NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements report USAID's financial position and results of operations.

A. Basis of Presentation

These financial statements 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. These statements are presented in accordance with the applicable form and content requirements of the Office of Management and Budget (OMB) Bulletin 97–01, Form and Content of Agency Financial Statements, and the Government Management Reform Act of 1994.

USAID accounting policies follow an "other comprehensive basis of account" as agreed to, and published by, the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Comptroller General. These policies are based on the following hierarchy:

- Accounting standards and principles—known as Statements of Federal Financial Accounting Standards (SFFAS)—recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved and issued by the above-named officials.
- Interpretations of SFFASs issued by OMB.
- Form and content requirements in OMB Bulletin 97–01
- Accounting standards in USAID's accounting policy manuals and handbooks
- Accounting principles published by authoritative standard-setting bodies such as the Financial Accounting Standards Board (FASB) and other authoritative sources 1) when no guidance is available from the other sources listed and 2) when the use of such principles and standards makes these financial statements more meaningful.

B. Reporting Entity

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

Programs

The financial statements reflect various activities, shown by appropriation, conducted by such programs as the Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Development Fund for Africa, Special Assistance Initiatives, International Disaster Assistance, International Organizations and Programs, and Direct and Guaranteed Loan Programs. This classification is consistent with the U.S. budget.

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.

Development Fund for Africa

The Development Fund for Africa account provides development assistance to sub-Saharan African countries, to enhance Agency effectiveness in meeting Africa's development requirements. These resources finance both project and nonproject assistance to address shared development programs and policy objectives in reform-oriented African countries. The funds also support initiatives to promote economic growth, stabilize population growth, protect the environment, and foster increased democratic participation.

Special Assistance Initiatives

This program provides funds to support special assistance activities. The majority of funding for this program in 1997 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 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 reform; and improving the quality of life by, among other things, protecting the environment and providing humanitarian assistance.

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; support assistance in disaster preparedness, prevention and mitigation, as well as the longer term recovery efforts managed by the Office of Transition Initiatives.

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.

International Organizations and Programs

The United States makes assessed payments and contributes to voluntary funds of more than 25 international organizations and programs involved in a wide range of sustainable development, humanitarian, and scientific activities.

Direct and Guaranteed Loan Programs

The Direct Loans program is 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 borrower's currency. 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 borrower's foreign currency.

The *Urban and Environmental Program,* formerly the Housing Guarantee Program, extends guaranties to private U.S. investors who make loans to developing countries to help them formulate and execute sound housing and community development policies to meet the needs of lower income groups.

The *Micro and Small Enterprise Development Program* supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises.

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 will guarantee the repayment of up to $10 billion in loans from commercial sources, to be borrowed in annual increments of $2 billion. Guarantees are made by USAID on behalf of the U.S. government. Funding responsibility and basic administrative functions rest with the Agency.

The *Ukraine Export Credit Insurance Program* was established with the support of the U.S. Export–Import Bank to assist Ukrainian importers of American goods. The program commenced operations in fiscal year 1996 and is expected to expire in fiscal year 1999. Guarantees in the portfolio have maturities of 6 to 18 months.

Fund Types

The accompanying consolidated financial statements for USAID include the accounts of all funds under USAID's control. The Agency maintains 26 general funds, 1 special fund, 11 revolving funds, 4 trust funds, and 4 deposit funds.

General and special funds 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.

Deposit funds are established for 1) amounts 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 until their distribution has been legally determined.

Trust Funds

The *foreign currency trust funds* were established to maintain foreign currencies owned by participating governments, which the Agency holds in trust. These funds are used to pay for program and operating expenses of USAID-related activities in a foreign country. Funds may be withdrawn only by mutual agreement between the participating government and the United States. If the bilateral agreement is terminated, all remaining funds revert to the participating government.

