



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006

AUDIT REPORT NO. 0-000-08-001-C
November 14, 2007

WASHINGTON, DC



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 14, 2007

MEMORANDUM

TO: David D. Ostermeyer, Chief Financial Officer

FROM: AIG/A, Joseph Farinella /s/

SUBJECT: Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006

The Office of Inspector General (OIG) is transmitting its report on the *Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006*. Pursuant to the Government Management Reform Act of 1994, USAID is required to prepare consolidated financial statements as of the end of the fiscal year. USAID is also required to submit a Performance and Accountability Report, including audited financial statements, to the Office of Management and Budget (OMB) and Department of Treasury by November 15, 2007. In accordance with fiscal year 2007 requirements of OMB Circular A-136, USAID has elected to prepare an alternative Agency Financial Report that includes an Agency Head Message, Management's Discussion and Analysis, and a Financial Section.

The OIG has issued unqualified opinions on each of USAID's principal financial statements for fiscal years 2007 and 2006.

With respect to internal control, we did not identify any deficiencies that we consider to be material weaknesses. We did, however, identify certain deficiencies in internal control that we consider to be significant deficiencies. The significant deficiencies address USAID's (1) controls over interagency reporting processes, (2) accounting for loans receivable, (3) reporting on foreign currency transactions, (4) reconciliations of its intragovernmental transactions, and (5) reconciliations of its Fund Balance with the U.S. Treasury.

We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or U.S. Standard General Ledger accounting at the transaction level as a result of our tests required by Section 803(a) of the Federal Financial Management Improvement Act of 1996.

This report contains three recommendations to improve USAID's internal control over financial reporting and the preparation of its annual financial statements.

We appreciate the cooperation and courtesies that your staff extended to us during the audit. The OIG is looking forward to working with you on our audit of the fiscal year 2008 financial statements.

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SUMMARY OF RESULTS

In our opinion, USAID's consolidated balance sheets, consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources present fairly, in all material respects, the financial position of USAID as of September 30, 2007 and 2006; and its net cost, net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles.

We did not identify any deficiencies in internal control that we considered to be material weaknesses. Nonetheless, we did identify five deficiencies in internal control considered to be significant deficiencies, related to USAID's:

- Controls over interagency reporting processes
- Accounting for loans receivable
- Reporting on foreign currency information
- Intragovernmental reconciliations
- Reconciliations of Fund Balance with the U.S. Treasury

We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or U.S. Standard General Ledger accounting at the transaction level as a result of our tests required by Section 803(a) of the Federal Financial Management Improvement Act.

BACKGROUND

USAID was created in 1961 to advance U.S. foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has missions in more than 90 countries, 46 of which have full accounting operations with USAID controllers. For the fiscal year ended September 30, 2007, USAID reported total budgetary resources of \$15 billion.

Pursuant to the Government Management Reform Act of 1994, USAID is required to submit audited financial statements to OMB annually. Pursuant to this Act, for fiscal year 2007, USAID has prepared the following:

- Consolidated Balance Sheets
- Consolidated Statements of Changes in Net Position
- Consolidated Statements of Net Cost
- Combined Statements of Budgetary Resources
- Notes to the principal financial statements
- Other Required Supplementary Information
- 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, and budgetary resources for fiscal years 2007 and 2006?

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2007 and 2006 and for the years then ended.

In accordance with *Government Auditing Standards*, the OIG has also issued reports (dated November 14, 2007) 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

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2007 and 2006, and the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources of USAID for the years ended September 30, 2007 and 2006.

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 OMB Bulletin No. 07-04, *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, and in conformity with U.S. generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2007 and 2006 and for the years then ended.

Management's Discussion and Analysis and Required Supplementary Information sections are not a required part of the consolidated financial statements, but represent supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures to this information, primarily consisting of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports, dated November 14, 2007, 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.

/s/

USAID, Office of Inspector General
November 14, 2007

Report on Internal Control

We have audited the consolidated balance sheets of USAID as of September 30, 2007 and 2006. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources for the fiscal years ended September 30, 2007 and 2006, and have issued our report thereon dated November 14, 2007. We conducted the 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 OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2007 and 2006, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USAID's internal control. We limited our system of internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. Accordingly, we do not express an opinion on USAID's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, or record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

- Controls over interagency reporting processes
- Accounting for loans receivable
- Reporting on foreign currency information
- Intragovernmental reconciliations
- Reconciliations of Fund Balance with the U.S. Treasury

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses,

as defined above.

With respect to internal control related to information included in the Management's Discussion and Analysis Section of USAID's Agency Financial Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 07-04, and determined whether they were in operation. Our procedures were not designed to provide assurance on internal control over this information and, accordingly, we do not provide an opinion on such controls.

We also noted other matters involving the internal control over financial reporting which we reported to USAID management in a separate letter dated November 14, 2007.

Significant Deficiencies

Controls over Interagency Reporting Need Improvement

USAID's controls used to update its financial management system (Phoenix) with accounting information provided by its child¹ agencies through interagency reporting processes need improvement. In fiscal year 2007, USAID correctly entered annual budgetary account activity for its child agencies in its general ledger, but did not always readily confirm associated non-budgetary activity. This occurred, in one instance, because although USAID confirmed the update of its general ledger with budgetary information provided by its child agencies to the Department of Treasury, it did not perform a similar confirmation for non-budgetary (or proprietary) accounts that are included in its Balance Sheet and Statement of Net Cost. As a result, without compensating controls, USAID's Balance Sheet and Statement of Net Cost are potentially in error to the extent of the unrecorded differences between budgetary and proprietary information provided by its child agencies.

To account for annual child agency budgetary account activity in its general ledger, USAID's Office of the Chief Financial Officer (CFO) compared quarterly trial balance information provided directly by its child agencies, with the same information that its child agencies provide to the Department of Treasury through the Federal Agencies' Consolidated Trial Balance System (FACTS II). For the end of fiscal year 2007, USAID obtained FACTS II trial balances that were different than the trial balances originally sent by one child agency, and relied completely on the FACTS II information. However, because the FACTS II trial balance did not contain complete proprietary balance information, USAID continued to rely on the original trial balance it received directly. The OIG confirmed that no material differences existed between the separate sources.

¹ OMB Circular A-136 defines financial reporting requirements for transferring budget authority from one Federal entity to another, and describes "child" agencies as those for which a Federal entity receives budget authority from another Federal entity (the "parent") and then obligates and outlays sums up to the amount included in the allocation.

USAID also had difficulty reporting interim financial statement information consistently throughout 2007. Fiscal year 2007 beginning balance information provided to USAID by one Federal child agency did not agree with the same information reported to Treasury. Since accounting information reported to USAID for use in its financial statements is obtained from the same source as the information provided to Treasury via FACTS II, this information must agree, as required by OMB Circular A-136, section II.4.6.1. These differences in fiscal year 2007 beginning balances reported throughout 2007 occurred primarily because quarterly information provided by at least one child agency was not consistent between periods.

To ensure that USAID continues to receive complete, consistent, updated trial balances from its partner agencies, we are making the following recommendation:

Recommendation No. 1: We recommend that USAID's Office of the Chief Financial Officer develop agreements with its material Federal child agencies that address consistency between budgetary and proprietary accounting information provided to USAID.

Accounting for Loans Receivable Needs Improvement

Some USAID loans receivable activities recorded in Phoenix were not accurate or complete. We identified Loans Receivable transactions that were not initially recorded in Phoenix and certain credit subsidy entries that were recorded prior to the receipt of an approved apportionment from OMB, causing differences between USAID's Phoenix accounting system and Midland Loan Services' Enterprise Loan System. OMB Circular A-11 requires Federal agencies to obtain an approved apportionment from OMB before making modifications to direct loans. These activities occurred because of weaknesses in the system interface between USAID and its loan service provider, and because of inadequate coordination within the Office of the CFO. As a result, approximately \$193 million of credit program receivables were not accurately processed prior to adjustment.

USAID works with Midland Loan Services of PNC Bank for its loan-servicing. Midland processes USAID's credit program transactions in its Enterprise loan system while USAID maintains the interface between transactions posted monthly by Midland and those entered in Phoenix. For each transaction, Midland converts Enterprise transaction codes into Phoenix transaction codes for entry by USAID, based on a translation table created by USAID. USAID cannot post transactions if Phoenix transaction codes are incorrectly or inaccurately assigned to activities in Midland's Enterprise loan system.

In auditing rescheduled loans (i.e. refinanced loans or loans whose terms and conditions were modified between borrowers and the U.S. Government), the OIG discovered approximately \$193 million of credit program receivables processed by Midland that were not recorded in Phoenix. This discrepancy occurred primarily because certain transactions entered in Midland Bank's Enterprise loan system did not have a corresponding entry code in USAID's translation table. Both Midland Loan Services and USAID informed us that the translation table had not been updated for missing codes, invalid codes, or new general ledger accounts since June 2005. As a result, significant credit program activity remained unprocessed at USAID.

Although USAID performs monthly reconciliations of certain credit program accounts, its staff identified unreconciled differences between rescheduled loan balances reported by Midland and those observed in the Phoenix trial balance. USAID did not have procedures in place to correct missing or inaccurate transactions identified by its staff. Until USAID updates the translation table and implements procedures for reviewing exceptions, loan transactions processed by Midland and transmitted via the monthly interface file will not be completely or accurately recorded in USAID's accounting system.

The OIG also determined that USAID's Office of the CFO, Washington Financial Services Division, had authorized Midland Loan Services to write off loans before USAID's receipt of an approved apportionment from OMB. If not detected promptly, these loan subsidy entries in Phoenix may remain in the incorrect accounting period, understating USAID's Loans Receivables. USAID's Office of the CFO needs to ensure that its Washington Financial Services Division and its Central Accounting and Reporting Division coordinate in the process of authorizing and recording activity related to loan subsidies.

Recommendation No. 2: We recommend that USAID's Office of the Chief Financial Officer develop and implement a procedure to annually update and validate transaction codes used by its loan-servicing provider in USAID's transaction translation table.

Recommendation No. 3: We recommend that USAID's Office of the Chief Financial Officer develop and implement controls preventing the authorization of loan write-offs prior to its receipt of subsidy funds by the Department of Treasury and prior to the transfer of appropriations approved by the Office of Management and Budget.

Reporting on Foreign Currency Information Needs Improvement (Repeat Finding)

USAID's process for reporting on foreign currency assets and liabilities in its financial statements needs improvement. Foreign Currency Trust Fund balances reported on USAID's Balance Sheet are a compilation of local bank balances reported by its overseas missions. This bank information was used in lieu of transaction information in Phoenix because USAID's foreign currency information in Phoenix was generally incomplete and sometimes inaccurate, and because USAID had not completed required reconciliations. As a result, USAID was required to make manual financial reporting adjustment to accurately report on its Foreign Currency Trust Funds, which represent \$288 million in assets and liabilities. As long as the information in Phoenix is incorrect, USAID will continue to rely on external sources for foreign currency assets and liabilities.

USAID's foreign currency balances represent cash held in local banks throughout the world, managed by USAID on behalf of local governments. USAID records an asset and a liability for the balances in these accounts and as of September 30, 2007, USAID's total Foreign Currency Trust Fund balance was \$288 million.

The OIG observed that USAID continues to collect foreign currency balance information from its overseas missions from sources outside of Phoenix. Because Phoenix foreign

currency information has been migrated from USAID's previous financial management system but not completely reconciled with bank records, many USAID missions maintain separate records of the foreign currency accounts they manage locally, based on account statements they receive from the local banks. As a result, USAID/Washington accumulates mission bank statement balances for quarterly financial reporting in lieu of foreign currency information in Phoenix. By using this information solely, USAID missions cannot perform reconciliations against a separate independent source of foreign currency information. To record quarterly fluctuations in foreign currency balances, USAID makes a financial reporting adjustment to capture the net change in the accumulated mission cash balances.

