Total	<u>\$ 267,546</u>	<u>\$ 133,773</u>

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN
GUARANTEES (In Thousands) - Continued

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees)
as of September 30, 2004:

<u>Loan Guarantee Programs</u>	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future <u>Default Claims</u>	Liabilities for Loan Guarantees for Post-1991 Guarantees, <u>Present Value</u>	Total Liabilities for Loan <u>Guarantees</u>
UE	\$ 242,171	\$ 103,788	\$ 345,959
MSED	-	(3,902)	(3,902)
Israel	-	700,855	700,855
DCA	-	(2,975)	(2,975)
Total	<u>\$ 242,171</u>	<u>\$ 797,766</u>	<u>\$ 1,039,937</u>

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees)
as of September 30, 2003:

<u>Loan Guarantee Programs</u>	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future <u>Default Claims</u>	Liabilities for Loan Guarantees for Post-1991 Guarantees, <u>Present Value</u>	Total Liabilities for Loan <u>Guarantees</u>
UE	\$ 311,383	\$ 175,521	\$ 486,904
MSED	-	265	265
Israel	-	673,261	673,261
DCA	-	(1,015)	(1,015)
Total	<u>\$ 311,383</u>	<u>\$ 848,032</u>	<u>\$ 1,159,414</u>

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES (In Thousands) - Continued

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees (FY 2004):

<u>Loan Guarantee Programs</u>	<u>Interest Supplements</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
DCA	\$ -	\$ 993	\$ -	\$ -	\$ 993
MSED	-	1,466	-	-	1,466
Total	\$ -	\$ 2,459	\$ -	\$ -	\$ 2,459

Subsidy Expense for New Loan Guarantees (FY 2003):

<u>Loan Guarantee Programs</u>	<u>Interest Supplements</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Total</u>
DCA	\$ -	\$ 2,239	\$ -	\$ -	\$ 2,239
MSED	-	3,413	-	-	3,413
Total	\$ -	\$ 5,652	\$ -	\$ -	\$ 5,652

Modifications and Reestimates (FY 2004):

<u>Loan Guarantee Programs</u>	<u>Total Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>
UE	\$ -	\$ -	\$ 2,194	\$ 2,194
MSED	-	-	610	610
DCA	-	-	64	64
Total	\$ -	\$ -	\$ 2,868	\$ 2,868

Modifications and Reestimates (FY 2003):

<u>Loan Guarantee Programs</u>	<u>Total Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>
UE	\$ -	\$ -	\$ 48,211	\$ 48,211
MSED	-	-	4,163	4,163
Total	\$ -	\$ -	\$ 52,374	\$ 52,374

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Total Loan Guarantee Subsidy Expense:

<u>Loan Guarantee Programs</u>	<u>FY 2004</u>	<u>FY 2003</u>
DCA	\$ 1,057	\$ 2,239
UE	2,194	48,211
MSED	2,076	7,576
Total	<u>\$ 5,327</u>	<u>\$ 58,026</u>

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:

<u>Loan Guarantee Programs</u>	<u>Interest Supplements (%)</u>	<u>Defaults (%)</u>	<u>Fees and Other Collections (%)</u>	<u>Other (%)</u>	<u>Total (%)</u>
DCA	-	3.71%	-	-	3.71%
MSED	-	9.61%	-	-	9.61%

Schedule for Reconciling Loan Guarantee Liability Balances

(Post-1991 Loan Guarantees)

	<u>FY 2004</u>				
	<u>DCA</u>	<u>MSED</u>	<u>UE</u>	<u>Israel</u>	<u>Total</u>
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	\$ (1,014)	\$ 264	\$ 175,520	\$ 673,262	\$ 848,032
Add: subsidy expense for guaranteed loans disbursed reporting years by component:					
(a) Interest supplement costs					
(b) Default costs (net of recoveries)	-		-		-
(c) Fees and other collections					
(d) Other subsidy costs	993	1,466	-		2,459
Total of the above subsidy expense components	\$ 993	\$ 1,466	\$ -	\$ -	\$ 2,459
Adjustments:					
(a) Loan guarantee modifications					
(b) Fees received			2,468	88,200	90,668
(c) Interest supplements paid					-
(d) Foreclosed property and loans acquired					-
(e) Claim payments to lenders			(4,380)		(4,380)
(f) Interest accumulation on the liability balance			3,528	55,987	59,514
(g) Other	(765)	(3,522)	(71,514)	19,512	(56,290)
Ending balance of the loan guarantee liability before reestimates	\$ (787)	\$ (1,792)	\$ 105,621	\$ 836,960	\$ 940,003
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	-	-	-		-
(b) Technical/default reestimate	(2,188)	(2,111)	(1,834)	(136,105)	(142,237)
Total of the above reestimate components	\$ (2,188)	\$ (2,111)	\$ (1,834)	\$ (136,105)	\$ (142,237)
Ending balance of the loan guarantee liability	<u>\$ (2,975)</u>	<u>\$ (3,902)</u>	<u>\$ 103,788</u>	<u>\$ 700,855</u>	<u>\$ 797,766</u>