The *U.S. Dollar Advances From Foreign Governments Trust Fund* was established to maintain advances of U.S. dollars from foreign governments or international organizations to facilitate the purposes of the Foreign Assistance Act of 1961. USAID acts in a fiduciary capacity in carrying out specific activities and programs in accordance with bilateral agreements with foreign countries. The Agency draws from the Foreign Governments' Trust Fund balances to pay for related expenses.

The *Gifts and Donations Trust Fund* was established to maintain money, funds, property, and services of any kind made available by gift, device, bequest, and grant.

The *Foreign Service National Separation Pay Trust Fund* was established to fund and account for separation payments for eligible foreign service national employees who voluntarily terminate employment. It is applicable only in those countries that, because of local compensation plans, accrue a lump-sum voluntary separation benefit based upon years of service and rate of pay.

The unexpended balance in trust funds at year end is recorded in the financial statements. Further, to the extent that the income from the trust funds is used toward USAID expenses, the income is recorded as “other income” in the financial statements.

Social Progress Trust and Enterprise Development Funds

Though not recorded in the financial statement, USAID has established several unique loan and enterprise funds to support economic growth in accordance with the authorizing legislation. The major funds include the *Latin American Social Progress Trust Fund,* administered by the Inter-American Development Bank, *enterprise funds* in Central and Eastern Europe and the former Soviet Union, authorized under the Support for East European Democracy and Freedom Support Acts, and the *South African Enterprise Fund.*

USAID does not take an active role in managing these funds beyond authorizing their transfer for the U.S. government. There has been no financial control over these institutions since they were established. However, if the funds are terminated or liquidated, these funds should be returned to the U.S. government. The government has an equity interest in these funds, but they are not measurable and accordingly are not recorded in the financial statements.

C. Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis. Under the accrual method of accounting, 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.

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 multiyear 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).

Pursuant to public law 101–510, unobligated balances associated with expired appropriations remain available for five years for obligation adjustments. At the end of the fifth year, expired appropriations are canceled and remaining funds are returned to Treasury.

Pursuant to section 511 of USAID’s Appropriation Act for fiscal years 1994 through 1998, or section 517 of USAID’s Appropriation Act for fiscal years 1987 through 1993, funds appropriated for certain purposes under the Foreign Assistance Act of 1961, as amended, shall remain available until expended if such funds are initially obligated within their period of availability.

E. Revenues and Other Financing Sources

USAID receives the majority of its funding through congressional appropriations—annual, multiyear, 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 Commodity Credit Corporation 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 borrowing authority from the 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 that 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's end.

H. Accounts Receivable

Accounts receivable are 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 nonloan or revenue-generating sources that have not been collected for a period of over one year.

I. Credit Program Receivable

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

For loans obligated on or after 1 October 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans. This allowance is reestimated when necessary, and changes are reflected in the operating statement.

Loans are made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without "maintenance of value." 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 receivables 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 guaranteed loans. Receivables are stated net of an allowance for uncollectible accounts, determined using a country-specific identification 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 the 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 reports of expenditures from the recipients.

K. Operating Materials and Supplies

USAID has operating materials and supplies held for use that 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.

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, and unserviceable operating materials and supplies.

L. Property, Plant, and Equipment

USAID capitalizes all property, plant, and equipment with 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. Internally developed and contractor-developed software is not capitalized because it is for internal Agency use only.

M. Liabilities

Liabilities represent the amount of monies or other resources 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 classified as liabilities not covered by budgetary resources (unfunded liabilities), and there is no certainty that the appropriations will be enacted. Also, USAID noncontract liabilities can be abrogated by the U.S. government, acting in its sovereign capacity.

N. Liabilities for Loan Guarantees

The Credit Reform Act of 1990, which became effective 1 October 1991, has significantly changed the manner in which USAID's loan programs finance their activities. The main purpose of the act was to more accurately measure the cost of federal credit programs and to place the cost of such programs on a basis equivalent to other federal spending. Beginning in fiscal year 1992, the loan program's funding for activities changed so that activities are funded through direct appropriation provided for that year only, rather than through cumulative appropriations granted in prior years and accumulated under the Revolving Fund.