During fiscal year 2006, the OIG reported that USAID's foreign currency information in Phoenix was unreliable and recommended that USAID's Office of the CFO perform monthly bank reconciliations to maintain current financial information in its general ledger. USAID continued to obtain quarterly bank balances from each mission and, for financial statement purposes, adjusted its general ledger balance to agree with the bank balances of the missions as of the end of each quarter. USAID and its information systems contractor attempted to resolve the condition by comparing USAID's general ledger balances to the balances reported on the missions' bank statements as of October 1, 2006, and determined that foreign currency assets and liabilities reported at the end of fiscal year 2006 were understated. USAID did not take any further action to determine the reason for these differences, but increased related assets and liabilities in the general ledger as a result. This activity remained in the general ledger but was ultimately excluded for financial reporting purposes. As a result, no relationship exists between the detailed foreign currency transaction information in Phoenix, and the balances reported on USAID's financial statements.

USAID's Automated Directives System (ADS) 627.3.13, *Local Currency Trust Fund Verification*, states that Mission Controllers must ensure accountability of trust funds through the use of a biannual non-Federal Audit of the Missions' trust fund accounts. USAID did not perform a verification of local currency trust funds in 2007. Pursuant to a prior recommendation,² the Office of the CFO has indicated that it will develop and implement procedures to maintain current information on foreign currency trust funds in its general ledger and will also assign a point of contact to monitor trust fund activities. Beginning in the 2nd quarter of fiscal year 2008, the OIG will monitor USAID's progress on this effort, which is scheduled to be completed by December 31, 2007.

² *Report on the Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005*, p. 12, November 15, 2006, <http://www.usaid.gov/oig/public/fy07rpts/0-000-07-001-c.pdf>

Intragovernmental Transactions Remain Unreconciled (Repeat Finding)

The U.S. Treasury reported a \$5.6 billion net difference in intragovernmental transactions between USAID and other Federal agencies at the end of fiscal year 2007. Of this amount, \$1.4 billion represents differences requiring reconciliation in accordance with OMB Circular A-136 and the Department of Treasury Financial Management Service *Federal Intragovernmental Transactions Accounting Policies Guide*. The differences between USAID's records and those of its trading partners occurred because USAID was not able to consistently resolve material differences identified by the Department of Treasury in its quarterly Material Differences/Status of Disposition Certification Report and other differences equal to or greater than \$50 million. USAID also did not consistently reconcile other significant differences by reciprocal category with its Federal trading partners throughout fiscal year 2007. Until intragovernmental transactions are reconciled, USAID's financial statements are subject to error.

USAID has increased its efforts in resolving unreconciled amounts, but significant differences still exist, including \$1.4 billion required to be reconciled with three different Federal agencies. While some timing differences may ultimately be resolved, differences caused by accounting errors or different accounting methodologies require a special effort by USAID and its trading partners for timely resolution. The *Federal Intragovernmental Transactions Accounting Policies Guide* suggests that agencies work together to estimate accruals and to record corresponding entries in each set of records so that they are in agreement and so that long-term accounting policy differences can be identified. Until these differences are eliminated, USAID's financial statements are subject to error, to the extent of unreconciled intragovernmental activity.

Although \$4.2 billion of the \$5.6 billion of net differences reported between USAID and the Treasury general fund are not required to be reconciled, Treasury does suggest that Federal agencies confirm that these differences represent general fund activities. USAID did not consistently document these confirmations.

We identified similar conditions related to USAID's intragovernmental reconciliation process in a previous audit report³ and recognize that this process requires continuing coordination with other Federal agencies. Therefore, we are not making a new recommendation, but we will continue to monitor USAID's progress in reducing intragovernmental balances in future audits.

³ *Report on the Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005*, p. 9, November 15, 2006, <http://www.usaid.gov/oig/public/fy07rpts/0-000-07-001-c.pdf>

Reconciliations of Fund Balance with the U.S. Treasury Need Improvement (Repeat Finding)

USAID had large unreconciled differences between its Fund Balance and its cash balance reported by Treasury throughout 2007. As of September 30, 2007, these differences totaled to a cumulative net value of \$77 million. The differences remained undocumented because USAID was not consistently investigating and resolving reconciling items, and was not completing reconciliations of its Fund Balance in accordance with Treasury Financial Manual (TFM) 2-5100. As a result, USAID recorded adjustments at the end of fiscal year 2007—to ensure that its Fund Balance with the U.S. Treasury reported on its Form 2108, *Year End Closing Statement*, agreed with the balance in Treasury's records—without fully documenting and investigating the reasons for the differences.

U.S. Treasury reconciliation procedures state that an agency (1) may not arbitrarily adjust its fund balance with the U.S. Treasury account, and (2) 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. 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.

USAID CFO Bulletin 06-1001, *Reconciliations with U.S. Treasury*, requires USAID to perform timely monthly reconciliations with the U.S. Treasury. The Bulletin also requires a written justification for carrying forward unpaid and unsupported transactions more than 90 days old, provides specific written guidance for write-offs, and requires a certification that reconciliations have been performed in accordance with TFM Volume 1, Part 2-5100. Bulletin 06-1001 has not been fully implemented.

Prior to adjustment, USAID reported its Fund Balance as \$77 million more than the balance reported by Treasury on its September 30, 2007 account statement. This occurred because Treasury symbol changes in Phoenix were not routinely updated to ensure that transactions were recorded against the correct appropriation, and because \$10.8 million of cash transactions remained in a suspense status at USAID pending additional information. The transactions in suspense were fully processed at the Department of Treasury as of the end of fiscal year 2007. USAID could not identify the reasons for many other differences, including some items that have not been reconciled since 2004. For financial reporting purposes, USAID adjusted its Fund Balance to match the cash balance reported by Treasury without always fully documenting the reasons for the unreconciled conditions.

USAID made some attempts to resolve unreconciled Treasury items, but did not always document the efforts made to investigate and reconcile the differences. We also noted this issue in a previous audit report⁴. Fund balance reconciliations with Treasury are ongoing efforts and we will continue to monitor USAID's progress with these reconciliations in future audits.

⁴ *Report on the Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005*, p. 8, November 15, 2006, <http://www.usaid.gov/oig/public/fy07rpts/0-000-07-001-c.pdf>

USAID management's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of those charged with governance at USAID (the USAID Administrator, Deputy Administrator, Assistant Administrator for Management, and Chief Financial Officer) and others within USAID, as well as OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. This report is a matter of public record, however, and its distribution is not limited.

/s/

USAID, Office of Inspector General
November 14, 2007

Report on Compliance with Laws and Regulations

We have audited the consolidated balance sheets of USAID as of September 30, 2007 and 2006. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources for the fiscal years ended September 30, 2007 and 2006, and have issued our report thereon. We conducted the audit in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards*, (issued by the Comptroller General of the United States) and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of USAID 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 with certain other laws and regulations specified in OMB Bulletin 07-04, 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.

Our tests did not disclose instances of noncompliance, other than FFMIA, considered to be reportable under *Government Auditing Standards*. Our objective was not to provide an opinion on overall compliance with laws and regulations and, accordingly, we do not express such an opinion.

OMB Circular A-123

OMB Circular A-123, *Management's Responsibility for Internal Control*, implements the requirements of FMFIA. Appendix A of OMB Circular A-123 contains an assessment process that management should implement in order to properly assess and improve internal controls over financial reporting. The assessment process should provide management with the information needed to properly support a separate assertion on the effectiveness of the internal controls over financial reporting, as a subset of the overall FMFIA report.

In 2006, USAID elected to complete its assessment in accordance with OMB Circular A-123, Appendix A, over the course of three years, and intends to complete this assessment in 2008. Its 2007 process was implemented in substantial accordance with the approved plan. USAID's Statement of Assurance accurately reflects the results of the assessment and includes an appropriate scope limitation.

Federal Financial Management Improvement Act of 1996

Under FFMIA, we are required to report on 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. We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or U.S. Standard General Ledger accounting at the transaction level. In our Report on Internal Control, we identified the following areas for improvement over several financial system processes, not affecting substantial compliance:

- Controls over interagency reporting processes
- Accounting for Loans Receivable
- Reporting on foreign currency information

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. This report is a matter of public record, however, and its distribution is not limited.

/s/

USAID, Office of Inspector General
November 14, 2007

EVALUATION OF MANAGEMENT COMMENTS

We have received USAID's management comments to the findings and recommendations included in our draft report. We have evaluated USAID management comments on the recommendations and have reached management decisions on all of the recommendations. The following is a summary of USAID's management comments and our evaluation of those comments.

USAID management agreed to implement **Recommendation No. 1** and will proceed to elevate issues of noncompliance in instances where other federal agencies have not provided USAID with correct and timely financial information. The target completion date is March 31, 2008.

USAID management agreed to implement **Recommendation No. 2** and will work to ensure that an update and validation of transaction codes used by its loan service provider will be completed in the USAID transaction table by the target completion date of March 31, 2008.

USAID management has agreed to implement **Recommendation No. 3** and will take steps to ensure that USAID does not record loan subsidies prior to its receipt of subsidy funds by the Department of Treasury and prior to the transfer of an appropriation approved by OMB. The target completion date is March 31, 2008.

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 OIG 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 OIG 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 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 Agency Financial Report.

To fulfill these responsibilities, the OIG:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- 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 section of the Agency Financial Report;
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls;
- considered the process for evaluating and reporting on internal control and financial management systems under FFMIA; and
- tested USAID's compliance with FFMIA requirements.

We also tested USAID's compliance with selected provisions of the following laws and regulations:

- Anti-Deficiency Act
- Improper Payments Information Act
- Prompt Payment Act
- Debt Collection Improvement Act
- Federal Credit Reform Act
- OMB Circular A-136
- OMB Circular A-123
- 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, 2007 and 2006. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

In forming our opinion, the OIG considered potential aggregate errors exceeding \$270 million for any individual statement to be material to the presentation of the overall financial statements.

Federal Financial Management Improvement Act

We assessed whether USAID substantially complied with the Federal financial management systems requirements under the Federal Financial Management Improvement Act of 1996. OMB's core financial systems requirements dated November 2001 were the required standard agencies were expected to meet in fiscal year 2007.

Because USAID's core financial systems requirements substantially complied with OMB's November 2001 core financial systems requirements during fiscal year 2006, we did not test whether requirements that were found to be in compliance last year continued to be in compliance in 2007. However, we did review a listing of modifications that were made to Phoenix during fiscal year 2007 to note any reductions or significant changes in functionality. We also obtained a representation from USAID's chief financial officer that the financial system continued to operate with the same functionality during 2007 as it did during 2006.

In addition, we identified four feeder systems to the core financial systems and documented key internal controls and information flows between core systems and feeder systems. Those feeder systems included the U.S. Department of Agriculture's National Finance Center, the Department of Health and Human Services' payment management system, the Department of the Treasury's CA\$HLINK II system, and USAID's loan servicing system maintained by Midland Loan Services of PNC Bank. To perform our fieldwork we interviewed USAID staff and contract personnel and reviewed documentation related to the capabilities of Phoenix and feeder systems. Documentation included reports, monthly reconciliations between the core financial system and feeder systems, systems documentation, and documentation generated between core systems and feeder systems.

Management's Discussion and Analysis

With respect to the Management's Discussion and Analysis, we gained an understanding of USAID's system of collecting and reporting on the information presented, and performed limited tests to assess the controls established by USAID over this information. We conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance information included in the Management's Discussion and Analysis.

MANAGEMENT COMMENTS



November 14, 2007

MEMORANDUM

TO: AIG, Joseph Farinella

FROM: CFO, David Ostermeyer /s/

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2007 and 2006 (Report No. 0-000-08-001-C)

Thank you for your draft audit report on the USAID FY 2007 and 2006 Financial Statement and for the professionalism and dedication exhibited by your staff throughout this entire process.

Fiscal year 2007 was another significant year for federal financial management at USAID. We are pleased that your draft report presents both our progress and our remaining challenges. We are gratified that the USAID Inspector General will issue unqualified opinions on all of USAID's four principal financial statements. The acknowledgments of the Agency's improvements in financial systems and processes throughout the report are greatly appreciated.

