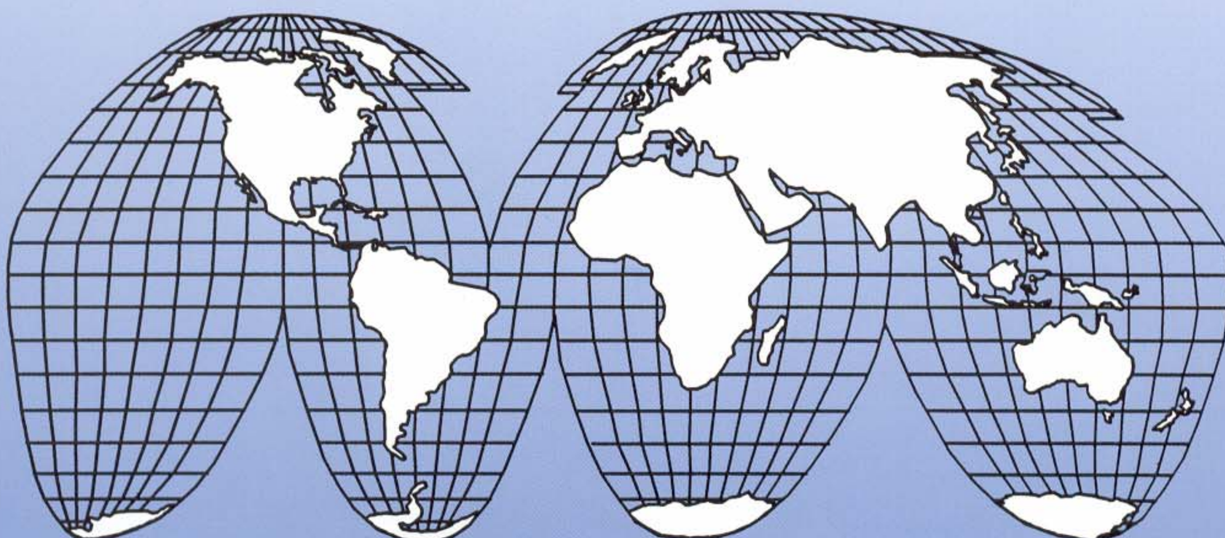
USAID

OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2003 And 2002

Audit Report No. 0-000-04-001-C

November 14, 2003



Washington, D. C.

Financial information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.

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November 14, 2003

MEMORANDUM

TO: CFO/FM, Lisa D. Fiely

FROM: AIG/A, Bruce N. Crandlemire

SUBJECT: Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2003 and 2002 (Report No. 0-000-04-001-C)

The Office of Inspector General (OIG) is transmitting its report on the audit of the U.S. Agency for International Development's (USAID's) consolidated financial statements, related internal controls, and compliance with applicable laws and regulations for fiscal years (FY) 2003 and 2002. Under the Government Management Reform Act of 1994, USAID is required to prepare consolidated fiscal year-end financial statements. For FY 2003, USAID is required to submit the audited financial statements to the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (U.S Treasury) by February 1, 2004. However, because the submission deadline will be accelerated beginning in FY 2004, USAID opted to meet a November 15 deadline for the completion of its FY 2003 financial statement audit.

For USAID's FY 2003 consolidated financial statements, we are pleased to issue unqualified opinions on all five of USAID's principal financial statements. This is an important milestone and represents continued progress by USAID. However, for the balance sheet and statement of net cost, the opinion was achieved only through extensive audit efforts to overcome material weaknesses in internal control. Although these efforts resulted in auditable information on the balance sheet and statement of net cost, they did not provide information in a timely manner to enable USAID managers to make cost and budgeting decisions throughout the year.

With respect to internal controls, our report discusses three material weaknesses and five reportable conditions identified during the audit. The material weaknesses were related to USAID's process for (1) assigning strategic objectives to Agency goals, (2) reviewing quarterly accounts payable and accrued expenses, and (3) recognizing and reporting accounts receivables.

The reportable conditions address USAID's need to (1) reconcile fund balance with the U.S. Treasury, (2) record and classifying advances to grantees and the related expenses, (3) review, analyze, and deobligate unliquidated obligations, (4) correctly record periodic allowances to its missions, and (5) improve its system for preparing the Management's Discussion and Analysis section of the Performance and Accountability Report required by the Federal Accounting Standards Advisory Board.

We are reporting that although USAID is not in substantial compliance with the financial management systems requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) and the Debt Collection and Improvement Act of 1996 it is making progress towards becoming substantially compliant.

This report contains four recommendations to improve USAID's internal controls for the preparation of its annual financial statement required under the Government Management Reform Act. *(See Appendix III for the status of uncorrected findings and recommendations from our prior audits that affect the current objectives.)*

We have received and considered your response to the draft and the recommendations included therein (see page 47). Based on your response, we have accepted your comments as management decisions. Please forward all information to the Office of Management, Planning, and Innovation for acceptance and final action (*See Appendix II for USAID's Management Comments*).

We appreciate the cooperation and courtesies that your staff extended to the OIG during the audit. The Office of Inspector General is looking forward to working with you on the audit of the fiscal year 2004 financial statements (in the mandated accelerated schedule) and to seeing improved systems and controls.

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Summary of Results

Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, change in net position, budgetary resources, reconciliation of net costs, and budgetary obligations for fiscal years 2003 and 2002?

In our opinion, except for the effects of the inconsistencies in USAID's allocation of expenses on its FY 2002 statement of net cost, USAID's balance sheet, statement of net cost, statement of changes in net position, statement of budgetary resources, and statement of financing present fairly, in all material respects, the financial position of USAID as of September 30, 2003 and 2002, and its net cost, net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles. *(See page 11)*

<u>Other Required Supplementary Information</u>

According to the Federal Accounting Standards Advisory Board, Management's Discussion and Analysis (MD&A) is required supplementary information. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of these procedures, we believe that the MD&A departs from prescribed guidelines. Specifically, the MD&A did not contain a clear picture of USAID's planned performance for FY 2003. Further, the primary performance information indicating the extent to which programs were achieving their objectives was based on results achieved in FY 2002. As a result, the MD&A did not adequately link costs to results for the current fiscal year.

Further information on this finding is included in the Report on Internal Controls and the Report on Compliance with Laws and Regulations. *(See pages 32 and 37, respectively.)*

<u>Report on Related Internal Controls</u>

Our audit identified three material internal control weaknesses *(see pages 17 to 23)* and five reportable conditions *(see pages 24 to 31)* which are included in this report.