For USAID's loan guarantee programs, when guarantee commitments are made, the program records a guarantee reserve in the program account. This reserve is based on the present value of the estimated net cash outflows to be paid by the program as a result of the loan guarantees, except for administrative cost, less the net present value of all revenues to be generated from those guarantees. When the loans are disbursed, the program transfers from the program account to the financing account the amount of the subsidy cost related to those loans. The amount of the subsidy cost transferred for a given loan is proportionate to the amount of the total loan disbursed.

For loan guarantees made before the Credit Reform Act, liabilities for loan guarantees for pre-1992 loans represent unfunded liabilities. For purposes of the financial statement, the unfunded amounts are shown separately from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement to USAID. The liability is calculated using a reserve methodology similar to the 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

USAID employees are covered by one of four retirement plans. There are two civil service plans, the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and two foreign service plans, the Foreign Service Retirement and Disability System (FSRDS) and the Foreign Services Pension System (FSPS). The Agency contributes about 7.5 percent of an employee's gross salary for CSRS and FSRDS and about 24 percent of an employee s gross salary for FERS and FSPS.

Employees may elect to participate in the Thrift Savings Plan (TSP). Under this plan, FERS and FSPS employees may elect to have up to 10 percent, but not to exceed $10,000, of gross earnings withheld from their salaries and receive matching contributions from a minimum of 1 percent to a maximum of 5 percent. CSRS and FSRDS employees may elect to have up to 5 percent of gross earnings withheld from their salaries but do not receive matching contributions.

USAID funds a portion of employee post-employment benefits and makes necessary payroll withholdings. It has no liability for future payments, nor is it responsible for reporting the assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees for these programs. Reporting of such amounts is the responsibility of the Office of Personnel Management and the Federal Retirement Thrift Investment Board. Current-year operating expenses are charged for the full amount of employer post-employment benefits costs, with the unfunded portion charged to Other Revenue Sources—Imputed Financing, in accordance with SFFAS #7.

Foreign service nationals and third-county nationals at overseas posts who were hired before 1 January 1984 may be covered under CSRS. Employees hired after that date are covered under a variety of local government plans, in compliance with host country laws and regulations. In a limited number of cases, where no plans are regulated by the host country or where such plans are inadequate, the employees are covered by a privately managed pension plan to conform with prevailing practices among employers.

The Foreign Service National Separation Pay Trust Fund was established in 1991 by public law 102–138 to finance separation payments for eligible individuals, mainly foreign service nationals employed by USAID. The trust fund finances separation liabilities to employees who resign, retire, or lose their jobs because of a reduction in force. It is applicable only in those countries that, because of local law, require a lump-sum voluntary payment based on years of service.

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 appropriations not yet expended, including undelivered orders.
- 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 activity's inception.

NOTE 2. FUND BALANCES WITH TREASURY (in thousands)

Entity and Nonentity fund balances with Treasury as of 30 September 1998 were as follows:

Fund Balances	Entity Assets	Nonentity	Total
Appropriated	$8,833,710	—	$8,833,710
Trust funds	12,674	—	12,674
Revolving	891,658	—	891,658
Other funds	(3,124)	—	(3,124)
Total	$9,734,918	—	$9,734,918

On 30 September 1998 there was a cash reconciliation difference of $60.1 million between the USAID and Department of Treasury fund balances. For fiscal year 1998 reporting purposes, the Agency adjusted its fund balance downward by this difference so it would equal the Treasury's fund balance. This was a change from previous years, when USAID reported the fund balance as recorded. Adjusting the Agency's fund balance to equal Treasury's fund balance brings consistency to various published reports. Past experience has shown the Department of Treasury's balances to be more accurate and the differences have usually been cleared when USAID processed the required disbursements.

The $60.1 million cash reconciliation difference was posted to separate fund balance subaccounts, and the cash differences remain identified as such. USAID intends to perform a complete reconciliation of the amounts in these accounts and to make adjustments accordingly.