Following are our comments and management decisions regarding the findings and proposed audit recommendations:

Significant Deficiency: Controls Over the Inter-Agency Reporting Process

Recommendation 1: We recommend that USAID's Office of the Chief Financial Officer develop agreements with its material child Federal agencies to ensure consistency between budgetary and proprietary accounting information provided to USAID.

Management Decision: We agree to implement the recommendation. In those cases where other federal agencies whose financial activity is material to USAID's financial reporting and have not complied with the OMB requirement to provide USAID with correct and timely financial information, USAID will elevate this issue to appropriate levels of such agencies to encourage compliance. Target completion date is March 31, 2008.

Significant Deficiency: Accounting for Loans Receivable

Recommendation 2: We recommend that USAID's Office of the Chief Financial Officer annually update and validate transaction codes used by its loan servicing provider in USAID's transaction translation table.

Management Decision: We agree to implement the recommendation. We have commenced reconciliation effort. Update and validation of transaction codes used by the loan service provider will be completed in the USAID transaction table by the target completion date of March 31, 2008.

Recommendation 3: We recommend that USAID's Office of the Chief Financial Officer develop and implement controls preventing the authorization of loan cancellations prior to its receipt of subsidy funds by the Department of Treasury and prior to the transfer of appropriations approved by the Office of Management and Budget.

Management Decision: We agree to implement the Recommendation. Steps will be taken to ensure that USAID does not record loan subsidies prior to its receipt of subsidy funds by the Dept. of the Treasury and prior to the transfer of Appropriation approved by OMB. Target completion date is March 31, 2008.

Significant Deficiency: Reporting on Foreign Currency Information (Repeat Finding)

There are no recommendations associated with this Significant Deficiency.

Significant Deficiency: Reconciliations of Fund Balances with the U.S. Treasury (Repeat Finding)

There are no recommendations associated with this Significant Deficiency. The CFO implemented corrective actions related to two audit recommendations issued under Fiscal Years 2006 and 2005 GMRA audit reports and will continue to implement improvements in this area.

Significant Deficiency: Intragovernmental Reconciliations (Repeat Finding)

There are no recommendations associated with this Significant Deficiency. The CFO implemented corrective actions related to two audit recommendations issued under Fiscal Years 2004 and 2005 GMRA audit reports and will continue to implement improvements in this area.

In closing, I would like to confirm USAID's commitment to continual improvement in financial management. I intend to ensure that all necessary steps are taken to institutionalize strong financial management performance throughout the Agency. We will continue the improvements made in the last few years as we work further to develop and implement long-term solutions to address the issues cited in your report. The completion of the implementation of our worldwide financial management system, Phoenix, during FY 2006 has been the critical first step in a strategy of consistent improvement of financial management resources at USAID that will continue for years to come.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

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.

Status of 2006 Findings and Recommendations

Audit of USAID's Financial Statements for Fiscal Years 2006 and 2005, Audit Report No. 0-000-07-001-C, November 15, 2006

Recommendation No. 1.1: We recommend that USAID's Office of the Chief Financial Officer prepare a quarterly reconciliation of its Phoenix Accruals System with the Phoenix general ledger, and document and resolve all differences.

Status: The Office of the Chief Financial Officer has developed a Business Objects Enterprise report and determined that the accrual document script is functioning as intended and producing an accurate quarterly Accrual Reconciliation Report. Final action was completed on July 18, 2007.

Recommendation No. 1.2: We recommend that USAID's Office of the Chief Financial Officer update its Accruals training course to ensure that Cognizant Technical Officers can make reasonable accrual estimates when contract modifications result in changes to obligation levels.

Status: Contract Technical Officer training material has been updated, a mandatory web-based course has been developed, standardized forms are available to compute the accrual and an improved database better identifies training needs. Final action was completed on September 28, 2007.

Recommendation No. 2.1: We recommend that USAID's Office of the Chief Financial Officer document monthly reconciliations of its Fund Balance with Treasury as required by TFM 2-5100, and ensure that overseas missions are performing and documenting monthly Fund Balance reconciliations.

Status: The Office of the CFO has reviewed and updated its Cash Reconciliation procedures for consistency with Treasury guidance. Central Accounting and Reporting and Mission Controllers are now required to certify to the Deputy CFO for Washington Operations that Accounting Stations have completed and maintained file documentation fully supporting monthly Treasury Account reconciliations for the twelve month period ended June 30. As of July 31, 2007, all accounting stations have replied to the Office of the CFO that they are performing and documenting monthly cash reconciliations. Final

action was completed on July 31, 2007.

Recommendation No. 2.2: We recommend that USAID's Office of the Chief Financial Officer implement policies to ensure that all transactions recorded in the general ledger are reported to Treasury on the SF 224 and that all differences and suspense items are investigated and resolved in a timely manner.

Status: The Office of the CFO indicates that it needs additional resources to fully implement this recommendation and is working to report all material transactions to Treasury, as required. USAID will determine what changes need to be made to the procedures on resolving Treasury SF 224 differences. The target completion date is March 30, 2008.

Recommendation No. 3: We recommend that USAID's Office of the Chief Financial Officer develop and implement monthly payment review procedures to identify transactions that have been posted in Phoenix to invalid appropriation Treasury symbols.

Status: The Office of the CFO has worked to determine the source of improper postings and has implemented corrective actions. In addition, written procedures have been drafted to ensure accuracy and consistency when updating the appropriation tables and for biweekly verification of the data in the tables. The Office of the CFO has implemented a new procedure for manually processing held interface transactions to eliminate discrepancies in postings to the appropriations when grant payment and grant advance document pairs are manually processed. Final action was completed on June 26, 2007.

Recommendation No. 4: We recommend that USAID's Office of the Chief Financial Officer perform monthly reconciliations of local bank balances with the same information in Phoenix and record, in Phoenix, interest earned and gains or losses associated with foreign currency fluctuations for each of its foreign currency accounts.

Status: The Office of the CFO is working with the missions to reconcile the Foreign Currency Trust Fund data and record the data in Phoenix. The target date of completion is December 31, 2007.

Recommendation No. 5: We recommend that USAID require all bureaus and missions to certify that performance data submitted for publication are accurate, adequately supported, and that the required data quality assessments have been performed.

Status: State Department teams are working to ensure that Operational Plans meet USAID's performance management and reporting needs as fully as possible. Guidance was issued on August 24, 2007 which requires that a data quality assessment on all performance data reported to Washington must be performed at least once every three years. The guidance also requires that the Mission Directors, Assistant Secretary, or Assistant Administrators endorse the validity of the performance data before it is submitted. State Department teams are working with USAID offices to identify and address other reporting needs that have not been met. Final action was completed on August 31, 2007.

Recommendation No 6: We recommend that the Office of the Chief Financial Officer (a) research Phoenix problems causing manual adjustments to the account closing and deobligation processes and implement a plan to resolve these deficiencies in FY 2007 and (b) ensure that Phoenix properly records Recoveries of prior year obligations throughout the year.

Status: The Office of the CFO office has researched differences in Phoenix general ledger accounts closing and corrected all known systemic closing processes. The Phoenix 6.0.10.A upgrade has been installed and includes an enhancement to ensure that all disbursements are posted to open/current accounting periods. Final action was completed on July 31, 2007.

Recommendation No. 7: We recommend that USAID's Office of the Chief Financial Officer direct each of USAID's missions and offices in Washington to ensure that obligations are not incurred prior to the commitment of funds and valid obligations are recorded in Phoenix as required by Automated Directive System 634.3.5.2.

Status: The Office of the CFO issued a policy reminder conveying the importance of proper funds control, including the commitment of funds in Phoenix, before incurring any obligations of USAID funds that ultimately will result in claims for payment. Final action was completed on December 7, 2006.

Status of 2005 Findings and Recommendations

Audit of USAID's Financial Statements for Fiscal Years 2005 and 2004, Audit Report No. 0-000-06-001-C, November 14, 2005

Recommendation No. 2: We recommend that the Office of the Chief Financial Officer ensure that USAID financial managers and mission controllers implement the reconciliation guidelines specified by Chief Financial Officer Bulletin No. 06-1001, Reconciliation with U. S. Treasury, dated October 2005 to ensure Fund Balance with Treasury accounts are reconciled in a timely manner, reconciling items are investigated and resolved, and that adequate documentation is retained to support the reconciliation procedures performed.

Status: The Office of the CFO issued a policy reminder instructing all USAID Controllers to perform and document monthly cash reconciliations as required by CFO Bulletin 06-1001. Final action was completed on May 31, 2007.

Unresolved Prior Year Findings and Recommendations

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.

Status: This recommendation was superseded by the full rollout of Phoenix. Final action was completed on May 25, 2007.

FINANCIAL STATEMENTS

U.S. Agency for International Development
CONSOLIDATED BALANCE SHEET
As of September 30, 2007 and 2006
(Dollars in Thousands)

	2007	2006
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 19,131,357	\$ 19,333,383
Accounts Receivable (Note 3)	220	220
Other (Note 4)	4,532	24,874
Total Intragovernmental	19,136,109	19,358,477
Cash and Other Monetary Assets (Note 5)	288,079	327,598
Accounts Receivable, Net (Note 3)	179,347	91,173
Loans Receivable, Net (Note 6)	4,410,638	4,810,615
Inventory and Related Property, Net (Note 7)	35,753	53,345
General Property, Plant, and Equipment, Net (Notes 8 and 9)	88,498	103,994
Advances and Prepayments (Note 4)	501,531	405,898
Total Assets (Note 20)	\$ 24,639,955	\$ 25,151,100
LIABILITIES (Note 16):		
Intragovernmental:		
Accounts Payable (Note 10)	\$ 62,101	\$ 62,076
Debt (Note 11)	498,506	474,055
Due to U.S. Treasury (Note 11)	4,045,375	4,491,077
Other (Note 12)	216,005	42,651
Total Intragovernmental	4,821,987	5,069,859
Accounts Payable (Note 10)	2,367,957	2,267,721
Loan Guarantee Liability (Note 6)	1,823,332	1,660,909
Federal Employee and Veteran's Benefits (Note 14)	22,282	23,438
Other (Notes 12, 13, and 14)	398,622	428,788
Total Liabilities	9,434,180	9,450,715
Commitments and Contingencies (Note 15)	2,940	3,000
NET POSITION:		
Unexpended Appropriations	14,787,230	14,334,819
Cumulative Results of Operations	415,605	1,362,566
Total Net Position	\$ 15,202,835	\$ 15,697,385
Total Liabilities and Net Position (Note 20)	\$ 24,639,955	\$ 25,151,100

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

OBJECTIVES	2007	2006
Peace and Security		
Gross Costs	\$ 460,211	\$ 567,836
Less: Earned Revenue	(1,146)	(5,208)
Net Program Costs	459,065	562,628
Governing Justly and Democratically		
Gross Costs	1,306,545	1,458,935
Less: Earned Revenue	(3,498)	(17,197)
Net Program Costs	1,303,047	1,441,738
Investing in People		
Gross Costs	3,513,749	3,718,162
Less: Earned Revenue	(484,068)	(146,009)
Net Program Costs	3,029,681	3,572,153
Economic Growth		
Gross Costs	3,103,511	3,915,462
Less: Earned Revenue	(102,616)	(32,515)
Net Program Costs	3,000,895	3,882,947
Humanitarian Assistance		
Gross Costs	1,389,641	844,792
Less: Earned Revenue	(3,587)	(5,956)
Net Program Costs	1,386,054	838,836
Operating Unit Management		
Gross Costs	117,362	56,028
Less: Earned Revenue	(210)	(606)
Net Program Costs	117,152	55,422
Net Costs of Operations (Notes 17 and 18)	\$ 9,295,894	\$ 10,353,724

The accompanying notes are an integral part of these statements.