The material weaknesses were as follows:

1. USAID's methodology for assigning strategic objectives to Agency goals needs improvement.

2. USAID's process for reviewing quarterly accounts payable and accrued expenses via its Accrual Reporting System needs improvement.

3. USAID's process for recognizing and reporting its Accounts Receivable needs improvement. (Repeat Finding)

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

1. Process for reconciling its Fund Balance with the U.S. Treasury. (Previously reported as a material weakness)

2. Recording and classifying advances to grantees and related expenses. (Previously Reported as a Material Weakness)

3. Process for analyzing and deobligating unliquidated obligations as necessary. (Previously reported as a material weakness)

4. Process for recording periodic allowances to its missions.

5. System for preparing the Management's Discussion and Analysis section of the Performance and Accountability Report.

Report on Compliance with Laws and Regulations

During fiscal year 2003, USAID's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996. Specifically, USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level. However, USAID has making progress towards becoming compliant. *(See pages 33 to 41)*

Our audit also disclosed five instances of noncompliance with laws and regulations that could have a direct and material effect on the principal financial statements and required supplementary information. The laws, standards, and regulations with which USAID did not comply were the:

- Federal Financial Management Improvement Act of 1996.

- Statements of Federal Financial Accounting Standards.

- Computer Security Act of 1987.

- Debt Collection and Improvement Act of 1996.

- Office of Management and Budget Bulletin No. 01-09.

We considered USAID's internal control weaknesses and noncompliance with laws and regulations to determine our auditing procedures for the purpose of forming our opinion on the financial statements and not to provide assurance on internal controls and compliance with laws and regulations. We have provided additional information in the independent auditor's report on internal controls *(See page 15)* and compliance *(See page 33)*.

USAID reported three material weaknesses in its fiscal year 2002 Accountability Report and will report three material weaknesses in its fiscal year 2003 Performance and Accountability Report, which will be issued on November 14, 2003.

Background

The United States Agency for International Development (USAID) was created in 1961 to advance the United States' foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has an overseas presence in over 70 countries, 38 of which have operational and formal accounting stations. In fiscal year 2003, USAID had total obligation authority of about $13 billion.

Under the Government Management Reform Act of 1994, USAID is required to annually submit audited financial statements to the Office of Management and Budget (OMB) and the U.S. Treasury. Pursuant to this Act, for FY 2003, USAID has prepared the following:

- Balance Sheet,
- Statement of Net Costs,
- Statement of Changes in Net Position,
- Statement of Budgetary Resources,
- Statement of Financing,
- Notes to the financial statements, and
- Other accompanying information.

Audit Objectives

OMB Bulletin No. 01-02 and related GAO guidance established the minimum audit requirements for Federal financial statements. For fiscal year 2003, this Bulletin required us to:

- Determine whether USAID's principal financial statements present fairly in all material respect, and in conformity with generally accepted accounting principles the assets, liabilities, net position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations.

- Obtain an understanding of USAID's internal controls to (1) understand the design of controls relevant to an audit of financial statements and determine whether they have been placed in operation; and (2) assess control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements.

- Obtain an understanding of the components of USAID's internal controls relating to the existence and completeness assertions relevant to the performance measures included in Management's Discussion and Analysis (MD&A).

- Report on USAID's compliance with laws and regulations that could have a direct and material effect on the principal statements and any other applicable laws and regulations.

- Report whether USAID's financial management systems substantially comply with the Federal Financial Management Improvement Act section 803(a) requirements.

For the first objective, we obtained sufficient evidence concerning material line items on USAID's fiscal year 2003 financial statements to enable us to form an opinion on those statements.

For the second objective, we obtained an understanding of USAID's internal controls and assessed the control risk for the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements.

For the third objective, we gained an understanding of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A.

For the fourth and fifth objectives, we determined whether USAID's financial management systems substantially comply with Federal requirements for financial management systems, applicable Federal accounting standards, and the

U.S. Standard General Ledger at the transaction level, as required by Section 803(a) of the FFMIA of 1996. *(See Appendix I for our scope and methodology)*

In accordance with the OMB audit requirements for Federal financial statements, this combined audit report includes our separate reports on USAID's financial statements, internal controls, and compliance with applicable laws and regulations.

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Auditor's Opinion

Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, change in net position, budgetary resources, reconciliation of net costs, and budgetary obligations for fiscal years 2003 and 2002?

We have audited the accompanying balance sheet, statement of changes in net position, statement of net cost, statement of budgetary resources, and statement of financing of USAID for the years ended September 30, 2003 and 2002.

We conducted our audits in accordance with generally accepted government auditing standards, *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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, except for the effects of the inconsistencies in USAID's allocation of expenses on its FY 2002 statement of net cost, the financial statements referred to above present fairly, in all material respects, the financial position of USAID as of September 30, 2003 and 2002 and its net costs, net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles.

The financial statements referred to above are the responsibility of USAID's management. In that regard, USAID's management is responsible for:

1. Preparing the financial statements in conformity with generally accepted accounting principles.

2. Establishing, maintaining, and assessing internal controls to provide reasonable assurance that the broad objectives of the Federal Managers' Financial Integrity Act are met.

3. Establishing, maintaining, and ensuring that USAID's financial management systems comply with Federal Financial Management Improvement Act (FFMIA) requirements.

4. Complying with applicable laws and regulations.

The Office of Inspector General is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. In order to fulfill these responsibilities, we:

1. Examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

2. Assessed the accounting principles used and significant estimates made by management.

3. Evaluated the overall presentation of the financial statements.

4. Obtained an understanding of internal control related to financial reporting (including safeguarding assets), compliance with laws and regulations (including execution of transactions in accordance with budget authority), and performance measures reported in Management's Discussion and Analysis of the Performance and Accountability Report.

5. Tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls.

6. Considered the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act.

7. Tested whether USAID's financial management systems substantially complied with the three FFMIA requirements.

8. Tested USAID's compliance with selected provisions of the following laws and regulations:

    - Anti-Deficiency Act,

    - Prompt Payment Act,

    - Debt Collection and Improvement Act, and

    - Federal Credit Reform Act.

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. Instead, we limited our internal control testing to controls over financial reporting and compliance.