NOTE 3. ACCOUNTS RECEIVABLE, NET (in thousands)

The primary components of USAID's accounts receivable as of 30 September 1998 were as follows:

	Receivable Gross	Allowance Accounts	Receivable Net
Entity			
Intragovernmental			
Appropriation reimbursements from federal agencies	$208	—	$208
Accounts receivable from federal agencies	1,040	—	1,040
Disbursing authority receivable from USDA	501,299	—	501,299
Total intragovernmental	502,547	—	502,547
Governmental			
Accounts receivable	11,201	9,543	1,658
Total governmental	11,201	9,543	1,658
Total entity	513,748	9,543	504,205
Nonentity	—	—	—
Total receivables	$513,748	$9,543	$504,205

Reconciliation of Uncollectible Amounts (Allowance Accounts)

Beginning balance	$10,379
Additions	1,136
Reductions	(1,972)
Ending balance	$9,543

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 P.L. 480, 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.

Entity governmental accounts receivable are amounts managed by field missions or USAID/Washington. These receivables consist of such non-program-related receivables as overdue advances, erroneous payments, audit findings, and the interest on all three. A 100 percent allowance for uncollectible amounts is estimated for governmental accounts receivable that are more than a year past due. Accounts receivable from missions are collected and recorded under the appropriate appropriation.

NOTE 4. ADVANCES AND PREPAYMENTS (in thousands)

Advances and prepayments as of 30 September 1998 consisted of the following:

Intragovernmental	
Advances to federal agencies	$37,965
Total	$37,965
Governmental	
Advances to contractors/grantees	$887,584
Travel advances	4,182
Advances to host country governments and institutions	141,149
Prepayments	2,253
Advances, other	694
Total	$1,035,862

Advances to host country governments and institutions are amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Other advances are primarily amounts advanced for living quarters and home service.

NOTE 5. CREDIT PROGRAM RECEIVABLES AND LIABILITIES FOR LOAN GUARANTEES (in thousands)

USAID operates the following loan and 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)
- Israeli Loan Guarantee Program (Israel)

Direct loan obligations or loan guarantee commitments made before fiscal year 1992, and the resulting direct loans or loan guarantees, are reported net of allowance for estimated uncollectible loans or estimated losses.

Direct loan obligations or loan guarantee commitments made after fiscal year 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act. This act provides that the present value of the subsidy costs (that is, interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year in which the direct or guaranteed loan is disbursed.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy costs associated with loans and loan guarantees is 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.

Direct Loans Obligated Before FY92

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct Value of Assets Loans
Direct Loan	$11,566,448	$442,621	$5,856,377	$6,152,692
MSED	4,298	22	3,294	1,026
Total	$11,570,746	$442,643	$5,859,671	$6,153,718

Direct Loans Obligated After FY91

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance For Subsidy Cost	Value of Assets Related to Direct Loans
Direct Loan	$283,355	—	$142,144	$141,211
MSED	1,968	$28	173	1,823
Total	$285,323	$28	$142,317	$143,034

Defaulted Guaranteed Loans From pre-1992 Guarantees

Loan Guarantee Programs	Defaulted Guaranteed Loan Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Defaulted Guaranteed Loan Receivable, Net
UE	$505,579	$20,210	$240,959	$284,830
Total	$505,579	$20,210	$240,959	$284,830

Defaulted Guaranteed Loans From post-1991 Guarantees
There were no defaults on post-1991 guarantees for FY98.

Guaranteed Loans Outstanding

Loan Programs	Outstanding Principal Guaranteed Loans, Face Value	Amount Outstanding Principal Guaranteed
UE	$2,241,671	$2,241,671
MSED	30,598	15,299
Ukraine	141,236	141,236
Israel	9,226,200	9,226,200
Total	$11,639,705	$11,624,406

Loan Guarantees Outstanding are not presented on the face of the financial statement but instead are used to calculate the liability for loan guarantees presented below.