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

	2007	2006
	Consolidated Total	Consolidated Total
Cumulative Results of Operations:		
Beginning Balances	\$ 1,362,566	\$ 760,502
Adjustments-Changes in Accounting Principles (Note 20)	\$ (1,026,284)	\$ -
Beginning Balances, as Adjusted	336,282	760,502
Budgetary Financing Sources:		
Appropriations Used	9,235,818	9,675,521
Donations and Forfeitures of Cash and Cash Equivalents	117,541	71,962
Transfers-in/out without Reimbursement	-	1,189,017
Other Financing Sources (Non-Exchange):		
Imputed Financing	21,858	19,288
Total Financing Sources	9,375,217	10,955,788
Net Cost of Operations	(9,295,894)	(10,353,724)
Net Change	79,323	602,064
Cumulative Results of Operations:	415,605	1,362,566
Unexpended Appropriations:		
Beginning Balance	14,334,819	13,004,174
Adjustments-Changes in Accounting Principles (Note 20)	(896,460)	-
Beginning Balance, as Adjusted	13,438,359	13,004,174
Budgetary Financing Sources:		
Appropriations Received	10,853,865	10,238,890
Appropriations Transferred in/out	(64,272)	845,076
Other Adjustments	(204,904)	(77,800)
Appropriations Used	(9,235,818)	(9,675,521)
Total Budgetary Financing Sources	1,348,871	1,330,645
Total Unexpended Appropriations	14,787,230	14,334,819
Net Position	\$ 15,202,835	\$ 15,697,385

The accompanying notes are an integral part of these statements.

**U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)**

	2007		2006	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	\$ 3,904,527	\$ 1,422,605	\$ 3,262,407	\$ 1,024,789
Recoveries of Prior Year Unpaid Obligations	199,240	23	276,771	–
Budget Authority:				
Appropriations	10,920,445	–	10,321,277	–
Borrowing Authority	–	–	–	52,026
Spending Authority from Offsetting Collections:				
Earned:				
Collected	978,655	227,843	862,464	447,625
Change in Receivables from Federal Sources	(3,435)	–	3,620	–
Change in Unfilled Customer Orders:				
Without Advance from Federal Sources	58,516	–	4,652	–
Subtotal	11,954,181	227,843	11,192,013	499,651
Nonexpenditure Transfers, Net, Anticipated and Actual	78,398	–	(332,548)	–
Permanently Not Available	(980,038)	–	(1,414,341)	–
Total Budgetary Resources	15,156,308	1,650,471	12,984,302	1,524,440
Status of Budgetary Resources:				
Obligations Incurred:				
Direct	11,523,609	68,154	9,001,401	101,835
Reimbursable	371,418	–	85,531	–
Subtotal	11,895,027	68,154	9,086,932	101,835
Unobligated Balance:				
Apportioned	2,703,044	3,663	3,473,858	–
Exempt from Apportionment	–	–	–	–
Subtotal	2,703,044	3,663	3,473,858	–
Unobligated Balance Not Available	558,237	1,578,654	423,512	1,422,605
Total Status of Budgetary Resources	15,156,308	1,650,471	12,984,302	1,524,440

(continued on next page)

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES (continued)
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

	2007		2006	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	11,666,588	3,772	10,287,030	3,288
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(19,930)	–	(11,306)	–
Total Unpaid Obligated Balance, Net	11,646,658	3,772	10,275,724	3,288
Obligations Incurred Net (+/-)	11,895,027	68,155	9,086,932	101,835
Less: Gross Outlays	(8,969,011)	(43,235)	(7,926,208)	(101,352)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(199,239)	(23)	(276,771)	–
Change in Uncollected Customer Payments from Federal Sources (+/-)	(55,081)	–	(8,264)	–
Obligated Balance, Net, End of Period				
Unpaid Obligations	14,393,364	28,669	11,170,983	3,772
Less: Uncollected Customer Payments from Federal Sources	(75,010)	–	(19,930)	–
Total, Unpaid Obligated Balance, Net, End of Period	14,318,354	28,669	11,151,053	3,772
Net Outlays:				
Gross Outlays	8,969,011	43,235	7,926,208	101,352
Less: Offsetting Receipts	(978,655)	(227,843)	(861,043)	(447,625)
Less: Distributed Offsetting Receipts	(25,925)	–	(41,784)	–
Net Outlays	\$ 7,964,431	\$ (184,608)	\$ 7,023,381	\$ (346,273)

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying principal financial statements (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 guidance and requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*.

In accordance with OMB Circular A-136, changes have been made to the 2007 accounting reporting procedures. The 2007 statement of financing is presented as a footnote instead of a principal financial statement to comply with new requirements. In addition, as specified by Note I Section U, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances. This results in changes to 2006 ending balances which have been restated in Note 19 and 20.

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 statements present the financial activity of various programs and accounts managed by USAID. The programs include 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 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 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 de-mining, 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,

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.

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.

■ *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. 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 guaranteed 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 FY 1996 and expired in FY 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 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.

■ *Loan Guarantees to Egypt Program*

The Loan Guarantees to Egypt Program was established under the Emergency Wartime Supplemental Appropriations Act, 2003. Under this program, the U.S. Government was authorized to issue an amount not to exceed \$2 billion in loan guarantees to Egypt during the period beginning March 1, 2003 and ending September 30, 2005. New loan guarantees totaling \$1.25 billion were issued in fiscal year 2005 before the expiration of the program.

FUND TYPES

The statements 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. 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.

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, funds 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, the Department of State, and Millennium Challenge Corporation.

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

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. Imputed revenues are reported in the financial statements to offset the imputed costs.

F. FUND BALANCE WITH U.S. TREASURY

Cash receipts and disbursements are processed by the U.S. Treasury. The fund 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.

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 U.S. Government 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.

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 have an acquisition cost of \$25 thousand 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."

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. Office of Personnel Management (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 Net Cost.

Q. COMMITMENTS AND CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to USAID. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable. For other litigations, a contingent liability is recognized when similar events occur except that the future outflow or other sacrifice of resources is more likely than not. Footnote 15 identifies commitments and contingency liabilities.

R. 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.

S. 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 as reflected in Note 3, composed solely of accounts receivables, net of allowances.

T. AGENCY COSTS

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program expenses by objective are obtained directly from Phoenix, the Agency general ledger. Mission related program expenses by goal area are obtained from Phoenix. 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.

U. PARENT/CHILD REPORTING

USAID is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one department of its accounting system. ability to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. Exceptions to this general rule affecting USAID include the Executive Office of the President, for whom USAID is the child in the allocation transfer; but, per OMB guidance, will report all activity relative to these allocation transfers in USAID's financial statements. In addition to these funds, USAID allocates funds as the parent to:

- Department of Energy
- Department of Justice
- Department of Labor
- Department of State
- Department of the Treasury
- Nuclear Regulatory Commission.

USAID receives allocation transfers as the child from:

- Department of State
- Executive Office of the President
- Millennium Challenge Corporation
- United States Department of Agriculture, Commodity Credit Corporation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury as of September 30, 2007 and 2006 consisted of the following:

Fund Balance with Treasury (Dollars in Thousands)		
Fund Balance	2007	2006
Trust Funds	\$ 40,421	\$ 52,050
Revolving Funds	3,018,774	2,400,715
Appropriated Funds	16,024,157	16,879,748
Other Funds	48,005	870
Total	\$ 19,131,357	\$ 19,333,383

Status of Fund Balance with Treasury		
	2007	2006
Unobligated Balance		
Available	\$ 2,706,707	\$ 3,462,340
Unavailable	2,136,891	1,846,117
Obligated and Other Balances Not Yet Disbursed (Net)	14,287,759	14,024,926
Total	\$ 19,131,357	\$ 19,333,383

The Fund Balances with Treasury are available to pay accrued liabilities and finance authorized commitments relative to goods, services, and benefits.

Obligated and Other Balances Not Yet Disbursed (Net) include balances for non-budgetary funds and unfilled customer orders without advances.

Note 20 describes the change in the FY 2007 Fund Balance with Treasury beginning balance as a result of a change in the accounting principle.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2007 and 2006 are as follows:

Accounts Receivable, Net (Dollars in Thousands)				
	Receivable Gross	Allowance Accounts	Receivable Net 2007	Receivable Net 2006
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	\$ 761	N/A	\$ 761	\$ 225
Accounts Receivable from Federal Agencies	255,538	N/A	255,538	84,744
Less Intra-Agency Receivables	(256,079)	N/A	(256,079)	(84,749)
Total Intragovernmental	220	N/A	220	220
Accounts Receivable	186,789	(7,442)	179,347	91,173
Total Receivables	\$ 187,009	\$ (7,442)	\$ 179,567	\$ 91,393

Entity intragovernmental accounts receivable consist of amounts due from other U.S. Government agencies. No allowance accounts have been established for the intragovernmental accounts receivable, which are considered to be 100 percent collectible.

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.

NOTE 4. OTHER ASSETS

Advances and Prepayments as of September 30, 2007 and 2006 consisted of the following:

Advances and Prepayments (Dollars in Thousands)		
	2007	2006
Intragovernmental		
Advances to Federal Agencies	\$ 4,532	\$ 24,874
Total Intragovernmental	4,532	24,874
Advances to Contractors/Grantees	400,622	368,611
Advances to Host Country Governments and Institutions	94,898	25,942
Advances, Other	6,011	11,345
Total with the Public	501,531	405,898
Total Other Assets	\$ 506,063	\$ 430,772

FY 2006 prepayment balance of \$2.5 million is shown as part of Advances, Other due to a change in reporting requirements. Advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-

country organizations, such as educational institutions and voluntary organizations. Advances, Other consist primarily of amounts advanced for living quarters, travel, and home service.

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2007 and 2006 are as follows:

Cash and Other Monetary Assets (Dollars in Thousands)		
Cash and Other Monetary Assets	2007	2006
Imprest Fund-Headquarters	\$ 4	\$ 350
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	288,025	327,198
Total Cash and Other Monetary Assets	\$ 288,079	\$ 327,598

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 \$1.6 million in FY 2007 and \$1.8 million in FY 2006. These imprest funds are not included in USAID's Consolidated Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this totaled to \$288.0 million in FY 2007 and \$327.2 million in FY 2006. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. DIRECT LOAN AND LOAN GUARANTEES AND LOANS AND LIABILITIES FOR LOAN GUARANTEES

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)
- Israel Loan Guarantee Program (Israel Loan)
- Development Credit Authority Program (DCA)
- Egypt Loan Guarantee Program

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 (Dollars in Thousands)	2007	2006
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	\$ 3,824,147	\$ 4,183,220
Net Direct Loans Obligated After 1991 (Present Value Method)	308,427	360,132
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	278,064	267,263
Total Loans Receivable, Net as reported on the Balance Sheet	\$ 4,410,638	\$ 4,810,615

DIRECT LOANS

Direct Loans (Dollars in Thousands)				
Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2007:				
Direct Loans	\$ 4,900,067	\$ 329,209	\$ 1,405,129	\$ 3,824,147
MSED	29	32	61	-
Total	\$ 4,900,096	\$ 329,241	\$ 1,405,190	\$ 3,824,147
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2006:				
Direct Loans	\$ 5,288,905	\$ 382,077	\$ 1,487,761	\$ 4,183,221
MSED	31	36	67	-
Total	\$ 5,288,936	\$ 382,113	\$ 1,487,828	\$ 4,183,221
Direct Loans Obligated After 1991 as of September 30, 2007:				
Direct Loans	\$ 1,045,654	\$ 4,330	\$ 741,374	\$ 308,610
MSED	150	24	357	(183)
Total	\$ 1,045,804	\$ 4,354	\$ 741,731	\$ 308,427
Direct Loans Obligated After 1991 as of September 30, 2006:				
Direct Loans	\$ 1,089,114	\$ 16,501	\$ 745,777	\$ 359,838
MSED	150	133	(10)	293
Total	\$ 1,089,264	\$ 16,634	\$ 745,767	\$ 360,131

Total Amount of Direct Loans Disbursed (Dollars in Thousands)		
Direct Loan Programs	2007	2006
Direct Loans	\$ 5,945,721	\$ 6,378,018
MSED	179	181
Total	\$ 5,945,900	\$ 6,378,199

**Schedule for Reconciling Subsidy Cost Allowance Balances
(Post-1991 Direct Loans)
(Dollars in Thousands)**

	2007			2006		
	Direct Loan	MSED	Total	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Subsidy Cost Allowance	\$ 745,777	\$ (10)	\$ 745,767	\$ 716,853	\$ 27	\$ 716,880
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	\$ 16,132	\$ –	\$ 16,132	\$ 21,688	\$ –	\$ 21,688
(B) Fees Received	–	–	–	–	–	–
(C) Foreclosed Property Acquired	–	–	–	–	–	–
(D) Loans Written Off	(39,020)	–	(39,020)	–	–	–
(E) Subsidy Allowance Amortization	18,485	367	18,852	7,236	(37)	7,199
(F) Other	–	–	–	–	–	–
Ending Balance of the Subsidy Cost Allowance Before Reestimates	\$ 741,374	\$ 357	\$ 741,731	\$ 745,777	\$ (10)	\$ 745,767
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	–	–	–	–	–	–
(B) Technical/Default Reestimate	–	–	–	–	–	–
Total of the Above Reestimate Components	–	–	–	–	–	–
Ending Balance of the Subsidy Cost Allowance	\$ 741,374	\$ 357	\$ 741,731	\$ 745,777	\$ (10)	\$ 745,767

**Defaulted Guaranteed Loans
(Dollars in Thousands)**

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2007				
UE	\$ 387,894	\$ 59,143	\$ 168,973	\$ 278,064
Total	\$ 387,894	\$ 59,143	\$ 168,973	\$ 278,064
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2006				
UE	\$ 385,728	\$ 61,980	\$ 180,445	\$ 267,263
Total	\$ 385,728	\$ 61,980	\$ 180,445	\$ 267,263

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

In FY 2007, the UE Program experienced \$3.6 million in defaults on payments.