Nevertheless, because of inherent limitations in internal controls, 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. *(See the FFMIA section of Compliance Report on USAID's FY 2003 financial statements for additional internal control weaknesses.)*

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 year ended September 30, 2003 and 2002. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We have also issued reports, dated November 14, 2003, on our consideration of USAID's internal controls, and on its compliance with laws and regulations. *(See pages 15 and 33.)*

According to the Federal Accounting Standards Advisory Board, Management's Discussion and Analysis (MD&A) is required supplementary information. Although we did not audit and do not express an opinion on this information, we have applied certain limited procedures to determine the methods of measurement and presentation of the supplementary information. As a result of these procedures, we believe that the performance information reported in the MD&A departs from prescribed guidelines. Specifically, the MD&A did not contain a clear picture of USAID's planned performance for FY 2003. Further, the primary performance information indicating the extent to which programs were achieving their objectives was based on results achieved in FY 2002. As a result, the MD&A did not adequately link costs to results for the current fiscal year.

Further information is included in the Report on Internal Controls and the Report on Compliance with Laws and Regulations. *(See pages 30 and 38, respectively.)*

Bruce N. Crandlemire

Office of Inspector General
November 14, 2003

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Report on Internal Controls and Audit Findings

Did USAID establish adequate internal controls related to its financial statements and the performance measures contained in its Management's Discussion and Analysis section?

We have audited the consolidated financial statements of USAID for the fiscal years ended September 30, 2003 and 2002, and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered USAID's internal controls over financial reporting by obtaining an understanding of those controls. We determined whether the internal controls have been placed in operation, assessed control risk, and performed tests of controls to determine our substantive auditing procedures for the purpose of expressing an opinion on the financial statements. We limited the internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to the operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (such as those relevant to ensuring efficient operations).

The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets.

- Funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Transactions that have a material impact on the financial statements, including those related to obligations and costs are executed in compliance with laws and regulations.

The objective of our audit was not to provide assurance on internal controls; consequently, we do not provide an opinion on those controls.

Our consideration of the internal controls over USAID's financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls that, in our judgment, could adversely affect USAID's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses, on the other hand, are reportable conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may occur and not be detected. However, we noted certain matters, discussed in the following paragraphs and accompanying schedules, involving the internal controls and their operation that we consider to be either material weaknesses or reportable conditions, including such weaknesses or conditions noted in prior Government Management and Reform Act (GMRA) audit reports. Our Report on Compliance with Laws and Regulations (see Page 33) identifies additional internal control weaknesses affecting USAID's overall compliance with applicable laws and regulations. The material internal control weaknesses are as follows:

1. USAID's methodology for assigning strategic objectives to Agency goals needs improvement.

2. USAID's process for reviewing quarterly accounts payable and accrued expenses via its Accrual Reporting System needs improvement.

3. USAID's process for recognizing and reporting Its Accounts Receivable needs improvement (Repeat Finding).

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

1. Process for reconciling its Fund Balance with the U.S. Treasury (Previously reported as a material weakness).

2. Recording and classifying of advances to grantees and related expenses (Previously reported as a material weakness).

3. Process for analyzing and deobligating unliquidated obligations as necessary (Previously reported as a material weakness).

4. Process for recording periodic allowances to its missions.

5. System for preparing the Management's Discussion and Analysis Section of the Performance and Accountability Report.

Material Weaknesses

USAID's Methodology for Assigning Strategic Objectives to Agency Goals Needs Improvement

USAID's system for ensuring that expenses are correctly assigned to each of its six Agency goals needs improvement. Under the current system, USAID has limited assurance that its strategic objectives are being correctly assigned to each of the six Agency goals. This problem occurred because USAID's controls over the process used to map strategic objectives to the Agency goals are ineffective and its Office of Financial Management was not involved in the process of ensuring the reliability of the assignments. As a result, the expenses reported on USAID's Consolidated Statement of Net Cost cannot be relied without significant adjustments resulting from the audit process. At our request, USAID subsequently reallocated $2.1 billion of expenses on its Consolidated Statement of Net Cost to present more reliable expense information associated with its six Agency goals.

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

USAID uses a system known as the Annual Report Database to map its strategic objectives to the following six Agency goals:

1. Encourage Broad-based Economic Growth and Agricultural Development.

2. Build Human Capacity Through Education and Training.

3. Protect the Environment for Long-Term Stability.

4. Stabilize World Population and Protect Human Health.

5. Strengthen Democracy and Good Governance.

6. Promote Humanitarian Assistance.

The Annual Report Database is a decentralized list of strategic objectives mapped to corresponding Agency goals and monitored by USAID's Bureau for Policy and Program Coordination (PPC). To populate the Annual Report Database, at the beginning of every fiscal year, PPC relies on offices within each of USAID's central and regional Bureaus[1] to correctly assign individual strategic objectives to corresponding Agency goals. At the end of the fiscal year, USAID's Office of Financial Management uses the Annual Report Database to summarize the total expenses for each strategic objective to the corresponding Agency goal. These expenses are then reported on USAID's Consolidated Statement of Net Cost.

The Annual Report Database is the primary link between the information in USAID's general ledger and its Consolidated Statement of Net Cost. However, our review of the Annual Report Database found that:

- PPC does not require USAID Bureau officials to certify that its strategic objectives-to-goal assignments are reliable.

- Some strategic objectives that impact several Agency goals are being mapped to only one Agency goal.

- Some existing strategic objectives are not mapped to any of USAID's six goals. Automated Directives System (ADS) 201.3.7.1 requires that a strategic objective must link to one principal Agency goal, one principal Agency objective, and one Agency Pillar as defined in the most current Agency Strategic Plan.

The Office of Inspector General determined that different offices within USAID have different interpretations of how strategic objectives should be assigned to Agency goals, and we identified:

- 3 strategic objectives valued at about $1.3 billion where the attribution could be questioned.

- 11 strategic objectives valued at about $55 million that were assigned to only one Agency goal but should have been allocated to several.

- 43 strategic objectives valued at about $798 million that were not assigned to any Agency goal.

As a result of the OIG determinations, USAID subsequently made a manual adjustment to its Annual Reporting Database to present more reliable amounts on its Consolidated Statement of Net Cost.