Loan Programs	Liability for Losses on Pre-1992 Guarantees, Estimate Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
UE	$347,709	$49,889	$397,598
MSED	—	1,965	1,965
Ukraine	—	28,135	28,135
Israel	—	515,076	515,076
Total	$347,709	$595,065	$942,774

Subsidy Expenses for Post-1991 Direct Loans

1 Current Year's Loan Guarantees

There have been no new loans disbursed in the past two years.

2 Direct Loan Modification and Reestimates

There have been no modifications and restimates.

Subsidy Expenses for Post-1991 Loan Guarantees

1 Current Year's Loan Guarantees

Loan Programs	Defaults	Fees	Interest Supplement	Total
UE	$11,784	$4,119	—	$7,665
MSED	—	—	—	—
Ukraine	—	—	—	—
Israel	63,534	63,534	—	—
Total	$75,318	$67,653	—	$7,665

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2 Loan Guarantee Modifications and Reestimates

There have been no modifications and restimates.

3 Total Loan Guarantee Subsidy Expenses

Loan Programs	Defaults	Fees	Interest Supplement	Total
UE	$11,784	$4,119	—	$7,665
MSED	—	—	—	—
Ukraine	—	—	—	—
Israel	63,534	63,534	—	—
Total	$75,318	$67,652,914	—	$7,665

Administrative Expenses

Loan Programs	
Direct Loan	—
UE	$6,506
MSED	855
Ukraine	65
Total	$7,426

NOTE 6. CASH AND OTHER MONETARY ASSETS (in thousands)

Cash and other monetary assets as of 30 September 1998 are as follows:

Entity Cash and Other Monetary Assets	
Undeposited collections	1
HGP and Micro and Small Enterprise Fund Other Cash	40
Foreign currencies with U.S. Treasury	172,144
Total Entity Cash and Other Monetary Assets	$172,185
Nonentity Cash and Other Monetary Assets	—
Total Cash and Other Monetary Assets	$172,185

USAID has imprest funds in various locations overseas. These funds are provided by Department of State overseas U.S. disbursing officers, and USAID is liable for any shortages. USAID's portion of the Department of State imprest funds provided to USAID is $2.4 million. These imprest funds are not included in the Agency's balance sheet. Foreign currencies with U.S. Treasury included $172 million related to foreign currency trust funds.

NOTE 7. OPERATING MATERIALS AND SUPPLIES (in thousands)

Operating supplies and materials as of 30 September 1998 are as follows:

Items Held for Use	
Office supplies	$5,625
Items Held in Reserve for Future Use	
Disaster assistance materials and supplies	4,112
Birth-control supplies	17,289
Total	$27,026

Operating materials and supplies include office supplies held for use, disaster assistance materials and supplies, and birth-control supplies held in reserve for future use. They are valued at historical cost and are considered not held for sale.

NOTE 8. PROPERTY, PLANT, AND EQUIPMENT, NET (in thousands)

The components of PP&E on 30 September 1998 were as follows:

Classes of Fixed Assets	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Equipment	3 to 5 years	$28,820	$21,498	$7,322
Structures, facilities, & leasehold improvements	20 years	27,749	11,435	16,314
Land	N/A	3,706	N/A	3,706
Assets under capital lease		136	136	—
Construction in progress	N/A	778	N/A	778
Total		$61,189	$33,069	$28,120

USAID PP&E includes assets in Washington, D.C. offices and overseas field missions. The Agency capitalizes PP&E when the original acquisition cost is $25,000 or greater and when the asset has a useful life of two or more years. USAID uses the straight-line method of depreciation.

Equipment consists mainly of electric generators, ADP hardware, vehicles, and copiers located at the overseas 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 sits.

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.

The capitalized leases are four bungalows in Kenya that USAID has exercised its lease purchase options on that are in litigation.

Construction in progress consists primarily of new facilities.