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Schedule for Reconciling Loan Guarantee Liability Balances

(Post-1991 Loan Guarantees)

	FY 2003				
	<u>DCA</u>	<u>MSED</u>	<u>UE</u>	<u>Israel</u>	<u>Total</u>
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	\$ (2,484)	\$ (431)	\$ 58,315	\$ 665,267	\$ 720,669
Add: subsidy expense for guaranteed loans disbursed reporting years by component:					
(a) Interest supplement costs			0		-
(b) Default costs (net of recoveries)	-				-
(c) Fees and other collections					
(d) Other subsidy costs	2,239	3,413	-	-	5,653
Total of the above subsidy expense components	\$ 2,239	\$ 3,413	\$ -	\$ -	\$ 5,653
Adjustments:					
(a) Loan guarantee modifications					
(b) Fees received			7,464	117,715	125,179
(c) Interest supplements paid					-
(d) Foreclosed property and loans acquired					-
(e) Claim payments to lenders		(2,318)	(7,077)		(9,395)
(f) Interest accumulation on the liability balance		-	4,693	44,736	49,429
(g) Other	40	(2,595)	63,914		61,359
Ending balance of the loan guarantee liability before reestimates	\$ (205)	\$ (1,931)	\$ 127,310	\$ 827,719	\$ 952,893
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	-	-	-		-
(b) Technical/default reestimate	(811)	2,196	48,211	(154,456)	(104,861)
Total of the above reestimate components	\$ (810)	\$ 2,196	\$ 48,211	\$ (154,456)	\$ (104,861)
Ending balance of the loan guarantee liability	\$ (1,014)	\$ 264	\$ 175,521	\$ 673,262	\$ 848,032

Administrative Expense

<u>Loan Programs</u>	<u>FY 2004</u>	<u>FY 2003</u>
DCA	\$ 8,862	\$ 8,155
UE	594	448
MSED	161	936
Total	\$ 9,617	\$ 9,539

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES

(In Thousands) - Continued

Other Information

¹ Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Thirteen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing \$37.3 million that is more than six months delinquent. Twelve countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing \$388 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled \$27.6 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled \$372 million.

² The MSED Liquidating Account general ledger has a loan receivable balance of \$689 thousand. This includes two loans pending closure. These loans are being carried at 100% bad debt allowance.

³

The Ukraine program guarantees have expired, and the Ukraine Financing Account was closed out in FY 2002.

⁴ For footnote presentation purposes, in the table "Direct Loans Obligated Prior to FY 1992 as of September 30, 2003", the Loans Receivable Gross amount for FY 2003 was decreased by \$357 thousand in order to correct a footnote error that existed last year.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 7. INVENTORY AND RELATED PROPERTY (In Thousands)

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2004 and 2003 are as follows:

	2004	2003
Items Held for Use		
Office Supplies	\$7,212	\$6,937
Items Held in Reserve for Future Use		
Disaster assistance materials and supplies	7,986	7,120
Birth control supplies	<u>20,566</u>	<u>9,970</u>
Total	\$35,764	\$24,027

Operating Materials and Supplies are valued at historical cost and considered not held for sale.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET (In Thousands)

The components of PP&E as of September 30, 2004 are as follows:

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets				
Equipment	3 to 5 years	\$56,471	(\$25,732)	\$30,740
Buildings, Improvements, & Renovations	20 years	53,851	(24,263)	29,588
Land and Land Rights	N/A	4,181	-	4,181
Assets Under Capital Lease		6,872	(1,423)	5,449
Construction in Progress	N/A	570	-	570
Internal Use Software	3 to 5 years	20,328	(8,901)	11,427
Total		\$142,272	(\$60,317)	\$81,954

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets				
Equipment	3 to 5 years	\$42,171	(\$25,004)	\$17,167
Buildings, Improvements, & Renovations	20 years	52,292	(21,265)	31,027
Land and Land Rights	N/A	4,181	-	4,181
Assets Under Capital Lease		5,311	(1,117)	4,194
Construction in Progress	N/A	570	-	570
Internal Use Software	3 to 5 years	12,248	(5,054)	7,194
Total		\$116,773	(\$52,440)	\$64,333

USAID PP&E includes assets located in Washington, D.C. offices and overseas field missions.