The above system deficiencies exist at USAID because the assignments of strategic objectives to Agency goals, although approved by PPC, are actually performed by the individual USAID Bureaus without adequate guidance or oversight. This

[1] USAID is comprised of the central and regional bureaus. The central bureaus are: Democracy, Conflict and Humanitarian Assistance; Economic Growth, Agriculture and Trade; Global Health; Legislative and Public Affairs; Management; and Policy and Program Coordination. The regional bureaus are: Africa; Asia and Near East; Europe and Eurasia; and Latin America and the Caribbean.

occurred because PPC believes that the mapping of strategic objectives requires specific knowledge of program implementation, which is primarily held within the operating units and strategic objective teams.

Bureau officials forward the strategic objective assignments to the PPC, who approve them without questioning the assignments and without obtaining certifications from Bureau officials that the assignments are accurate. In addition, despite its financial reporting responsibilities for the Statement of Net Cost, USAID's Office of Financial Management does not monitor PPC's process to ensure that the information provided is reliable.

Because of the deficiencies in USAID's process for properly reporting expenses against the Agency goals on its Consolidated Statement of Net Cost, we are including the following recommendations to USAID management:

Recommendation No 1: **We recommend that USAID's Chief Financial Officer coordinate with the Bureau for Policy, Planning and Coordination to:**

1.1. Obtain annual certifications from responsible offices showing that their strategic objectives are properly assigned to the appropriate Agency goals.

1.2 Implement Automated Directives System 201.3.7.1 by requiring that all strategic objectives be assigned to an Agency goal.

1.3. Develop separate allocation methodologies for strategic objectives that must be allocated to more than one Agency goal.

USAID's Process for Reviewing Quarterly Accounts Payable and Accrued Expenses via Its Accrual Reporting System Needs Improvement.

USAID's methodology for estimating its accounts payable and accrued expenses using Cognizant Technical Officer (CTO) reviews of information contained in the Accrual Reporting System,[2] and the supervision of the results of this exercise, have not worked effectively. This occurred because:

- Financial information generated by the Accrual Reporting System is often unreliable.

- CTO information maintained in the Accrual Reporting System is unreliable.

- USAID has not used all available information to monitor the credibility of the information that is either accepted or reviewed within Accrual Reporting System.

- USAID's Office of Financial Management is not statistically reviewing the accuracy of accrual modifications.

- Support for recorded accruals is held with as many as 600 individuals every quarter, making the system extremely difficult to audit.

Statement of Federal Financial Accounting Standards No.1, paragraph 77 requires that, when an entity accepts goods (or services), it should recognize a liability for the unpaid amount of these goods or services. If applicable invoices are not available when financial statements are prepared, then the amounts owed should be estimated. USAID estimates its accounts payable using its Accrual Reporting System.

As a result of revised Accrual Reporting System estimates proposed by the OIG, USAID reduced yearend accrued expenses and accounts payable by about $244 million to more accurately reflect the activity in accounts impacted by accruals.

USAID's accrual methodology uses the Accrual Reporting System to develop quarterly estimates of accrued expenses recorded against individual contract and grant awards. These estimates are reviewed and certified by Cognizant Technical Officers (CTOs). Of the $1.33 billion in accrued expenses estimated by the Accrual Reporting System as of September 30, 2003, about $650 million were adjusted deliberately as a result of CTO reviews of unliquidated obligations recorded in USAID's Accrual Reporting System . However, the remainder,

[2] The Accrual Reporting System gathers obligation and contract information from USAID's Financial Management and Acquisition and Assistance system, and uses this data to calculate estimated quarterly expenses against individual USAID contracts, grants, or obligation line items.

about $680 million represented system-generated estimates of accrued expenses against yearend unliquidated obligations.

Because the system-generated estimates of accrued expenses are calculated by the Accrual Reporting System on a straight-line basis using the unliquidated obligation balances for the remaining performance period of the individual awards, USAID has no assurance that these system-generated estimates are reliable or that the system-generated portion of accrued expenses is supported by an adequate accrual methodology. Although USAID Office of Financial Management officials have suggested that eliminating system-generated estimates might cause CTOs to review their accruals more closely, it could also cause USAID's accounts payable to be materially understated, which would require a potentially large and imprecise adjustment.

At the end of every quarter, USAID provides, via the Accrual Reporting System, its estimates of expenses recorded against related obligations to CTOs who are responsible for the individual obligations. The CTO names included in the Accrual Reporting System are derived from USAID's existing procurement system – a module of USAID's New Management System - which identifies a CTO for each recorded obligation. However, many of the CTOs identified by this system and, subsequently, by the Accrual Reporting System were not the CTOs responsible for the corresponding obligations. USAID's Office of Financial Management believes that its CTO information will be more reliable when a procurement module is acquired and integrated with its current financial management system.

Under the current Accrual Reporting System, CTOs are not accountable to a single authority with the responsibility for monitoring the accruals process. Instead, CTOs are located in USAID's individual bureaus and report to the management of those individual bureaus. Also, USAID's Office of Financial Management does not compile or maintain statistics on periodic accruals to show:

- How often recorded accruals were adjusted by CTOs.
- The adjustments made by each bureau.
- The number and value of straight-line accruals accepted by CTOs.
- Whether or not CTOs are actually reviewing quarterly accruals.

At the beginning of every quarter, CTOs must log into the Accrual Reporting System and certify that the recorded accrual amounts in the system were the most reliable representation of expenses for the previous quarter. However, this quarterly certification process only provides assurance that CTOs have checked off an electronic certification box and does not provide information on the level of review performed for each accrual. Although evidence of these reviews is required to be maintained by the individual CTOs, the required documentation was often either missing or inadequate. USAID subsequently made a $243 million adjustment to reduce its accounts payable and expenses to present more reliable yearend balances.

USAID's Office of Financial Management does compile statistics on whether or not CTOs are reviewing quarterly accruals and has issued guidance to CTOs on how to review accruals. Nevertheless, USAID has no assurance that all CTOs understand the issued guidance, nor is it clear to whom the CTOs are accountable if they do not follow the guidance. USAID's Office of Financial Management also interviews between 30 and 40 CTOs to determine the accuracy of their accrual modifications but this sample is not large enough to verify the accuracy of the quarterly accruals.