In FY 2006, the UE Program experienced \$3.2 million in defaults on payments.

GUARANTEED LOANS OUTSTANDING:

Guaranteed Loans Outstanding (Dollars in Thousands)		
Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (2007):		
UE	\$ 1,330,189	\$ 1,330,189
MSED	17,010	8,505
Israel	12,700,332	12,700,332
DCA	1,282,332	498,517
Egypt	1,250,000	1,250,000
Total	\$ 16,579,863	\$ 15,787,543
Guaranteed Loans Outstanding (2006):		
UE	\$ 1,510,359	\$ 1,510,359
MSED	17,010	8,505
Israel	12,869,563	12,869,563
DCA	870,636	400,940
Egypt	1,250,000	1,250,000
Total	\$ 16,517,568	\$ 16,039,367
New Guaranteed Loans Disbursed (2007):		
UE	\$ –	\$ –
MSED	–	–
DCA	129,455	51,782
Israel	–	–
Egypt	–	–
Total	\$ 129,455	\$ 51,782
New Guaranteed Loans Disbursed (2006):		
UE	\$ –	\$ –
MSED	–	–
DCA	148,025	51,550
Israel	–	–
Egypt	–	–
Total	\$ 148,025	\$ 51,550

**Liability for Loan Guarantees
(Dollars in Thousands)**

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2007:			
UE	\$ 124,794	\$ 138,203	\$ 262,997
MSED	–	(3,884)	(3,884)
Israel	–	1,386,173	1,386,173
DCA	–	14,617	14,617
Egypt	–	163,429	163,429
Total	\$ 124,794	\$ 1,698,538	\$ 1,823,332
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2006:			
UE	\$ 157,266	\$ 155,429	\$ 312,695
MSED	–	(2,152)	(2,152)
Israel	–	1,169,363	1,169,363
DCA	–	10,812	10,812
Egypt	–	170,191	170,191
Total	\$ 157,266	\$ 1,503,643	\$ 1,660,909

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

**Subsidy Expense for Loan Guarantees by Program and Component
(Dollars in Thousands)**

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Subsidy Expense for New Loan Guarantees (2007):					
DCA	\$ –	\$ 6,935	\$ –	\$ –	\$ 6,935
MSED	–	–	–	–	–
Total	\$ –	\$ 6,935	\$ –	\$ –	\$ 6,935
Subsidy Expense for New Loan Guarantees (2006):					
DCA	\$ –	\$ 5,336	\$ –	\$ –	\$ 5,336
MSED	–	86	–	–	86
Total	\$ –	\$ 5,422	\$ –	\$ –	\$ 5,422

Subsidy Expense for Loan Guarantees by Program and Component (continued)
(Dollars in Thousands)

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Modifications and Reestimates (2007):				
UE	\$ -	\$ -	\$ -	\$ -
MSED	-	-	1,408	1,408
DCA	-	-	-	-
Israel	-	-	9,035	9,035
Egypt	-	-	-	-
Total	\$ -	\$ -	\$ 10,443	\$ 10,443
Modifications and Reestimates (2006):				
UE	\$ -	\$ -	\$ -	\$ -
MSED	-	-	-	-
DCA	-	-	-	-
Israel	-	-	34,372	34,372
Egypt	-	-	14,264	14,264
Total	\$ -	\$ -	\$ 48,636	\$ 48,636

Total Loan Guarantee Subsidy Expense
(Dollars in Thousands)

Loan Guarantee Programs	2007	2006
DCA	\$ 6,935	\$ 5,336
UE	-	-
MSED	1,408	86
Israel	9,035	34,372
Egypt	-	14,264
Total	\$ 17,378	\$ 54,058

SUBSIDY RATES FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts
(Percent)

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)		Total (%)
			Other (%)		
DCA	-	2.08%	-	-	2.08%

**Schedule for Reconciling Loan Guarantee Liability Balances
(Dollars in Thousands)**

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
2007						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	\$ 10,812	\$ (2,152)	\$ 155,428	\$ 1,169,364	\$ 170,191	\$ 1,503,643
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	-	-	-	-	-	-
(B) Default Costs (Net of Recoveries)	-	-	-	-	-	-
(C) Fees and Other Collections	-	-	-	-	-	-
(D) Other Subsidy Costs	6,935	-	-	-	-	6,935
Total of the Above Subsidy Expense Components	\$ 6,935	\$ -	\$ -	\$ -	\$ -	\$ 6,935
Adjustments:						
(A) Loan Guarantee Modifications	-	-	-	-	-	-
(B) Fees Received	1,043	45	2,069	-	-	3,157
(C) Interest Supplements Paid	-	-	-	-	-	-
(D) Foreclosed Property and Loans Acquired	-	-	-	-	-	-
(E) Claim Payments to Lenders	(1,442)	(420)	(3,590)	-	-	(5,452)
(F) Interest Accumulation on the Liability Balance	3,088	460	6,116	73,504	7,301	90,469
(G) Other	(5,819)	(3,740)	13,901	-	-	4,342
Ending Balance of the Loan Guarantee Liability Before Reestimates	\$ 14,617	\$ (5,807)	\$ 173,924	\$ 1,242,868	\$ 177,492	\$ 1,603,094
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	-	-	-	-	-	-
(B) Technical/Default Reestimate	-	1,923	(35,722)	143,305	(14,062)	95,444
Total of the Above Reestimate Components	\$ -	\$ 1,923	\$ (35,722)	\$ 143,305	\$ (14,062)	\$ 95,444
Ending Balance of the Loan Guarantee Liability	\$ 14,617	\$ (3,884)	\$ 138,202	\$ 1,386,173	\$ 163,430	\$ 1,698,538
2006						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	\$ 4,610	\$ (1,811)	\$ 149,557	\$ 1,066,734	\$ 148,051	\$ 1,367,141
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	-	-	-	-	-	-
(B) Default Costs (Net of Recoveries)	-	-	-	-	-	-
(C) Fees and Other Collections	-	-	-	-	-	-
(D) Other Subsidy Costs	5,336	86	-	-	-	5,422
Total of the Above Subsidy Expense Components	\$ 5,336	\$ 86	\$ -	\$ -	\$ -	\$ 5,422
Adjustments:						
(A) Loan Guarantee Modifications	-	-	-	-	-	-
(B) Fees Received	847	55	2,334	-	-	3,236
(C) Interest Supplements Paid	-	-	-	-	-	-
(D) Foreclosed Property and Loans Acquired	-	-	-	-	-	-
(E) Claim Payments to Lenders	(168)	(475)	(3,254)	-	-	(3,897)
(F) Interest Accumulation on the Liability Balance	879	-	8,784	48,272	6,625	64,560
(G) Other	(692)	(7)	18,604	-	-	17,905
Ending Balance of the Loan Guarantee Liability Before Reestimates	\$ 10,812	\$ (2,152)	\$ 176,025	\$ 1,115,006	\$ 154,676	\$ 1,454,367
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	-	-	-	-	-	-
(B) Technical/Default Reestimate	-	-	(20,597)	54,358	15,515	49,276
Total of the Above Reestimate Components	\$ -	\$ -	\$ (20,597)	\$ 54,358	\$ 15,515	\$ 49,276
Ending Balance of the Loan Guarantee Liability	\$ 10,812	\$ (2,152)	\$ 155,428	\$ 1,169,364	\$ 170,191	\$ 1,503,643

Administrative Expense (Dollars in Thousands)		
Loan Programs	2007	2006
DCA	\$ 12,244	\$ 13,215
Total	\$ 12,244	\$ 13,215

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. Ten countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing \$31.2 million that is more than six months delinquent. Nine countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing \$440.7 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled \$21.4 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled \$401.7 million.
2. The MSED Liquidating Account general ledger has a loan receivable balance of \$29 thousand. This includes a loan pending closure. This loan is being carried at 100 percent bad debt allowance.

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2007 and 2006 are as follows:

Inventory and Related Property (Dollars in Thousands)		
	2007	2006
Items Held for Use		
Office Supplies	\$ 12,783	\$ 14,895
Items Held in Reserve for Future Use		
Disaster Assistance Materials and Supplies	7,599	16,074
Birth Control Supplies	15,371	22,376
Total	\$ 35,753	\$ 53,345

Operating Materials and Supplies are considered tangible properties that are consumed in the normal course of business and not held for sale. The valuation is based on historical acquisition costs that do not exceed capitalization criteria of \$25 thousand. There are no items considered as obsolete or unserviceable, and currently there are no restrictions on their use. Inventory costing less than \$25 thousand is expensed as incurred.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

General Property, Plant and Equipment, Net (Dollars in Thousands)					
	Useful Life	Cost	Accumulated Depreciation	Net Book Value 2007	Net Book Value 2006
The components of PP&E as of September 30, 2007 are as follows:					
Classes of Fixed Assets					
Equipment	3 to 5 years	\$ 89,697	\$ (58,126)	\$ 31,571	\$ 37,275
Buildings, Improvements, and Renovations	20 years	74,581	(36,267)	38,314	42,823
Land and Land Rights	N/A	2,456	N/A	2,456	3,139
Assets Under Capital Lease (Note 9)		8,190	(2,653)	5,537	4,739
Construction in Progress	N/A	570	–	570	570
Internal Use Software	3 to 5 years	36,172	(26,122)	10,050	15,448
Total		\$ 211,666	\$ (123,168)	\$ 88,498	\$ 103,994

The threshold for capitalizing or amortizing assets is \$25 thousand. Assets purchased prior to FY 2003 are depreciated using the straight line depreciation method. Assets purchased during FY 2003 and beyond are depreciated using the mid-quarter convention depreciation method. Depreciable assets are assumed to have no remaining salvage value. There are currently no restrictions on Property, Plant and Equipment (PP&E) assets.

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. Land is generally procured for the construction of buildings.

NOTE 9. LEASES

As of September 30, 2007 and 2006 Leases consisted of the following:

Leases (Dollars in Thousands)		
Entity as Lessee		
Capital Leases:	2007	2006
Summary of Assets Under Capital Lease:		
Buildings	\$ 8,190	\$ 6,899
Accumulated Depreciation	\$ (2,653)	\$ (2,160)
Net Asset under Capital Leases	\$ 5,537	\$ 4,739

Description of Lease(s) Arrangements: Capital leases consist of rental agreements entered into by missions for warehouses, parking lots, residential space, and office buildings. These leases are 1 year or more in duration.