Equipment consists primarily of electric generators, ADP hardware, vehicles and copiers located at the overseas field missions.

Structures and Facilities include USAID owned office buildings and residences at foreign missions, including the land on which these structures reside. These structures are used and maintained by the field missions. USAID does not separately report the cost of the building and the land on which the building resides.

Land consists of property owned by USAID in foreign countries. Usually the land is purchased with the intention of constructing an office building at the site.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 9. LEASES (In Thousands)

Leases as of September 30, 2004 and 2003 consisted of the following:

Entity as Lessee:

<u>Capital Leases:</u>	2004	2003
Summary of Assets Under Capital Lease:		
Buildings	\$ 6,872	\$ 5,311
Accumulated Depreciation	\$ 1,423	\$ 1,117
Future Payments Due:		
<u>Fiscal Year</u>	<u>Future Costs</u>	<u>Future Costs</u>
2004	-	912
2005	785	426
2006	471	222
2007	431	192
2008	192	-
2009	164	-
After 5 Years	-	-
Net Capital Lease Liability	2,043	1,752
Lease Liabilities Covered by Budgetary Resources	2,043	1,752
Lease Liabilities Not Covered by Budgetary Resources	-	-

The capital lease liability is reported on USAID's Balance Sheet under Other Liabilities.

<u>Operating Leases:</u>	2004	2003
Future Payments Due:		
<u>Fiscal Year</u>	<u>Future Costs</u>	<u>Future Costs</u>
2004	-	72,452
2005	76,968	70,968
2006	32,327	68,755
2007	28,292	68,022
2008	24,970	67,496
2009	18,889	-
After 5 Years	21,574	344,031
Total Future Lease Payments	203,021	691,724

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 9. LEASES (In Thousands) - Continued

The lease of the Ronald Reagan Building in Washington D.C., USAID's headquarters is scheduled to expire September 2005. Future lease payments beyond September 2005 were not available at the of this reporting and are not included. This building is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY 2004 and 2003 amounted to \$39 million and \$36 million respectively.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 10. ACCOUNTS PAYABLE (In Thousands)

The Accounts Payable covered by budgetary resources as of September 30, 2004 and 2003 consisted of the following:

	2004	2003
Intragovernmental		
Accounts Payable	\$29,523	\$27,299
Disbursements in Transit	-	-
Total Intragovernmental	<u>29,523</u>	<u>27,299</u>
Accounts Payable	1,951,468	1,842,778
Disbursements in Transit	9,010	-
	<u>1,960,478</u>	<u>1,842,778</u>
Total Accounts Payable	\$1,990,001	\$1,870,077

Intragovernmental Accounts Payable are those payable to other federal agencies and consist mainly of unliquidated obligation balances related to interagency agreements between USAID and other federal agencies.

All other Accounts Payable represent liabilities to other non-federal entities.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 11. DEBT (In Thousands)

USAID Intragovernmental debt as of September 30, 2004 and 2003 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

	2003		2003		2004
	Beginning	Net	Ending	Net	Ending
	Balance	Borrowing	Balance	Borrowing	Balance
Urban & Environmental	\$ -	\$ -	\$ -	\$ -	\$ -
Direct Loan	15,560	62,421	77,981	33,100	111,081
MSED	1,184	-	1,184	(1,184)	-
Total Debt	\$ 16,744	\$ 62,421	\$ 79,165	\$ 31,916	\$ 111,081

Pursuant to the Credit Reform Act of 1990, agencies with credit programs have permanent indefinite authority to borrow funds from the Treasury. These funds are used to disburse new direct loans to the public and, in certain situations, to cover credit reform program costs. Liquidating (pre-1992) accounts have permanent indefinite borrowing authority to be used to cover program costs when they exceed account resources. UE Program debt includes amounts borrowed before the effective date of the Credit Reform Act of 1990.

The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of \$6.0 billion, which under the Credit Reform Act is required to be recorded as Due to Treasury. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 12. OTHER LIABILITIES (In Thousands)

As of September 30, 2004 and 2003 Other Liabilities consisted of the following:

Intragovernmental	2004	2003
Unfunded FECA Liability	9,529	6,417
Credit Program Undisbursed Loans	207,095	-
Other	203,950	8,426
Total Intragovernmental	420,574	14,843
Accrued Funded Payroll/Benefits	11,357	6,329
Deferred Credit	7,405	4,305
Liability for Deposit Funds and Suspense		
Accounts – Non-Entity	19,148	9,176
Foreign Currency Trust Fund	256,871	240,222
Trust Fund Balances	26,459	23,106
Unfunded Leave	29,891	28,714
Capital Lease Liability	2,589	1,981
Other	29	197,424
	\$353,750	\$511,257
Total Other Liabilities	\$774,324	\$526,100

All liabilities are current. Intragovernmental Liabilities represent amounts due to other federal agencies. All remaining Other Liabilities are liabilities to non-federal entities.