Because of the inadequacies in USAID's Accrual Reporting System and in the CTO information used to calculate and report on accounts payable and expenses in its financial statements, we are making the following recommendations to USAID management:

> **<u>Recommendation No 2:</u> We recommend that USAID's Chief Financial Officer:**
>
> **2.1. Establish and implement procedures to obtain updated Cognizant Technical Officer information whenever personnel changes affect the information recorded in the Accrual Reporting System.**
>
> **2.2. Establish and implement procedures to evaluate the reliability of the Accrual Reporting System by performing quarterly reviews using valid statistical analysis techniques.**
>
> **2.3. Establish and implement procedures to compile and maintain quarterly analytical information on the number and amount of modified and system-generated accruals certified in the Accrual Reporting System by USAID's Cognizant Technical Officers - by individual USAID Bureau - to assist in planning follow-up reviews of Accrual Reporting System information.**

USAID's Process for Recognizing and Reporting Its Accounts Receivable Needs Improvement (Repeat Finding)

As of September 30, 2003, USAID continues to lack an integrated financial management system with the ability to account for its worldwide accounts receivable. This internal control weakness was reported in a previous audit report[3]. Because this systemic weakness continues to exist, we have included it as a material weakness in this report. Because USAID lacks a worldwide integrated system and has not effectively implemented policies and procedures for its missions and its Office of Procurement to immediately recognize accounts receivable, USAID had to rely on the web-based data collection tool to determine the year-end accounts receivable balances. Therefore, USAID has no complete assurance that the amount reported for accounts receivable in its fiscal year 2003 financial statements represents all receivables due to USAID.

SFFAS No. 1, paragraphs 40 to 52, "Accounts Receivables," requires the recognition (recording) of accounts receivable when a claim to cash or other assets has been established. The establishment of accounts receivable cannot occur on a timely basis unless there are adequate procedures in place for recognizing and reporting them at the end of each accounting period.

Currently, USAID records accounts receivable after the missions and the Office of Procurement notify the Office of Financial Management that employees, vendors, contractors, and grantees owe funds to USAID. We determined that accounts receivable within the Office of Financial Management were outstanding in a range of 7 to 1,101 days.

We identified similar findings in a previous report[4] and made recommendations for corrective actions by USAID management. USAID has taken final action on last year's recommendation by issuing policies and procedures for the immediate recognition and reporting of all accounts receivable. USAID is still in the process of implementing the new procedures; therefore, we are not including additional recommendations in this audit report. However, we will continue to monitor USAID's progress in implementing the recommended corrective actions.

[3] Report on USAID's Consolidated Financial Statement, Internal Controls and Compliance for Fiscal Year 2002. Report No. 0-000-03-001-C, dated January 24, 2003.

[4] Report on USAID's Consolidated Financial Statement, Internal Controls and Compliance for Fiscal Year 2002. Report No. 0-000-03-001-C, dated January 24, 2003.

Reportable Conditions

USAID's Process for Reconciling Its Fund Balance with the U.S. Treasury Needs Improvement (Previously Reported as a Material Weakness)

The OIG determined that USAID's internal controls over its fund balance reconciliation process needs improvement. While USAID has improved its reporting of monthly and cumulative fund balance differences with the U.S. Treasury, we identified several problems that continue to hinder USAID's ability to reconcile differences with its fund balance. Specifically, USAID's overseas missions did not consistently reconcile, research, and resolve differences identified between its records, the State Department's U.S. Disbursement Offices records, and U.S. Treasury records. USAID missions continue to have large unreconciled balances because they have not been able to implement procedures to reconcile items quickly. Additionally, accounting stations responsible for several client missions do not consistently receive documentation to support unreconciled transactions.

As a result, in fiscal year 2003, USAID's Office of Financial Management made unsupported adjustments of about $35 million net ($201 million in absolute dollar value) to bring its cash balance in agreement with the U.S. Treasury's balance. This is an improvement over the $45 million net ($203 million in absolute dollar value) that was reported last year. According to USAID's Office of Financial Management officials, this adjustment was made because it is necessary for USAID to bring its fund balance in agreement with the U.S. Treasury for the yearend closing statement and the annual financial statement.

The U.S. Department of Treasury's guidance[5] for reconciling fund balances requires that Federal agencies research and resolve differences reported by the U.S. Treasury on a monthly basis. Agencies must also resolve all differences between the balances reported in their general ledger fund balance with the U.S. Treasury accounts and the balances reported by the U.S. Treasury. This guidance stipulates three months as a reasonable period for clearing the differences.

The reconciliation process contains two steps: (1) identifying the differences between USAID's records and the U.S. Department of Treasury's records and (2) researching and resolving these differences. Some of the differences are timing differences that will eventually be eliminated, while other differences are accounting and posting errors that must be corrected. The U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its fund balance with the U.S. Treasury account. The procedures further state that an agency can adjust its fund balance with the U.S. Treasury account balance only

[5] Fund Balance with Treasury Reconciliation Procedures, A Supplement to the Treasury Financial Manual, ITFM 2-5100, August 1999.

after clearly establishing the causes for any errors and properly correcting those errors. In addition, the procedures state that an agency should document "month cleared" (the accounting month that the discrepancy was adjusted), accounting periods, required explanations, and brief narratives that disclose the cause of the discrepancy. USAID did not consistently follow the first and second steps of the reconciliation process but did adjust its fund balance with the U.S. Treasury account.

In FY 2003, USAID implemented a new reporting system that will be used to determine its missions' reconciling items at the end of each accounting period. We will be evaluating the effectiveness of this new reporting system during upcoming audits.

We identified similar reconciliation findings in a previous audit report[6] and made recommendations for corrective action by USAID management. As of September 30, 2003, USAID has not taken final action to implement those recommendations. Therefore, we are not including additional recommendations in this audit report. However, because USAID continues to record unsupported adjustments to its year-end fund balance to bring this account balance in agreement with the U.S. Treasury, we are including the following recommendation to USAID management:

> **<u>Recommendation No. 3:</u> We recommend that the Chief Financial Officer require the Office of Financial Management to develop and implement specific procedures for its overseas missions to reconcile USAID's fund balance accounts with the U.S. Treasury account.**

USAID's Process for Reconciling and Classifying Advances to Grantees Needs Improvement (Previously Reported as a Material Weakness)

USAID's process for recording and classifying advances to grantees needs improvement. USAID's Office of Financial Management has no means of identifying all obligations established for funding advances to grantees and, as of September 30, 2003, had not recorded about $30 million in expenses related to advance liquidations incurred by grantees. Progress has been made in this area because our FY 2002 GMRA audit identified about $88 million in expenses related to advances that were not recorded by USAID. However, this condition continues to occur because

USAID does not have a worldwide integrated financial management system that includes procurement and assistance data. Therefore, obligations established for advances that are managed by the Department of Health and Human Services

[6] Report on USAID's Consolidated Financial Statement, Internal Controls, and Compliance for Fiscal Year 2002. Report No. 0-000-03-001-C, dated January 24, 2003.

must be manually entered into the Payment Management System.[7] Consequently, the obligations related to the $30 million had not been entered into the PMS and the expenses were not recognized and reported by the Department of Health and Human Services. As a result of our audit, USAID subsequently made an adjustment to record the $30 million as expenses.