Future Payments Due:		
Fiscal Year	Future Costs	Future Costs
2007	\$ –	\$ 285
2008	297	195
2009	297	117
2010	297	117
2011	232	45
2012	52	–
After 5 Years	77	237
Net Capital Lease Liability	\$ 1,252	\$ 996
Lease Liabilities Covered by Budgetary Resources	\$ 1,252	\$ 996

Operating Leases:		
Future Payments Due:		
Fiscal Year	Future Costs	Future Costs
2007	\$ –	\$ 34,510
2008	33,668	37,271
2009	35,003	40,253
2010	36,391	43,473
2011	37,769	46,951
2012	39,090	–
After 5 Years	40,677	105,470
Total Future Lease Payments	\$ 222,598	\$ 307,928

Of the \$222.6 million in future lease payment, \$221.3 is for the USAID headquarters in Washington, D.C. The current lease agreement is for approximately 550,000 sq. feet and will expire in FY 2010. The lessor, General Services Administration (GSA), charges commercial rates for USAID's occupancy. Lease payments for FY 2007 and FY 2006 amounted to \$40.6 million and \$40.5 million, respectively.

NOTE 10. ACCOUNTS PAYABLE

The Accounts Payable covered by budgetary resources as of September 30, 2007 and 2006 consisted of the following:

Accounts Payable Covered by Budgetary Resources (Dollars in Thousands)		
	2007	2006
Intragovernmental		
Accounts Payable	\$ 62,099	\$ 62,052
Disbursements in Transit	2	24
Total Intragovernmental	62,101	62,076
Accounts Payable	2,341,025	2,247,006
Disbursements in Transit	26,932	20,715
Total with the Public	2,367,957	2,267,721
Total Accounts Payable	\$ 2,430,058	\$ 2,329,797

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.

Note 20 describes the change in the FY 2007 Accounts Payable beginning balance as a result of a change in accounting principle.

NOTE 11. DEBT

USAID Intragovernmental Debt as of September 30, 2007 and 2006 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

Intragovernmental Debt (Dollars in Thousands)					
Debt Due to Treasury	2006 Beginning Balance	Net Borrowing	2006 Ending Balance	Net Borrowing	2007 Ending Balance
Urban and Environmental	\$ -	\$ -	\$ -	\$ -	\$ -
Direct Loan	422,602	51,453	474,055	24,451	498,506
MSED	-	-	-	-	-
Total Treasury Debt	\$ 422,602	\$ 51,453	\$ 474,055	\$ 24,451	\$ 498,506

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 and accrued interest of \$24.5 million payable to Treasury, which represents financing account borrowings from Treasury under the Credit Reform Act and net liquidating account equity in the amount of \$4.1 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.

NOTE 12. OTHER LIABILITIES

As of September 30, 2007 and 2006 Other Liabilities consisted of the following:

Other Liabilities (Dollars in Thousands)		
	2007	2006
Intragovernmental		
OPAC Suspense	\$ 43,316	\$ –
Unfunded FECA Liability	6,469	8,500
Deposit and Clearing Accounts	8,165	847
Credit Program Undisbursed Loans	149,431	24,270
Other	8,624	9,034
Total Intragovernmental	\$ 216,005	\$ 42,651
Accrued Funded Payroll and Leave (Note 14)	14,055	9,207
Unfunded Leave (Note 13)	25,415	34,405
Advances From Others	986	595
Deferred Credits	10,095	7,120
Foreign Currency Trust Fund	288,171	327,371
Capital Lease Liability (Note 9)	1,252	996
Custodial Liability	2,617	3,741
Other Liabilities	56,031	45,353
Total Liabilities With the Public	\$ 398,622	\$ 428,788
Total Other Liabilities	\$ 614,627	\$ 471,439

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

For FY 2006, the Online Payment and Collection (OPAC) balance was recorded as a net account receivable to USAID for a total of \$6.2 million.

NOTE 13. ACCRUED UNFUNDED ANNUAL LEAVE AND SEPARATION PAY

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2007 and 2006 are:

Accrued Unfunded Benefits (Dollars in Thousands)		
	2007	2006
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	\$ 24,563	\$ 33,304
FSN Separation Pay Liability	852	1,101
Total Accrued Unfunded Annual Leave and Separation Pay (Note 12)	\$ 25,415	\$ 34,405

NOTE 14. FEDERAL EMPLOYEES AND VETERAN'S BENEFITS

The provision for workers' compensation benefits payable as of September 30, 2007 and 2006 are indicated in the table below. These liabilities are included in the Intragovernmental Other Liabilities line item on the Consolidated Balance Sheet and are not covered by budgetary resources.

Accrued Unfunded Workers' Compensation Benefits (Dollars in Thousands)		
	2007	2006
Liabilities Not Covered by Budgetary Resources		
Future Workers' Compensation Benefits	\$ 22,282	\$ 23,438
Accrued Funded Payroll and Leave (Note 12)	14,055	9,207
Total Accrued Unfunded Workers' Compensation Benefits	\$ 36,337	\$ 32,645

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.

For FY 2007, USAID's total FECA liability was \$36.3 million and comprised of unpaid FECA billings for \$22.3 million and estimated future FECA costs of \$14.1 million.

For FY 2006, USAID's total FECA liability was \$32.6 million and comprised of unpaid FECA billings for \$9.2 million and estimated future FECA costs of \$23.4 million.

The actuarial estimate for the FECA unfunded liability is determined by the DOL using a method that utilizes historical benefit payment patterns. The projected annual benefit payments are discounted to present value using economic assumption for 10-year Treasury notes and bonds and the amount is further adjusted for inflation. Currently, the projected number of years of benefit payments is 37 years.

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 of September 30, 2007 a total of twelve cases were pending.

Seven cases have been designated as reasonably possible, a total of \$13.7 million:

- The first case is a contract claim arising out of a contractor's contract to repair and operate an Iraqi port. The estimated loss is \$4.4 million.
- The second case is a contract claim that USAID wrongfully withheld payment for invoices submitted under "Hurricane Mitch" host-country, contract in Honduras. The estimated loss is \$2.2 million.

- The third case is a companion case. A contractor seeks compensation for efforts and expenses it claims to have incurred under a terminated host country contract with the Honduran Government. The estimated loss is \$1.8 million.
- The fourth case is an appeal of the Contracting Officer's disallowance of the costs of supplemental Accidental Death and Dismemberment and Business Travel Insurance for contractor employees related to initial deployment to Iraq. The estimated loss is over \$1 million.
- The fifth case is an appeal of a contractor for claims that arise out of the storage and delivery of 483 health kits in Iraq. The estimated loss is \$1.5 million.
- The sixth case is a case that USAID/Egypt disallowed costs already paid to a contractor for incubators that were installed in Egyptian hospitals but which quickly

proved unsafe and was removed from the hospitals. The estimated loss is \$1 million.

- The seventh case is a case where a contractor seeks costs that were incurred by one of its subcontractors; however USAID disputes those costs as unsubstantiated. The estimated loss is \$1.8 million.

Also, the Agency submitted one unasserted claim and assessment. The matter related to the early termination of the Homer lease agreement. The amount of potential loss is \$2,940,000, which is \$60,000 less than what was disclosed in 2006 financial statements. An adjusting journal entry was made to reflect the new potential loss in the second quarter of 2007.

The statuses of the remaining four litigation cases are at a remote designation.

NOTE 16. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources as of September 30, 2007 and 2006 are as follows:

Liabilities Not Covered by Budgetary Resources (Dollars in Thousands)		
	2007	2006
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Annual Leave and Separation Pay	25,415	34,405
Accrued Unfunded Workers Compensation Benefits	36,337	32,645
Debt - Contingent Liabilities for Loan Guarantees	124,793	160,266
Total Liabilities Not Covered by Budgetary Resources	186,545	227,316
Total Liabilities Covered by Budgetary Resources	9,247,635	9,223,399
Total Liabilities	\$ 9,434,180	\$ 9,450,715

Accrued unfunded annual leave, workmen compensation benefits, and separation pay represent future liabilities not currently funded by budgetary resources, but will be funded as it becomes due with future resources. The Contingent Liabilities for Loan Guarantees is in the pre-Credit Reform Urban and Environmental (UE) Housing Loan Guarantee liquidating fund. As such, it represents the estimated liability to lenders for future loan guarantee defaults in that program.

NOTE 17. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by Objective and Program Area, as of September 30, 2007. These objectives are consistent with the new State/USAID's Strategic Planning Framework.

In FY 2007, as part of the annual certification process for mapping strategic objectives to performance goals, strategic objectives assigned to performance goals under Homeland Security strategic goal were reassigned to Peace and Security strategic goal.

The format of the Consolidated Statement of Net Cost is consistent with OMB Circular A-136 guidance.

Note 17 shows the value of exchange transactions between USAID and other Federal entities as well as non-Federal entities. These are also categorized by Objectives, Program Areas and Responsibility Segments. Responsibility Segments are defined in Note 18.

Intragovernmental costs and exchange revenue sources relate to transactions between USAID and other Federal entities. Public costs and exchange revenues on the other hand relate to transactions between USAID and non-Federal entities.

U.S. Agency for International Development
INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	2007 Total	2006 Total
Peace and Security										
Intragovernmental Costs	\$ 1,884	\$ 5,382	\$ 1,697	\$ 77	\$ 2,951	\$ -	\$ 412	\$ (109)	\$ 12,294	21,222
Public Costs	34,055	261,490	50,924	1,745	81,927	-	21,755	(3,979)	447,917	546,614
Total Program Costs	35,939	266,872	52,621	1,822	84,878	-	22,167	(4,088)	460,211	567,836
Intragovernmental Earned Revenue	(58)	(275)	(263)	-	(235)	-	(31)	111	(751)	(2,214)
Public Earned Revenue	(37)	(180)	(63)	-	(153)	-	(20)	58	(395)	(2,994)
Total Earned Revenue	(95)	(455)	(326)	-	(388)	-	(51)	169	(1,146)	(5,208)
Net Program Costs	35,844	266,417	52,295	1,822	84,490	-	22,116	(3,919)	459,065	562,628
Governing Justly and Democratically										
Intragovernmental Costs	10,254	8,854	3,373	121	14,699	-	2,251	(348)	39,204	60,496
Public Costs	147,272	662,723	68,012	2,511	304,477	-	93,604	(11,258)	1,267,341	1,398,439
Total Program Costs	157,526	671,577	71,385	2,632	319,176	-	95,855	(11,606)	1,306,545	1,458,935
Intragovernmental Earned Revenue	(324)	(538)	(392)	-	(1,149)	-	(150)	328	(2,225)	(8,794)
Public Earned Revenue	(183)	(338)	(91)	-	(751)	-	(98)	188	(1,273)	(8,403)
Total Earned Revenue	(507)	(876)	(483)	-	(1,900)	-	(248)	516	(3,498)	(17,197)
Net Program Costs	157,019	670,701	70,902	2,632	317,276	-	95,607	(11,090)	1,303,047	1,441,738
Investing in People										
Intragovernmental Costs	40,849	20,469	1,707	5,246	11,574	176,871	11,942	(2,366)	266,292	216,618
Public Costs	638,872	982,243	67,011	74,593	187,323	1,085,327	240,936	(28,848)	3,247,457	3,501,544
Total Program Costs	679,721	1,002,712	68,718	79,839	198,897	1,262,198	252,878	(31,214)	3,513,749	3,718,162
Intragovernmental Earned Revenue	(1,178)	(1,127)	(150)	(102,264)	(671)	(291,682)	(394)	51,133	(346,333)	(124,463)
Public Earned Revenue	(770)	(737)	(97)	(150,408)	(439)	(5,362)	(257)	20,335	(137,735)	(21,546)
Total Earned Revenue	(1,948)	(1,864)	(247)	(252,672)	(1,110)	(297,044)	(651)	71,468	(484,068)	(146,009)
Net Program Costs	677,773	1,000,847	68,471	(172,833)	197,787	965,154	252,227	40,254	3,029,681	3,572,153

(continued on next page)