The disparity between FY 2004 and FY 2003 other intragovernmental liability and those with the public is due to Federal and NonFederal misclassifications in last years financial statements.

USAID FY 2004 Q4 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY (In Thousands)

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2004 and 2003 are:

	2004	2003
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	\$29,882	\$28,409
FSN Separation Pay Liability	9	305
	<hr/>	<hr/>
Total Accrued Unfunded Annual Leave and Separation Pay	\$29,891	\$28,714

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 14. ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS (In Thousands)

The provision for workers' compensation benefits payable, as of September 30, 2004 and 2003 are as follows:

	2004	2003
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	\$6,985	\$6,417
Future Workers' Compensation Benefits	24,523	27,400
Total Accrued Unfunded Workers Compensation Benefits	<u>\$31,508</u>	<u>\$33,817</u>

The Federal Employees Compensation Act (FECA) program is administered by the U.S. Department of Labor (DOL) and provides income and medical cost protection to covered Federal civilian employees who have been injured on the job or have incurred a work-related occupational disease. Compensation is given to beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. DOL initially pays valid FECA claims for all Federal government agencies and seeks reimbursement two fiscal years later from the Federal agencies employing the claimants.

USAID's total FECA liability is \$31.5 million as of September 30, 2004 and comprises of unpaid FECA billings for \$7.0 million and estimated future FECA costs of \$24.5 million.

For FY 2003, USAID's total FECA liability was \$33.8 million and comprised of unpaid FECA billings for \$6.4 million and estimated future FECA costs of \$27.4 million.

Estimated future FECA costs are determined by the Department of Labor. This liability is determined using a paid losses extrapolation method calculated over a 37 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. The interest rate assumptions used for discounting were 4.883% in year 1 and 5.235% in Year 2 and thereafter.

The decrease of \$2.9 million for Future Workers' Compensation Benefits is shown as a financing source yet to be provided on the Statement of Financing.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 15. COMMITMENTS AND CONTINGENCIES

USAID is involved in certain claims, suits, and complaints that have been filed or are pending. These matters are in the ordinary course of the Agency's operations and are not expected to have a material adverse effect on the Agency's financial operations.

As disclosed in FY 2003, USAID continues to be involved in a group of cases which dispute the appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates, however, the likelihood of an unfavorable outcome to USAID on this case has changed from reasonably possible to remote. The status of all remaining litigation cases are at a remote designation.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (In Thousands)

Liabilities not covered by budgetary resources as of September 30, 2004 and 2003 are as

	2004	2003
Contingent Liabilities for Loan Guarantees	242,171	311,383
Accrued Unfunded Annual Leave and Separation Pay	29,891	28,714
Accrued Unfunded Workers Compensation Benefits	31,508	33,817
Total Liabilities not covered by Budgetary Resources	<u>303,571</u>	<u>373,914</u>
Total Liabilities covered by Budgetary Resources	<u>9,670,220</u>	<u>8,957,967</u>
Total Liabilities	<u>9,973,791</u>	<u>9,331,882</u>

All liabilities not covered by Budgetary Resources are non-federal liabilities.

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 17. SCHEDULE OF COST BY RESPONSIBILITY SEGMENTS (In Thousands)

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by strategic goals, as of September 30, 2004. To the extent practicable, presentation of program results by strategic goals is based on the Joint FY 2004-2009 State/USAID Strategic Plan. For comparative purposes, prior year data have been recast consistent with the 2004 presentation.

The Schedule of Cost by Responsibility Segment categorizes costs and revenues by strategic and performance goals and responsibility segments. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. The geographic and technical bureaus of USAID (below) meet the criteria of a responsibility segment. These bureaus directly support the Agency goals while the remaining bureaus and offices support the operations of these bureaus. To report the full cost of program outputs, the cost of support bureaus and offices are allocated to the outputs of the geographic and technical bureaus. Intra-agency eliminations are allocated to goals to reflect total goals costs.