In addition to its capitalized leases, the building in which the Agency operates is leased by the General Services Administration, and USAID is charged rent intended to approximate commercial rental rates. The lease is for 20 years, but USAID and GSA are currently negotiating to extend the lease term to 30 years. Lease payments for fiscal year 1998 amounted to $26.1 million. GSA is requesting a 10 percent increase for fiscal year 1999.

NOTE 9. ACCOUNTS PAYABLE (in thousands)

The accounts payable covered by budgetary resources as of 30 September 1998 consisted of the following:

Intragovernmental	
Accounts payable	$209,674
Disbursements in transit	125
Total Intragovernmental	209,799
Governmental	
Accounts payable	1,487,020
Disbursements in transit	1,133
Total Governmental	1,488,153
Total Accounts Payable	$1,697,952

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

Governmental accounts payable represent liabilities to other nongovernmental entities.

NOTE 10. DEBT (in thousands)

USAID intragovernmental debt as of 30 September 1998 consisted of the following borrowings from Treasury for post-1991 loan programs:

	Beginning Balance	Net Borrowing	Ending Balance
Urban & Environmental	$85,000	$(13,000)	$72,000
Direct loan	234,158	76	234,234
MSED	2,099	(222)	1,877
Total Debt	$321,257	($13,146)	$308,111

NOTE 11. OTHER LIABILITIES (in thousands)

As of 30 September 1998, other liabilities consisted of the following:

Intragovernmental	
Due to U.S. Treasury	$6,200,695
OPAC suspense	8,016
Deposit and clearing accounts	(3,151)
Due to Treasury	102
Other	16,783
Total Intragovernmental	6,222,445
Governmental	
Accrued funded payroll/benefits	9,861
Unamortized origination fees	2,094
Foreign currency trust fund	170,927
Trust fund balances	12,674
Total Governmental	195,556
Total Other Liabilities	$6,418,001

Intragovernmental liabilities are amounts due to other federal agencies. Other governmental liabilities are liabilities to nonfederal entities.

NOTE 12. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY (in thousands)

Accrued unfunded benefits for annual leave and separation pay as of 30 September 1998 are as follows:

Liabilities Not Covered by Budgetary Resources	
Governmental	
Accrued annual leave	$26,557
Separation-pay liability for foreign service nationals	1,086
Total Accrued Unfunded Annual Leave and Separation Pay	$27,643

NOTE 13. ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS (in thousands)

The provision for workers' compensation benefits payable as of 30 September 1998 are as follows:

Liabilities Not Covered by Budgetary Resources	
Governmental	
Accrued unfunded workers' compensation	$6,764
Future workers' compensation benefits	35,005
Total Accrued Unfunded Workers' Compensation Benefits	$41,769

The Federal Employees Compensation Act (FECA) program, administered by the U.S. Department of Labor, 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 also given to beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The Department of Labor 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 $41.7 million as of 30 September 1998. It consists of unpaid FECA billings for $6.7 million and estimated future FECA costs of $35 million. Estimated future FECA costs are determined by the Department of Labor. This liability is determined through the use of a paid-losses extrapolation method calculated over a 37-year period. This method uses 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 5.6 percent in year 1 and thereafter.

NOTE 14. INTEREST AND PENALTIES, NONFEDERAL (in thousands)

Nonfederal interest and penalties as of 30 September 1998 consisted of the following:

Interest and Penalties, Nonfederal	
Interest income	$710,138
Income from penalties	6,601
Total	716,739
Less: transfers to Treasury	572,224
Total Interest and Penalties, Nonfederal	$144,515

NOTE 15. ADJUSTMENTS (in thousands)

Prior Period Adjustments as of 30 September 1998 consisted of the following:

Equipment	$17,891
Structures, Facilities, & Leasehold Improvements	10,072
Credit Program Equipment	1,977
Fund Balance with Treasury	$50,032
	$79,972

FY 1998 is the first year USAID is depreciating its property, plant, and equipment in accordance with the Statement of Federal Financing Accounting Standard (SFFAS) Number 6, *Accounting for Property, Plant, and Equipment.* By implementing this standard, prior period adjustments of $27.9 million were recorded to properly value PP&E.