U.S. Agency for International Development
INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT
For the Years Ended September 30, 2007 and 2006
(Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	2007 Total	2006 Total
Economic Growth										
Intragovernmental Costs	25,807	30,717	89	94,221	16,088	–	13,605	(1,590)	178,937	201,025
Public Costs	333,873	1,755,572	3,863	363,442	289,283	–	204,520	(25,979)	2,924,574	3,714,437
Total Program Costs	359,680	1,786,289	3,952	457,663	305,371	–	218,125	(27,569)	3,103,511	3,915,462
Intragovernmental Earned Revenue	(654)	(1,541)	(8)	(3,286)	(1,089)	–	(328)	888	(6,018)	(12,331)
Public Earned Revenue	(427)	(1,007)	(60)	(108,440)	(712)	–	(214)	14,262	(96,598)	(20,184)
Total Earned Revenue	(1,081)	(2,548)	(68)	(111,726)	(1,801)	–	(542)	15,150	(102,616)	(32,515)
Net Program Costs	358,599	1,783,741	3,884	345,937	303,570	–	217,583	(12,419)	3,000,895	3,882,947
Humanitarian Assistance										
Intragovernmental Costs	354	5,910	49,984	2	1,329	–	369	(510)	57,438	97,385
Public Costs	6,285	220,640	558,292	528,976	24,277	–	5,567	(11,834)	1,332,203	747,407
Total Program Costs	6,639	226,550	608,276	528,978	25,606	–	5,936	(12,344)	1,389,641	844,792
Intragovernmental Earned Revenue	(11)	(233)	(2,936)	–	(98)	–	(10)	423	(2,865)	(2,077)
Public Earned Revenue	(7)	(153)	(599)	–	(64)	–	(6)	107	(722)	(3,879)
Total Earned Revenue	(18)	(386)	(3,535)	–	(162)	–	(16)	530	(3,587)	(5,956)
Net Program Costs	6,621	226,164	604,741	528,978	25,444	–	5,920	(11,814)	1,386,054	838,836
Operating Unit Management										
Intragovernmental Costs	874	8,529	1,611	2,860	3,564	–	594	(159)	17,873	4,423
Public Costs	10,023	17,542	8,900	3,399	57,468	–	3,041	(884)	99,489	51,605
Total Program Costs	10,897	26,071	10,511	6,259	61,032	–	3,635	(1,043)	117,362	56,028
Intragovernmental Earned Revenue	(5)	(23)	(20)	(49)	(55)	–	(1)	20	(133)	(222)
Public Earned Revenue	(3)	(4)	(13)	(32)	(36)	–	–	11	(77)	(384)
Total Earned Revenue	(8)	(27)	(33)	(81)	(91)	–	(1)	31	(210)	(606)
Net Program Costs	10,889	26,044	10,478	6,178	60,941	–	3,634	(1,012)	117,152	55,422
Net Costs of Operations	\$1,246,745	\$3,973,915	\$ 810,771	\$712,714	\$989,508	\$ 965,154	\$ 597,087	\$ –	\$9,295,894	\$10,353,724

NOTE 18. SCHEDULE OF COST BY RESPONSIBILITY SEGMENTS

The Schedule of Costs by Responsibility Segment categorizes costs and revenues by Objectives, Program Areas and Responsibility Segment.

A responsibility segment is the component that carries out a mission or major line of activity, and whose manager reports 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 Program Areas to reflect total costs.

FY 2007 STATEMENT OF NET COST BY RESPONSIBILITY SEGMENTS

Geographic Bureaus	Technical Bureaus
■ Africa (AFR)	■ Democracy, Conflict, and Humanitarian Assistance (DCHA)
■ Asia and Near East (ANE)	■ Economic Growth, Agriculture, and Trade (EGAT)
■ Latin America and the Caribbean (LAC)	■ Global Health (GH)
■ Europe and Eurasia (E&E)	

U.S. Agency for International Development SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT For the Year Ended September 30, 2007 (Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra- Agency Eliminations	Consolidated Total
Peace and Security									
Counter-Terrorism									
Gross Costs	\$ 1,019	\$ 17	\$ 5,177	\$ -	\$ -	\$ -	\$ -	\$ (55)	\$ 6,158
Less: Exchange Revenues	(2)	-	(21)	-	-	-	-	3	(20)
Net Program Costs	1,016	17	5,156	-	-	-	-	(52)	6,138
Combating Weapons of Mass Destruction (WMD)									
Gross Costs	-	-	5,177	-	18,179	-	-	(206)	23,150
Less: Exchange Revenues	-	-	(21)	-	-	-	-	3	(18)
Net Program Costs	-	-	5,156	-	18,179	-	-	(203)	23,132
Stabilization Operations and Security Sector Reform									
Gross Costs	3,935	17,482	6,279	-	1,546	-	2,901	(283)	31,860
Less: Exchange Revenues	(6)	-	(21)	-	(8)	-	(8)	6	(37)
Net Program Costs	3,929	17,482	6,258	-	1,538	-	2,893	(277)	31,823
Counter-Narcotics									
Gross Costs	560	163,018	5,178	-	2,133	-	460	(1,508)	169,841
Less: Exchange Revenues	(1)	(359)	(21)	-	(14)	-	(1)	51	(345)
Net Program Costs	559	162,659	5,157	-	2,119	-	459	(1,457)	169,496
Transnational Crime									
Gross Costs	956	16,914	5,177	1,811	21,300	-	6,805	(466)	52,497
Less: Exchange Revenues	(3)	(38)	(21)	-	(141)	-	(18)	27	(194)
Net Program Costs	953	16,876	5,156	1,811	21,159	-	6,787	(439)	52,303
Conflict Mitigation and Reconciliation									
Gross Costs	29,469	69,441	25,633	11	41,720	-	12,001	(1,570)	176,705
Less: Exchange Revenues	(83)	(58)	(221)	-	(225)	-	(24)	79	(532)
Net Program Costs	29,386	69,383	25,412	11	41,495	-	11,977	(1,491)	176,173

(continued on next page)

U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT
For the Year Ended September 30, 2007
(Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	Consolidated Total
Governing Justly and Democratically									
Rule of Law and Human Rights									
Gross Costs	14,316	47,760	12,683	2,586	66,418	–	20,135	(1,443)	162,455
Less: Exchange Revenues	(42)	(107)	(302)	–	(384)	–	(52)	114	(773)
Net Program Costs	14,274	47,653	12,381	2,586	66,034	–	20,083	(1,329)	161,682
Good Governance									
Gross Costs	78,979	493,712	15,285	46	80,186	–	36,433	(6,204)	698,437
Less: Exchange Revenues	(279)	(566)	(37)	–	(512)	–	(96)	191	(1,299)
Net Program Costs	78,700	493,146	15,248	46	79,674	–	36,337	(6,013)	697,138
Political Competition and Consensus-Building									
Gross Costs	34,069	62,642	21,806	–	51,962	–	20,851	(1,685)	189,645
Less: Exchange Revenues	(100)	(80)	(80)	–	(290)	–	(54)	78	(526)
Net Program Costs	33,969	62,562	21,726	–	51,672	–	20,797	(1,607)	189,119
Civil Society									
Gross Costs	30,162	67,463	21,611	–	120,610	–	18,436	(2,274)	256,008
Less: Exchange Revenues	(86)	(123)	(64)	–	(714)	–	(46)	133	(900)
Net Program Costs	30,076	67,340	21,547	–	119,896	–	18,390	(2,141)	255,108
Investing in People									
Health									
Gross Costs	508,548	621,967	11,134	122	141,966	1,262,198	167,920	(23,896)	2,689,959
Less: Exchange Revenues	(1,459)	(1,177)	(15)	(1)	(756)	(297,044)	(439)	38,709	(262,183)
Net Program Costs	507,089	620,790	11,119	120	141,210	965,154	167,481	14,813	2,427,776
Education									
Gross Costs	160,093	368,273	30,371	43,821	26,105	–	77,211	(6,215)	699,659
Less: Exchange Revenues	(456)	(660)	(125)	(533)	(129)	–	(191)	269	(1,825)
Net Program Costs	159,637	367,613	30,246	43,288	25,976	–	77,020	(5,946)	697,834
Social and Economic Services and Protection for Vulnerable Populations									
Gross Costs	11,080	12,472	27,213	35,896	30,826	–	7,747	(1,103)	124,131
Less: Exchange Revenues	(33)	(27)	(107)	(252,137)	(225)	–	(21)	32,490	(220,060)
Net Program Costs	11,047	12,445	27,106	(216,241)	30,601	–	7,726	31,387	(95,929)
Economic Growth									
Macroeconomic Foundation for Growth									
Gross Costs	8,677	97,697	584	62,470	33,120	–	33,522	(2,078)	233,992
Less: Exchange Revenues	(23)	(73)	(1)	(106,430)	(185)	–	(67)	13,736	(93,043)
Net Program Costs	8,654	97,624	583	(43,960)	32,935	–	33,455	11,658	140,946
Trade and Investment									
Gross Costs	16,269	210,858	405	10,913	16,372	–	32,493	(2,530)	284,780
Less: Exchange Revenues	(47)	(175)	(2)	(147)	(88)	–	(84)	70	(473)
Net Program Costs	16,222	210,683	403	10,766	16,284	–	32,409	(2,460)	284,307

(continued on next page)

U.S. Agency for International Development
SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT
For the Year Ended September 30, 2007
(Dollars in Thousands)

Objective	Africa	Asia & Near East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Intra-Agency Eliminations	Consolidated Total
Financial Sector									
Gross Costs	10,645	340,456	423	10,596	45,109	–	6,007	(3,639)	409,597
Less: Exchange Revenues	(32)	(107)	(2)	(142)	(310)	–	(16)	78	(531)
Net Program Costs	10,613	340,349	421	10,454	44,799	–	5,990	(3,561)	409,066
Infrastructure									
Gross Costs	37,284	421,560	641	71,534	29,366	–	4,661	(4,975)	560,071
Less: Exchange Revenues	(103)	(698)	(2)	(979)	(154)	–	(12)	251	(1,697)
Net Program Costs	37,181	420,862	639	70,555	29,212	–	4,649	(4,724)	558,374
Agriculture									
Gross Costs	171,903	129,504	453	152,373	49,011	–	28,207	(4,679)	526,772
Less: Exchange Revenues	(527)	(254)	(2)	(2,086)	(273)	–	(75)	414	(2,803)
Net Program Costs	171,376	129,250	451	150,287	48,738	–	28,132	(4,265)	523,969
Private Sector Competitiveness									
Gross Costs	34,355	309,897	495	11,463	115,774	–	13,712	(4,277)	481,419
Less: Exchange Revenues	(99)	(644)	(2)	(152)	(708)	–	(34)	211	(1,428)
Net Program Costs	34,256	309,253	493	11,311	115,066	–	13,678	(4,066)	479,991
Economic Opportunity									
Gross Costs	20,486	152,698	562	53,994	7,633	–	38,369	(2,410)	271,332
Less: Exchange Revenues	(63)	(316)	(55)	(649)	(28)	–	(101)	156	(1,056)
Net Program Costs	20,423	152,382	507	53,345	7,605	–	38,268	(2,254)	270,276
Environment									
Gross Costs	60,061	123,619	389	84,320	8,986	–	61,154	(2,981)	335,548
Less: Exchange Revenues	(187)	(281)	(2)	(1,141)	(55)	–	(153)	234	(1,585)
Net Program Costs	59,874	123,338	387	83,179	8,931	–	61,001	(2,747)	333,963
Humanitarian Assistance									
Protection, Assistance and Solutions									
Gross Costs	3,667	222,783	328,657	–	20,044	–	5,349	(5,111)	575,389
Less: Exchange Revenues	(9)	(379)	(1,808)	–	(130)	–	(14)	301	(2,040)
Net Program Costs	3,658	222,405	326,849	–	19,914	–	5,335	(4,810)	573,349
Disaster Readiness									
Gross Costs	2,972	3,767	279,229	528,978	4,860	–	587	(7,223)	813,170
Less: Exchange Revenues	(9)	(7)	(1,725)	–	(31)	–	(2)	229	(1,545)
Net Program Costs	2,963	3,760	277,504	528,978	4,829	–	585	(6,994)	811,625
Migration Management									
Gross Costs	–	–	390	–	702	–	–	(10)	1,082
Less: Exchange Revenues	–	–	(2)	–	–	–	–	–	(2)
Net Program Costs	–	–	388	–	702	–	–	(10)	1,080
Operating Unit Management									
Cross-cutting Management and Staffing									
Gross Costs	10,897	26,071	10,511	6,259	61,032	–	3,635	(1,043)	117,362
Less: Exchange Revenues	(8)	(27)	(33)	(81)	(91)	–	(1)	31	(210)
Net Program Costs	10,889	26,044	10,478	6,178	60,941	–	3,634	(1,012)	117,152
Net Cost of Operations	\$ 1,246,745	\$ 3,973,915	\$ 810,771	\$ 712,714	\$ 989,508	\$ 965,154	\$ 597,087	\$ –	\$ 9,295,894

NOTE 19. STATEMENT OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred:(Dollars in Thousands)

	2007	2006
Category A, Direct	\$ 745,601	\$ 731,684
Category B, Direct	10,846,162	8,386,807
Category A, Reimbursable	11,992	5,526
Category B, Reimbursable	359,426	64,750
Total	\$ 11,963,181	\$ 9,188,767

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

USAID did not have any credit financing activities, borrowing authority for FY 2007. For FY 2006, borrowing authority was \$52 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:

Per OMB Circular A-136 guidance, activity related to the Executive Office of President is included in USAID's Statement of Budgetary Resources (SBR) for FY 2007. For comparative purposes, the table below shows the net effect of this change on the FY 2007 SBR beginning balances.