FY 2004 Statement of Net Cost Responsibility Segments
Geographic Bureaus
Africa (AFR)
Asia and Near East (ANE)
Latin America and the Caribbean (LAC)
Europe and Eurasia (E&E)
Technical Bureaus
Democracy, Conflict, and Humanitarian Assistance (DCHA)
Economic Growth, Agriculture, and Trade (EGAT)
Global Health (GH)

U.S Agency for International Development
Schedule of Costs by Responsibility Segment
For the Year Ended September 30, 2004
(In Thousands)

<u>Goal</u>	<u>Africa</u>	<u>Asia & Near East</u>	<u>Europe & Eurasia</u>	<u>Latin America & Caribbean</u>	<u>Global Health</u>	<u>DCHA</u>	<u>EGAT</u>	<u>Intra-Agency Eliminations</u>	<u>2004</u>
Regional Stability									
<i>Close, strong, and effective U.S. ties with allies</i>									
Total Costs	77	1,039	16,734	2,064	-	55,112	215	(158)	75,083
Less Earned Revenues	-	(4)	(62)	-	-	(433)	(2)	64	(437)
Net Program Costs	77	1,035	16,672	2,064	-	54,679	213	(94)	74,646
<i>Existing and emergent regional conflicts are contained or resolved</i>									
Total Costs	32,965	496,507	26,545	11,577	-	12,811	-	(1,218)	579,187
Less Earned Revenues	(80)	(556)	(84)	(118)	-	(117)	-	122	(833)
Net Program Costs	32,885	495,951	26,461	11,459	-	12,694	-	(1,096)	578,354
Counterterrorism									
<i>Coordinated international prevention and response to terrorism</i>									
Total Costs	-	16,325	-	-	-	-	-	(34)	16,291
Less Earned Revenues	-	-	-	-	-	-	-	-	-
Net Program Costs	-	16,325	-	-	-	-	-	(34)	16,291
<i>Stable political and economic conditions</i>									
Total Costs	-	113,466	-	-	-	-	-	(238)	113,228
Less Earned Revenues	-	(62)	-	-	-	-	-	8	(54)
Net Program Costs	-	113,404	-	-	-	-	-	(230)	113,174
International Crime and Drugs									
<i>International trafficking in drugs, persons, and other illicit goods</i>									
Total Costs	-	-	332	76,914	-	-	-	(162)	77,084
Less Earned Revenues	-	-	(2)	(336)	-	-	-	43	(295)
Net Program Costs	-	-	330	76,578	-	-	-	(119)	76,789
Democracy and Human Rights									
<i>Develop transparent and accountable democratic institutions</i>									
Total Costs	106,217	375,862	278,387	122,738	-	361,408	-	(2,612)	1,242,000
Less Earned Revenues	(215)	(505)	(313)	(439)	-	(2,567)	-	517	(3,522)
Net Program Costs	106,002	375,357	278,074	122,299	-	358,841	-	(2,095)	1,238,478
<i>Universal standards protect human rights</i>									
Total Costs	563	9,649	60	845	-	6,168	21,643	(82)	38,846
Less Earned Revenues	-	(31)	-	-	-	(68)	(207)	39	(267)
Net Program Costs	563	9,618	60	845	-	6,100	21,436	(43)	38,579
Economic Prosperity and Security									
<i>Enhanced food security and agricultural development</i>									
Total Costs	160,415	30,168	11,465	57,736	-	-	114,050	(784)	373,050
Less Earned Revenues	(383)	(113)	7	(472)	-	-	(1,005)	251	(1,715)
Net Program Costs	160,032	30,055	11,472	57,264	-	-	113,045	(533)	371,335