General Accounting Office (GAO) "Standards for Internal Controls in the Federal Government" require that transactions and other significant events should be promptly recorded and properly classified. This guidance further states that transactions must be promptly recorded if pertinent information is to maintain its relevance and value to management in controlling operations and making decisions. This applies to:

- The entire process or life cycle of a transaction or event and includes the initiation and authorization.

- All aspects of the transactions while in process.

- Its final classification in summary records.

In addition, obligations for grant agreements and/or modifications must be entered into Department of Health and Human Services' Payment Management System so that grantees can report advance liquidation expenses related to the corresponding obligations. As of September 30, 2003, USAID had not recorded in the Payment Management System approximately 39 grant agreements and/or modifications with a net value of about $66 million. USAID has since recorded 19 of the 39 grant agreements and/or modifications valued at $39 million. Therefore, at the time of our review, USAID still had about $27 million not recorded in the Payment Management System.

This occurred because USAID does not have a worldwide integrated financial management system that links its accounting, procurement, and assistance data, as well as all other activities performed by USAID. Although USAID established and implemented procedures for new grants and/or modifications to be sent to its Office of Financial Management, some grant officers were not following the established procedures. Therefore, copies of new grants and/or modifications issued by USAID's Office of Procurement were still not submitted to the Office of Financial Management in a timely manner. USAID has made significant progress in this area and will continue to show progress and a strengthening of the internal controls over its advance process after the implementation of a worldwide financial management system that links its accounting, procurement, and assistance data.

[7] The Payment Management System was developed to establish a central point capable of paying most Federal Assistance grants, contracts, and block grants. The main purpose of this system is to serve as a fiscal intermediary between awarding agencies and the recipients of grants and contracts, with particular emphasis on: (1) expediting the flow of cash between the Federal Government and recipients; (2) transmitting recipient disbursement data back to the awarding agencies; and (3) managing cash advances to recipients.

We identified similar findings in a previous audit report[8] and made recommendations for corrective actions by USAID management. As of September 30, 2003, USAID has taken final action by implementing the recommendations to eliminate existing backlogs and establishing mandatory procedures for the prompt recording of grant documents and data within its Office of Financial Management and Office of Procurement. We will continue to monitor USAID's progress in implementing the recommended corrective actions.

Unliquidated Obligations Were Not Always Analyzed and Deobligated as Necessary (Previously Reported as a Material Weakness)

USAID records showed that unliquidated obligations that may no longer be needed for their original obligation purpose were not deobligated as necessary. This occurred because USAID has not:

- Established better reporting capabilities, effectively implemented the new quarterly accrual process, nor improved its pipeline management to conduct the careful review needed to identify the amount of unliquidated obligations that are no longer needed.

- Dedicated the required resources to specifically target the review and deobligation of unneeded funds.

As a result, as of September 30, 2003, about $119 million in unliquidated obligations that had no payment activity against them for more than one year still remained. More that 56 percent of the $119 million is over the $100,000 threshold established by USAID for periodic reviews and deobligation as necessary. The $119 million is a decrease from the $153 million in unliquidated obligations that our FY 2002 GMRA audit identified. The $119 million in unliquidated obligations, identified by our FY 2003 GMRA audit, may no longer be needed for their original obligation purposes.

USAID's Automated Directives System (ADS) 621.3.15, *Annual Certification of unexpended balances*, states, "As part of the annual budget process, Assistant Administrators, independent office directors, and mission directors must certify whether unexpended balances are necessary for on-going programs." The directive further requires that in conducting reviews of obligations to identify funds that must be deobligated, obligation managers and others involved in the review process should consider circumstances that could result in excessive or unneeded obligation balances. According to ADS 621.3.13, where there is an unobligated balance that has remained unchanged for 12 months or more and there

[8] Report on USAID's Consolidated Financial Statement, Internal Controls, and Compliance for Fiscal Year 2002. Report No. 0-000-03-001-C, dated January 24, 2003.

is no evidence of receipt of services and/or goods during that same 12-month period, the remaining balances may no longer be needed.

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

In FY 2002, USAID implemented an Accrual Reporting System to require review and approval of system-generated expenses based on recorded unliquidated obligations. If this system is maintained as intended, it should enable USAID to routinely identify obligations that could be deobligated. Recommendation No. 2 addresses the deficiencies identified within the Accrual Reporting System. Because USAID has not fully institutionalized business processes and policy and procedural improvements, and the benefits of the Accrual Reporting System have not been achieved, we are including the following recommendation for corrective action to USAID management.

Recommendation No. 4: We recommend that the USAID Chief Financial Officer:

4.1 Issue revised and expanded policy and procedural guidance for the careful reviews needed to identify the amount of unliquidated obligations that are no longer needed.

4.2 Review the lists of unliquidated obligations totaling $119 million identified in this report and make a determination regarding the deobligation of those funds.

USAID's Process for Recording Periodic Allowances to Its Missions Needs Improvement

In FY 2003, USAID made cumulative allotments to its missions before related allowances were recorded in the financial management system. The OIG determined that these allotments included about $25 million in the Asia Near East Bureau; $84 thousand in the Latin America Caribbean Bureau for the Child Survival & Disease Prevention Program appropriation; and about $176 thousand in the Africa Bureau for the Operating Expenses appropriation. *(See table 1 below)*

Allotments Made Before Recorded Allowances

Bureau	Appropriation	Country	Amount
Asia Near East	Child Survival & Disease Prevention	Indonesia	$9,000,000
Asia Near East	Child Survival & Disease Prevention	Bangladesh	$15,670,000
Asia Near East	Child Survival & Disease Prevention	Philippines	$34,494
Latin America Caribbean	Child Survival & Disease Prevention	Peru	$83,758
Africa	Operating Expense	Ghana	$23,485
Africa	Operating Expense	Mali	$9,689
Africa	Operating Expense	Senegal	$87,054
	Total		**$24,908,480**

Table 1

According to USAID's Automated Directives System, 634.3.4, funds control violations may be either statutory or administrative. A statutory violation may result in disciplinary and/or criminal penalties. An administrative violation results from actions in violation of Agency funds control policies and procedures below the allotment level. The penalties for such violations are handled on a case-by-case basis.