	2006 Statement of Budgetary Resources	Add: Executive Office of the President	2007 Beginning Balance, as adjusted
Total Budgetary Resources	\$ 14,508,742	\$ 182,834	\$ 14,691,576
Obligated Balance	9,188,767	180,103	9,368,870
Unobligated Balance	5,319,975	2,731	5,322,706
Total Status of Budgetary Resources	\$ 14,508,742	\$ 182,834	\$ 14,691,576
Total, Unpaid Obligated Balance, Net, End of Period	11,154,825	495,605	11,650,430
Net Outlays	\$ 6,677,108	\$ 1,219,726	\$ 7,896,834

The FY 2006 ending balance for the Unobligated Balance Brought Forward increased by \$2.7 million to \$5.3 billion and the Unpaid Obligations Balance Brought forward increased by \$.5 billion to \$11.7 billion.

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).

NOTE 20. CHANGE IN ACCOUNTING PRINCIPLE FOR FY 2007 BEGINNING BALANCES

In accordance with requirements of OMB Circular A-136, USAID financial statement reporting requirements for parent/child activity encompasses the following where:

- USAID is the child agency (i.e. budget authority has been transferred to USAID from other federal agencies) financial activity is excluded from USAID's FY 2007 financial statements, with the exception of the Executive Office of the President
- USAID is the parent agency (i.e. budget authority has been transferred to other federal agencies from USAID) financial activity is included in USAID's FY 2007 financial statements."

As a result, the FY 2007 beginning balance for total assets, total liabilities, and net position has changed as follows:

- Total assets decreased by \$2.35 billion. This decrease is primarily attributable to a \$2.3 billion decrease in the Fund Balance with Treasury.
- Total liabilities decreased by \$427.6 million. This decrease is mostly due to a decrease of \$426 million in accounts payable.
- Net position decreased by \$1.9 billion.

RESTATEMENT OF 2006 ENDING BALANCES DUE TO CHANGE IN ACCOUNTING REPORTING REQUIREMENTS (Dollars in Thousands)

	2006 Year End Balance	Transfers to Other Federal Agencies	Transfers From Other Federal Agencies	2007 Beginning Balance, as Adjusted
Fund Balance with Treasury	\$ 19,333,383	\$ 506,221	\$ (2,818,276)	\$ 17,021,328
All Other Assets	5,817,717	3,666	(41,909)	5,779,474
Total Assets	25,151,100	509,887	(2,860,185)	22,800,802
Accounts Payable	2,267,721	7,366	(433,400)	1,841,687
All Other Liabilities	7,185,994	659	(2,179)	7,184,474
Total Liabilities	9,453,715	8,025	(435,579)	9,026,161
Unexpended Appropriations	14,334,819	502,661	(1,399,121)	13,438,359
Cumulative Results of Operations	1,362,566	(799)	(1,025,485)	336,282
Total Net Position	15,697,385	501,862	(2,424,606)	13,774,641
Total Liabilities and Net Position	\$ 25,151,100	\$ 509,887	\$ (2,860,185)	\$ 22,800,802

Changes to beginning balances for Cumulative Results of Operations and Unexpended Appropriations are shown on the Statement of Change in Net Position.

NOTE 21. RECONCILIATION OF OBLIGATIONS TO NET COST OF OPERATIONS

RECONCILIATION OF OBLIGATIONS TO NET COST OF OPERATIONS		
(Dollars in Thousands)		
	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 11,963,181	\$ 11,631,780
Spending authority from offsetting collections	(1,203,063)	(1,308,668)
Change in Unfilled Customer Orders	(58,516)	(4,653)
Downward Adjustments of Obligations	(199,264)	(488,574)
Offsetting Receipts	25,925	41,784
Net Obligations	10,528,263	9,871,669
Other resources used to finance activities	21,857	19,288
Resources Used to Finance Activities	10,550,120	9,890,957
Resources Used to Finance items not part of net cost of operations	(1,389,933)	692,096
Total Resources Used to Finance Net Cost of Operations	9,160,187	10,583,053
Components of the Net Cost of Operations:		
Components of Net Cost of Operations that will require or generate resources in future periods	47,009	(270,054)
Components of Net Cost of Operations that will not require or generate resources	88,698	40,725
Net Cost of Operations	\$ 9,295,894	\$ 10,353,724

STATEMENT OF BUDGETARY RESOURCES

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES
For the period ended September 30, 2007
(Dollars in Thousands)

	Operating		Program				Credit-Financing	Other	Parent Fund	Consolidated Total	
	1000	1010	1021	1035	1037	1093					1095
Budgetary Resources:											
Unobligated Balance, Brought Forward, October 1	\$ 117,038	\$ 81,715	\$ 126,303	\$ 64,970	\$ 2,522,728	\$ 156,770	\$ 288,529	\$ 1,422,605	\$ 497,434	\$ 49,040	\$ 5,327,132
Recoveries of Prior Year Unpaid Obligations	11,578	6,118	15,032	37,329	36,677	6,909	13,603	23	64,862	7,132	199,263
Budget Authority:											
Appropriation	635,532	487,900	1,508,760	526,350	5,092,675	452,000	1,879,150	-	338,078	-	10,920,445
Borrowing Authority	-	-	-	-	-	-	-	-	-	-	-
Spending Authority from Offsetting Collections:											
Earned:											
Collected	12,292	20	1,310	2,172	293	103	5,805	227,843	947,144	9,516	1,206,498
Change in Receivables from Federal Sources	-	-	-	-	-	-	-	-	-	(3,435)	(3,435)
Change in Unfilled Customer Orders:											
Without Advance from Federal Sources	(3,414)	(19)	(541)	(809)	-	(20)	(2,822)	-	66,141	-	58,516
Subtotal	644,410	487,901	1,509,529	527,713	5,092,968	452,083	1,882,133	227,843	1,351,363	6,081	12,182,024
Nonexpenditure Transfers, Net, Anticipated and Actual	9,524	(126,651)	32,170	17	(1,428,486)	(119,862)	8,861	-	67,123	1,635,702	78,398
Permanently Not Available	(474)	(2,316)	(642)	-	(201,678)	(4,964)	-	-	(769,964)	-	(980,038)
Total Budgetary Resources:	782,076	446,767	1,682,392	630,029	6,022,209	490,936	2,193,126	1,650,471	1,210,818	1,697,955	16,806,779
Status Of Budgetary Resources:											
Obligations Incurred											
Direct	706,243	186,975	1,377,261	500,108	4,471,264	347,459	2,058,451	68,154	328,087	1,547,761	11,591,763
Reimbursible	8,878	1	769	1,363	293	83	2,983	-	347,532	9,516	371,418
Subtotal	715,121	186,976	1,378,030	501,471	4,471,557	347,542	2,061,434	68,154	675,619	1,557,277	11,963,181
Unobligated Balance:											
Apportioned	41,157	257,094	254,757	107,320	1,515,907	130,807	123,079	3,663	142,227	130,696	2,706,707
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	-
Subtotal	41,157	257,094	254,757	107,320	1,515,907	130,807	123,079	3,663	142,227	130,696	2,706,707
Unobligated Balance Not Available	25,798	2,697	49,605	21,238	34,745	12,587	8,613	1,578,654	392,972	9,982	2,136,891
Total, Status of Budgetary Resources	782,076	446,767	1,682,392	630,029	6,022,209	490,936	2,193,126	1,650,471	1,210,818	1,697,955	16,806,779

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U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES (continued)
For the period ended September 30, 2007w

	Operating		Program				Credit-Financing	Other	Parent Fund	Consolidated Total	
	1000	1010	1021	1035	1037	1093					1095
Change in Obligated Balance:											
Obligated Balance, Net											
Unpaid Obligations, Brought Forward, October 1	160,575	230,536	2,588,710	600,310	3,976,658	487,446	2,230,532	3,772	1,076,843	314,978	11,670,360
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(3,689)	(19)	(648)	(1,053)	–	(20)	(3,817)	–	(6,713)	(3,971)	(19,930)
Total Unpaid Obligated Balance, Net	156,886	230,517	2,588,062	599,257	3,976,658	487,426	2,226,715	3,772	1,070,130	311,007	11,650,430
Obligations Incurred Net (+/-)	715,121	186,976	1,378,030	501,471	4,471,557	347,542	2,061,434	68,155	675,619	1,557,277	11,963,182
Less: Gross Outlays	(633,585)	(135,511)	(1,376,034)	(505,352)	(2,937,369)	(400,461)	(1,572,380)	(43,235)	(938,505)	(469,814)	(9,012,246)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(11,578)	(6,118)	(15,032)	(37,329)	(36,677)	(6,909)	(13,602)	(23)	(64,861)	(7,133)	(199,262)
Change in Uncollected Customer Payments from Federal Sources (+/-)	3,414	19	541	809	–	20	2,822	–	(66,141)	3,435	(55,081)
Obligated Balance, Net, End of Period											
Unpaid Obligations	230,533	275,883	2,575,674	559,100	5,474,169	427,618	2,705,983	28,669	749,096	1,395,308	14,422,033
Less: Uncollected Customer Payments from Federal Sources	(275)	–	(107)	(244)	–	–	(994)	–	(72,854)	(536)	(75,010)
Total, Unpaid Obligated Balance, Net, End of Period	230,258	275,883	2,575,567	558,856	5,474,169	427,618	2,704,989	28,669	676,242	1,394,772	14,347,023
Net Outlays:											
Gross Outlays	633,585	135,511	1,376,034	505,352	2,937,369	400,461	1,572,379	43,235	938,506	469,814	9,012,246
Less: Offsetting Receipts	(12,292)	(20)	(1,310)	(2,172)	(293)	(103)	(5,805)	(227,843)	(947,144)	(9,516)	(1,206,498)
Less: Distributed Offsetting Receipts	–	–	–	–	–	–	–	–	(25,925)	–	(25,925)
Net Outlays	\$ 621,293	\$ 135,491	\$ 1,374,724	\$ 503,180	\$ 2,937,076	\$ 400,358	\$ 1,566,574	\$ (184,608)	\$ (34,563)	\$ 460,298	\$ 7,779,823

MAJOR FUNDS

Operating Funds

1000 Operating Expenses of USAID

Program Funds

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

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

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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

1029 Tsunami Relief and Reconstruction Fund

1038 Central American Reconciliation Assistance

1040 Sub-Saharan Africa Disaster Assistance

1096 Latin American/Caribbean Disaster Recovery

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

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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

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 International Organizations + Programs

1500 Demobilization and Transition Fund