Appendix IV

Economic Prosperity and Security (Continued)									
<i>Increased trade and investment</i>									
Total Costs	84,422	113,765	33,675	45,681	-	-	535	(583)	277,495
Less Earned Revenues	(281)	(1,063)	-	(202)	-	-	(4)	198	(1,352)
Net Program Costs	84,141	112,702	33,675	45,479	-	-	531	(385)	276,143
<i>Institutions, laws, and policies foster private sector led growth</i>									
Total Costs	76,695	2,033,690	270,627	60,715	-	11,308	135,971	(5,433)	2,583,573
Less Earned Revenues	(399)	(5,001)	1,045	(486)	-	(88)	(7,247)	1,559	(10,617)
Net Program Costs	76,296	2,028,689	271,672	60,229	-	11,220	128,724	(3,874)	2,572,956
<i>Secure and stable financial and energy markets</i>									
Total Costs	-	76,237	60,839	57	-	-	17,935	(325)	154,743
Less Earned Revenues	-	(214)	(279)	(2)	-	-	(256)	96	(655)
Net Program Costs	-	76,023	60,560	55	-	-	17,679	(229)	154,088
Social and Environmental Issues									
<i>Broader access to quality education with an emphasis on primary school completion</i>									
Total Costs	167,154	282,509	7,542	70,692	-	-	38,459	(1,188)	565,168
Less Earned Revenues	(737)	(837)	7	(532)	-	-	(408)	321	(2,186)
Net Program Costs	166,417	281,672	7,549	70,160	-	-	38,051	(867)	562,982
<i>Improved global health</i>									
Total Costs	983,203	563,369	149,544	355,830	1,157,586	-	-	(6,735)	3,202,797
Less Earned Revenues	(8,174)	(4,536)	(957)	(3,592)	(7,554)	-	-	3,177	(21,636)
Net Program Costs	975,029	558,833	148,587	352,238	1,150,032	-	-	(3,558)	3,181,161
<i>Partnerships, initiatives, and implemented international treaties</i>									
Total Costs	47,614	253,154	71,993	93,757	-	-	145,434	(1,284)	610,668
Less Earned Revenues	(29)	(899)	(416)	(724)	-	-	(47,269)	6,317	(43,020)
Net Program Costs	47,585	252,255	71,577	93,033	-	-	98,165	5,033	567,648
Humanitarian Response									
<i>Effective protection, assistance, and durable solutions for refugees</i>									
Total Costs	8,400	6,948	31,425	18,144	-	405,008	-	(986)	468,939
Less Earned Revenues	-	66	(66)	(190)	-	(3,200)	-	434	(2,956)
Net Program Costs	8,400	7,014	31,359	17,954	-	401,808	-	(552)	465,983
<i>Improved capacity of host countries to reduce vulnerabilities to disasters</i>									
Total Costs	8,671	(2,364)	51,461	78,690	-	13,054	98,862	(521)	247,853
Less Earned Revenues	(44)	89	(368)	27	-	(149)	(72,009)	9,277	(63,177)
Net Program Costs	8,627	(2,275)	51,093	78,717	-	12,905	26,853	8,756	184,676
Management and Organizational Excellence									
<i>A high performing, well-trained, and diverse workforce</i>									
Total Costs	41,202	-	3,069	-	-	-	-	(93)	44,178
Less Earned Revenues	(475)	-	(6)	-	-	-	-	62	(419)
Net Program Costs	40,727	-	3,063	-	-	-	-	(31)	43,759

Appendix IV

Management and Organizational Excellence (Continued)									
<i>Customer-oriented, innovative delivery of administrative and information services</i>									
Total Costs	708	-	-	-	-	-	-	(1)	707
Less Earned Revenues	(6)	-	-	-	-	-	-	1	(5)
Net Program Costs	702	-	-	-	-	-	-	-	702
<i>Modernized, secure, and high quality information technology management</i>									
Total Costs	1,357	-	-	-	-	-	-	(3)	1,354
Less Earned Revenues	-	-	-	-	-	-	-	-	-
Net Program Costs	1,357	-	-	-	-	-	-	(3)	1,354
<i>Secure, safe, and functional facilities serving domestic and overseas staff</i>									
Total Costs	-	-	171	-	-	-	-	-	171
Less Earned Revenues	-	-	-	-	-	-	-	-	-
Net Program Costs	-	-	171	-	-	-	-	-	171
Public Diplomacy and Political Affairs									
<i>American understanding and support for U.S. foreign policy</i>									
Total Costs	-	-	-	-	-	34,561	-	(72)	34,489
Less Earned Revenues	-	-	-	-	-	(202)	-	26	(176)
Net Program Costs	-	-	-	-	-	34,359	-	(46)	34,313
Net Costs of Operations	1,708,840	4,356,658	1,012,375	988,374	1,150,032	892,606	444,697	-	10,553,582

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 18. TOTAL AND INTRAGOVERNMENTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION (In Thousands)

Total Cost and Earned Revenue by Budget Functional Classification as of September 30, 2004 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	\$ 7,977,485	\$ (153,316)	\$ 7,824,170
International Security Assistance- 152	2,679,334	(3)	2,679,331
Conduct of Foreign Affairs- 153	43,859	-	43,859
Federal Employee Retirement and Disability- 602	6,222	-	6,222
Total	\$ 10,706,901	\$ (153,319)	\$ 10,553,582

Total Cost and Earned Revenue by Budget Functional Classification as of September 30, 2003 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	\$ 6,700,489	\$ (188,023)	\$ 6,512,466
International Security Assistance- 152	3,434,912	-	3,434,912
Conduct of Foreign Affairs- 153	45,200	-	45,200
Federal Employee Retirement and Disability- 602	987	-	987
Total	\$ 10,181,588	\$ (188,023)	\$ 9,993,565