The excess allowances to missions occurred because USAID Bureaus sent out allotments to their respective missions before recording those allotments in the financial management system. The $25 million in cumulative allotments that were included in its records before the related apportionments were recorded, could lead to Funds Control Violations in the allotment process for funding its missions. Because USAID took corrective steps to eliminate this weakness during the course of our audit, we are not including a recommendation to USAID management in this report.

USAID's System for Preparing the Management Discussion and Analysis Section of the Performance and Accountability Report Needs Improvement

OMB Bulletin No. 01-02 requires the OIG to (a) obtain an understanding of the components of internal controls relating to the existence[9] and completeness[10] assertions relevant to the performance measures included in the MD&A and (b) report on those internal controls that have not been properly designed and placed in operation.

The MD&A is a narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. The Statement of Federal Financial Accounting Standards (SFFAS) No. 15, "Management's Discussion and Analysis," requires the MD&A to be included as required supplementary information in each annual financial statement. OMB Bulletin No. 01-09 provides additional guidance for preparing the MD&A and requires that the discussion of performance relate to major goals and objectives in the Agency's strategic and performance plans, and that it provide a clear picture of planned and actual performance.

USAID has made notable improvements to this year's draft MD&A over the FY 2002 MD&A in two major ways:

1. The draft MD&A reported more current-year results. For example, it reported FY 2003 results for important programs being conducted in Iraq and Afghanistan. Additionally, the draft MD&A reported FY 2003 accomplishments made by the Global Development Alliance and reported FY 2003 performance results for selected activities under each of the six strategic goal areas. The draft MD&A did not, however, tie these activities to indicators or targets established in the 2003 performance plan, as discussed below.

2. The draft MD&A has also been reorganized to present performance results information under each strategic goal. This allows a user to link the performance results reported under each strategic goal in the MD&A to the corresponding goal category featured in the Statement of Net Cost.

Although notable improvements have been made, more needs to be done. Based on a limited review of USAID's system to collect and report performance information in the draft MD&A, the OIG identified the following weaknesses:

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

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

- USAID's current system does not yet capture significant reporting of Agency-wide performance results for the current year. For example, much of the Agency-wide performance information contained in the draft FY 2003 MD&A relates to FY 2002 data. Although the draft MD&A included discussion of selected program performance results for FY 2003, much of this discussion was anecdotal information relating to a particular mission or program. Moreover, the discussion did not provide a clear and complete picture of current-year performance on an Agency-wide basis under each strategic goal.

- Except for USAID's discussion under its Management Goal, the draft MD&A did not provide performance indicators/targets for many of the actual results reported for FY 2003. Since current-year results were not clearly linked to planned performance goals or targets contained in USAID's FY 2003 Annual Performance Plan, the draft MD&A did not provide a clear picture of planned and actual program performance for FY 2003.

In conclusion, as the OIG reported in previous years, USAID needs to improve its system for collecting, summarizing, and preparing performance information included in the MD&A. Specifically, USAID needs to revise its current system to ensure that the MD&A contains a clear picture of USAID's planned performance goals/targets for the current year and a comparison of these goals with more actual results for the current year. Since recommendations addressing the issues identified were made in a recent OIG audit report[11], we did not include a recommendation in this report regarding the MD&A.

Office of Inspector General
November 14, 2003

[11] Audit of USAID's Efforts to Meet the Requirements of the Government Performance and Results Act of 1993, Audit Report No. 9-000-03-011-P, dated September 30, 2003.

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Independent Auditor's Report on Compliance With Laws and Regulations

Report on Compliance With Laws and Regulations

Did USAID comply with laws and regulations that could have a direct and material effect on the financial statements, and with any other applicable laws and regulations?

We have audited the financial statements of USAID for the fiscal years ended September 30, 2003 and 2002 and have issued our report thereon. We conducted the audit in accordance with generally accepted auditing standards the standards applicable to financial audits contained in Government Auditing Standards (issued by the Comptroller General of the United States) and the Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

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. Also, we tested certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements contained in the Federal Financial Management Improvement Act (FFMIA) of 1996, the Computer Security Act of 1987, the Debt Collection and Improvement Act of 1996 and OMB Bulletin No. 01-09. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to USAID.

The results of our tests disclosed instances, described below, in which USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level.

Under FFMIA, we are required to report whether USAID's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements.

The results of our tests disclosed instances, described below, in which USAID's financial management systems did not substantially comply with Federal financial management system requirements, Federal Accounting Standards, and the U.S. Standard General Ledger at the transaction level.

Nature, Extent, and Causes of Noncompliance

FFMIA was passed to improve Federal financial management by ensuring that Federal financial management systems provide reliable, consistent financial data from year to year. The Act requires each agency to implement and maintain financial management systems that comply substantially with:

- Federal financial management system requirements.
- Applicable Federal Accounting Standards.
- The United States Government Standard General Ledger at the transaction level.

OMB Circular A-127, "Financial Management Systems," prescribes policies and standards for agencies to follow in developing, operating, evaluating, and reporting on financial management systems. Section 7 of the Circular identifies the requirements that Federal financial systems should meet. In January 2001, OMB issued a guidance, "Revised Guidance for the Federal Financial Management Improvement Act," to supplement Office of Management and Budget Circular No. A-127. The purpose of the guidance is to help determine whether financial systems substantially comply with FFMIA requirements. That guidance identifies various requirements that an agency must meet. (Please note that, although OMB issued a draft Super Circular that would replace its FFMIA guidance, that effort was discontinued. As such, according to OMB officials, the January 2001 guidance remains in full effect.)

Since 1997, the OIG has reported that USAID's financial management systems did not substantially comply with system requirements under FFMIA.[12] The reason for USAID's noncompliance was that the Agency's core financial management system[13] did not operate effectively. Therefore, USAID had to rely on a combination of outdated legacy systems; informal, unofficial records; and a core financial management system that suffered from technical and operational problems.

Since December 2000, USAID has been pursuing an effort to modernize the Agency's systems and meet FFMIA requirements. Specifically, USAID

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

[13] Called the New Management System.

implemented a new core financial system in Washington and completed efforts to upgrade or interface five major systems.[14]

In addition, USAID plans to deploy its new core financial system overseas, with pilot-testing scheduled to begin in April 2004. According to USAID officials, all 38 accounting stations will be converted to the new system by the summer of 2005, but the integration with a procurement system will not take place until, at the earliest, late 2005. (At this time, the OIG is not sure whether this delay will impact USAID's ability to meet financial management system requirements.)