Also during FY 1998, the Credit Program increased its capitalization threshold for PP&E to $25,000 to be consistent with USAID's capitalization threshold. A prior period adjustment of $1.9 million was recorded to expense property that did not meet the $25,000 threshold.

Additionally, in FY 1998, USAID adjusted its Fund Balance to equal Treasury's Fund Balance. However, a portion of this adjustment related to FY 1997 and was classified as a prior period adjustment.

NOTE 16. TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION (in thousands)

Total cost and earned revenue by budget functional classification, as of 30 September 1998 is as follows:

Function Classification	Total Cost	Earned Revenue	Net Cost
International affairs - 150	$7,358,806	$181,807	$7,176,999
Income security - 600	948	—	948
Total	$7,359,754	$181,807	$7,177,947

NOTE 17. DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE U.S. GOVERNMENT BUDGET (in thousands)

Differences exist between the information presented on the Statement of Budgetary Resources and the amounts described as "actual" in the budget of the U.S. government (the Budget). These differences occur because funds are appropriated to USAID and then allocated out to other agencies. In those cases, the related funds are not included in the Agency's Statement of Budgetary Resources but are included in its part of the Budget. But sometimes funds that are appropriated to other agencies are then allocated to USAID. In those cases, related funds are included in the Agency's Statement of Budgetary Resources but are not included in its part of the Budget.

The amounts related to other agency activity as of 30 September 1998 are as follows:

	Allocated to Other Agencies	Allocated From Other Agencies
Budgetary Resources		
Budget authority	362,714	427,797
Unobligated balance	11,661	175
Spending authority from offsetting collections	4	—
Adjustments	604	7,004
Total Budgetary Resources	374,983	434,976
Status of Budgetary Resources		
Obligations incurred	352,696	415,752
Unobligated balances available	18,994	19,224
Unobligated balances not available	3,293	—
Total Status of Budgetary Resources	374,983	434,976
Obligated balance, net—beginning of period	146,688	466,013
Obligated balance transferred, net	—	—
Obligated balance, net—end of period	119,256	540,137
Outlays	370,905	334,624

NOTE 18. CONTINGENCIES (in thousands)

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

Ten contract appeals in which the Agency is involved (totaling more than $20 million) are currently before the Armed Service Board of Contract Appeals. It is reasonably possible that damages will be assessed against USAID in these cases. Should there be any judgment in favor of a contractor, the Agency could also be liable for indeterminable attorney's fees and interest under the Contract Disputes Act.

Seven cases against USAID are pending in the U.S. Court of Federal Claims. These cases total about $3 million, and it is reasonably possible that damages will be assessed against USAID. Again, should there be any judgment in favor of a contractor, the Agency could also be liable for attorney's fees and interest under the Contract Disputes Act. It is not possible at this time to estimate what those amounts might be.

The Agency is involved in eight cases pending appellate decision or awaiting initial stage processing or hearing before the Equal Employment Opportunity Commission. All eight cases involve a reasonable possibility of loss for the Agency, for an estimated total amount of $1.1 million.

Five cases in which USAID is involved are pending before the Foreign Service Grievance Board, involving cognizable claims under chapter 11 of the Foreign Service Act of 1980, as amended. They involve the probable likelihood of financial loss to USAID of more than $1 million, less indeterminable offsets under the Backpay Act.

In addition, three appeals pending before the Merit Systems Protection Board involve a reasonable possibility of loss to USAID in the amount of $450,000, less indeterminable offsets.

The building in which USAID operates is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rent rates. The lease is for 20 years. However, USAID and GSA are currently involved in negotiations to extend the lease term to 30 years. Lease payments for FY 1998 amounted to $26.1 million. GSA is requesting a 10% increase for FY 1999.