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2004 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	\$ 532,069	\$ 131,168	\$ 400,901
International Security Assistance- 152	41,493	-	41,493
Conduct of Foreign Affairs- 153	43,859	-	43,859
Federal Employee Retirement and Disability- 602	-	-	-
Total	\$ 617,421	\$ (131,168)	\$ 486,253

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2003 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	\$ 496,708	\$ (17,452)	\$ 479,256
International Security Assistance- 152	28,972	-	28,972
Conduct of Foreign Affairs- 153	45,200	-	45,200
Federal Employee Retirement and Disability- 602	-	-	-
Total	\$ 570,880	\$ (17,452)	\$ 553,428

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 19. PRIOR PERIOD ADJUSTMENTS

USAID recorded no prior period adjustments during FY 2004. In FY 2003, a prior adjustment was made in the amount of \$1.7 million to adjust the allowance for subsidy for prior year amortization of the reestimate interest expense in the Direct Loan Financing fund (Enterprise for the Americas Initiative Debt Restructuring Financing).

NOTE 20. STATEMENT OF BUDGETARY RESOURCES**A. Apportionment Categories of Obligations Incurred:**

	2004	2003
Category A, Direct	\$ 39,926	\$ 1,371,774
Category B, Direct	11,316,180	8,534,809
Category A, Reimbursable	27,475	10,065
Category B, Reimbursable	24,854	171,039
Total	\$ 11,408,435	\$ 10,087,687

B. Borrowing Authority, End of Period and Terms of Borrowing Authority Used:

For credit financing activities, borrowing authority for FY 2004 was 31.9 million. For FY 2003 borrowing authority was \$62.9 million.

Borrowing Authority is indefinite and authorized under the Credit Reform Act of 1990 (P.L. 101-508), and is used to finance obligations during the current year, as needed.

C. Adjustments to Beginning Balance of Budgetary Resources:

There were no differences for FY 2004 between prior year and current year beginning balances.

D. Permanent Indefinite Appropriations:

USAID has permanent indefinite appropriations relating to specific Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Credit Reform Program appropriations for subsidy reestimates, and Credit Reform Act of 1990.

E. Legal Arrangements Affecting the Use of Unobligated Balances:

Pursuant to Section 511 of PL 107-115 funds shall remain available until expended if such funds are initially obligated before the expiration of their periods of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reprogramming by USAID (subject to OMB approval through the apportionment process).

USAID FY 2004 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 21. Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or

Contingent liabilities for Loan Guarantees on the Balance Sheet represent cumulative balances, of which \$209 million represent the Credit Subsidy expense reestimates requiring resources in future periods. Current period changes of \$1.2 million represent
Increase in exchange revenue from the Public includes current-period increases in Accrued Unfunded Workers Compensation Benefits with other non-related expenses that require future resources.

Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

Appropriations that are transferred from other Federal Agencies to USAID are not shown on the Statement of Budgetary Resources, but are shown on the Balance Sheet and Statement of Net Costs. Appropriations that are transferred to other agencies are show

Obligations Incurred, Statement of Budgetary Resources		11,408,435	
Less: Transfers to Other Agencies			
NRC	(334,567)		
Other	(2,562)		(337,129)
			<hr/>
Add: Transfers from Other Agencies			
Dept of State	447,345		
Dept of Agriculture	950,192		
Executive Office of the President	146,020		1,543,557
			<hr/>
Obligations Incurred, Statement of Financing			<hr/> <hr/> 12,614,863
Offsetting Collections and Recoveries, Statement of Budgetary Resources		1,274,282	
Less: Transfers to Other Agencies			
Dept of State	(18,956)		
U.S. Treasury Dept	(354)		(19,310)
			<hr/>
Add: Allocations from Other Agencies			
State	316		
Agriculture	186,518		
Executive Office of the President	4,808		191,642
			<hr/>
Offsetting Collections and Recoveries, Statement of Financing			<hr/> <hr/> 1,446,614

Appendix IV

U.S. Agency for International Development
Required Supplementary Information: Schedule of Budgetary Resources
For the Year Ended September 30, 2004
(In Thousands)

	Operating				Program						Credit Financing	Other	Allocations to Other Agencies	Consolidated Total
	1000	1010	1021	1035	1037	1093	1095	1096						
Budget Authority	670,162	309,821	1,325,050	512,900	2,842,200	430,988	1,824,481	2,336,233	-	581,715	238,828	11,072,378		
Unobligated Balances - Beginning of Period	26,071	92,806	202,891	40,863	1,071,659	195,044	144,389	726	981,619	421,762	189,268	3,367,098		
Spending Authority from Offsetting Collections	29,134	5	3,142	1,427	3	-	18,054	-	218,325	856,732	2,595	1,129,417		
Recoveries of Prior-Year Obligations	16,317	14,803	23,355	14,114	15,355	17,322	12,963	571	3,955	9,395	16,715	144,865		
Temporarily Not Available Pursuant to Public Law												-		
Permanently Not Available	(3,768)	(2,729)	(8,213)	(1,507)	(13,544)	(3,663)	(10,826)	-	(1,184)	(1,035,168)	(74)	(1,080,676)		
Total Budgetary Resources	737,916	414,706	1,546,225	567,797	3,915,673	639,691	1,989,061	2,337,530	1,202,715	834,436	447,332	14,633,082		
Status of Budgetary Resources:														
Obligations Incurred	667,014	319,265	1,490,504	366,628	2,928,428	494,587	1,750,151	2,203,028	234,102	617,598	337,130	11,408,435		
Unobligated Balances - Available	69,246	93,754	42,773	200,729	983,159	144,672	238,914	134,502	968,613	216,186	100,194	3,192,742		
Unobligated Balances - Unavailable	1,656	1,687	12,948	440	4,086	432	(4)	-	-	652	10,008	31,905		
Total, Status of Budgetary Resources	737,916	414,706	1,546,225	567,797	3,915,673	639,691	1,989,061	2,337,530	1,202,715	834,436	447,332	14,633,082		
Relationship of Obligations to Outlays:														
Obligated Balance, Net, Beginning of Period	160,842	527,856	2,506,374	409,634	2,933,916	565,322	1,996,750	90,230	1,597	83,600	1,298,721	10,574,842		
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-	-	-	-	-		
Obligated Balance, Net, End of Period	166,373	452,415	2,630,507	379,666	3,105,784	544,004	2,073,456	1,969,418	11,031	160,905	1,267,439	12,760,997		
Disbursements	645,384	379,903	1,343,018	382,482	2,741,205	498,583	1,660,482	323,268	220,712	530,918	216,834	8,942,788		
Collections	(27,460)	(5)	(3,142)	(1,427)	(3)	-	(18,054)	-	(218,325)	(854,050)	(2,595)	(1,125,061)		
Less: Offsetting Receipts	-	-	-	-	-	-	-	-	-	-	-	-		
Net Outlays	617,924	379,899	1,339,876	381,055	2,741,202	498,583	1,642,428	323,268	2,387	(323,131)	214,240	7,817,727		

MAJOR FUNDS

Program Fund

1010 Special Assistance Initiatives
1021 Development Assistance
1035 International Disaster Assistance
1037 Economic Support Fund
1093 Assistance for the N.I.S. Of The Former Soviet Union
1095 Child Survival and Disease Programs Funds
1096 Latin American/Caribbean Disaster Recovery

Operating Fund

1000 Operating Expenses of USAID

Credit-Financing Funds

4119 Israel Guarantee Financing Fund
4137 Direct Loan Financing Fund
4266 DCA Financing Fund
4342 MSED Direct Loan Financing Fund
4343 MSED Guarantee Financing Fund
4344 UE Financing Fund
4345 Ukraine Financing Fund

OTHER FUNDS

Operating Funds

1007 Operating Expenses of USAID Inspector General
1036 Foreign Service Retirement and Disability Fund

Program Funds

1012 Sahel Development Program
1014 Africa Development Assistance
1023 Food and Nutrition Development Assistance
1024 Population and Planning & Health Dev. Asst.
1025 Education and Human Resources, Dev. Asst.
1027 Transition Initiatives
1028 Global Fund to Fight HIV / AIDS
1038 Central American Reconciliation Assistance
1040 Sub-Saharan Africa Disaster Assistance
1500 Demobilization and Transition Fund

Trust Funds

8342 Foreign Natl. Employees Separation Liability Fund
8502 Tech. Assist. - U.S. Dollars Advance from Foreign
8824 Gifts and Donations

OTHER FUNDS (con't)

Credit Program Funds

0400 MSED Program Fund
0401 UE Program Fund
0402 Ukraine Program Fund
1264 DCA Program Fund
4103 Economic Assistance Loans - Liquidating Fund
4340 UE Guarantee Liquidating Fund
4341 MSED Direct Loan Liquidating Fund
5318 Israel Admin Expense Fund

Revolving Funds

4175 Property Management Fund
4513 Working Capital Fund
4590 Acquisition of Property, Revolving Fund

ALLOCATIONS TO OTHER AGENCIES

1000 Operating Expenses of USAID
1010 Special Assistance Initiatives
1014 Africa Development Assistance
1021 Development Assistance
1027 Transition Initiatives
1032 Peacekeeping Operations