In March 2003, the Department of State and USAID conducted a joint study to explore the possibility of implementing a joint financial management system. The study concluded that USAID and State could share the core financial system but should maintain separate databases because State and USAID business processes and information requirements are very different. Based on the recommendations from the study, USAID plans to share a single version of the core financial system with the Department of State beginning, in October 2005.

Federal Financial Management System Requirements

Although USAID has enhanced its financial management systems over the past three years, further improvements are needed to:

- Integrate the systems to further strengthen funds control.
- Strengthen computer security controls.

As a result, USAID's financial system may not provide users with the complete, accurate, and timely financial information needed for decision-making purposes. The following paragraphs discuss some of USAID's progress made during fiscal year 2003—as well as some of the problems that continued to exist.

Funds Control – According to OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," each Federal agency is responsible for establishing a funds control system that will ensure that the agency does not obligate or expend funds in excess of those appropriated or apportioned. In addition, the Circular states that at year-end, multi-year funds not obligated that remain available must be reapportioned in the upcoming fiscal year.

In January 2003,[15] the OIG reported that because USAID did not have an integrated financial management system, it used a separate system to process

[14] Those systems were: (1) Acquisition and Assistance System (procurement system), (2) National Finance Center Payroll System (payroll system), (3) Management Accounting and Control System Auxiliary Ledger, (4) letter of credit grant processing system, and (5) loan-processing system.

[15] 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).

obligations for its overseas missions. As such, the appropriation amount displayed as available after the roll-up was overstated by the amount of the mission obligations. To compensate for this weakness, USAID allowed only a few users to apportion funds. Further, those users had access to "cuff records" to track mission obligations and determine the correct amount available for apportionment. Because this issue should be corrected with the deployment of the core financial system to the overseas missions, we did not make any recommendations. The OIG will continue to monitor USAID's progress in deploying its core financial system overseas.

Computer Security Weaknesses – OMB Circular No. A-130, Appendix III, requires agencies to implement and maintain a program to assure that adequate security is provided for all agency information systems. However, during recent audit work, the OIG found that computer security weaknesses continued to exist. For example, USAID did not implement an information security training program, as required. This occurred because USAID's Information System Security Officer did not have the authority to enforce mandatory training requirements because program, mission, and division directors control employees within their respective organizations. As a result, USAID's information systems were not fully protected from risks and vulnerabilities.

Reorganization of Data in USAID's Core Financial Management System – In November 2001, USAID's Administrator implemented a reorganization of the Agency, thus creating new bureaus and eliminating or combining others. As a result of the reorganization, the financial data within USAID's core financial system had to be changed to accommodate the Agency's new organizational structure.

This audit concluded that USAID's reorganization process did not adversely affect the integrity of the Agency's financial data.

Statements on Federal Financial Accounting Standards (SFFAS)

Standard No. 1: Accounting for Selected Assets and Liabilities

USAID's advances and accounts receivable did not comply with Statement of Federal Financial Accounting Standards (SFFAS) No. 1, as discussed below.

Accounts Receivable – USAID does not have an adequate system or process to recognize its worldwide accounts receivable in a timely manner. USAID is only aware of its receivables when its Office of Procurement, missions, and contractors/grantees report them to its Office of Financial Management. This situation occurred because USAID lacked coordination and integration of various systems, adequate policy and procedural guidance and, as previously stated, an integrated financial management system.

SFFAS No. 1 requires that a receivable be recognized (recorded) when a claim to cash or other assets has been established. The establishment of a receivable cannot occur on a timely basis unless there are adequate procedures for recognizing and reporting accounts receivable at the end of each accounting period. USAID did not comply with the accounts receivable aspects of SFFAS No. 1.

Standard No. 4: Managerial Cost Accounting Concepts and Standards for the Federal Government

USAID did not comply with all elements of SFFAS No. 4. Specifically, USAID does not have an effective system of identifying and reporting all costs against appropriate Agency goals. USAID did not record and report about $2.1 billion in expenses to the correct Agency goals in FY 2003.

SFFAS 4, paragraph 146, requires that a costing methodology, once adopted, be used consistently so that cost information can be compared from year to year. Since USAID was required to make such large adjustments of costs between goals in its Statement of Net Cost, the FY 2003 data on expenses within each of USAID's six Agency goals cannot effectively be compared to that of FY 2002. As mentioned in SFFAS No.4, paragraph 20, Congress and Federal executives, including the President, make policy decisions on program priorities and allocate resources among programs using this cost information. These users need cost information to compare alternative courses of action, to make program authorization decisions, and to evaluate program performance but USAID's current system does not allow this to be accomplished successfully.

Standard No. 15, Management's Discussion and Analysis (MD&A)

According to SFFAS 15, each general purpose federal financial report should include financial statements and a section devoted to the MD&A. SFFAS 15 states that the MD&A is required supplementary information and should include, among other things, information on performance goals and results that relate to the financial statements.

Based on our review of a draft of the MD&A, dated October 10, 2003, the OIG determined that the draft MD&A did not provide a clear and concise description of program performance that related to the financial statements included in the Performance and Accountability Report. Specifically, the draft MD&A did not provide a clear picture of planned and actual performance for fiscal year 2003 since the document contained few performance targets and inadequate coverage of the agency-wide performance results relating to key targets contained in the FY 2003 Annual Performance Plan.

United States Standard General Ledger at the Transaction Level

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

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

Thus, USAID cannot ensure that transactions are posted properly and consistently from mission to mission. Therefore, USAID needs to record mission activities using the standard general ledger at the transaction level to support financial reporting and meet the requirements of the Department of Treasury. However, until USAID deploys its core financial system worldwide, the Mission Accounting and Control System will continue to operate as the financial system for overseas missions.

As discussed in the "Nature, Extent, and Causes of Noncompliance" section, USAID plans to convert all 38 accounting stations to its new core financial system by the summer of 2005. The OIG will continue to monitor USAID's progress to deploy its core financial system overseas.

Remediation Plan

OMB Circular No. A-11 states that an agency that is not in compliance with FFMIA must prepare a remediation plan. The purpose of a remediation plan is to identify activities planned and underway that will allow USAID to achieve substantial compliance with FFMIA. Remediation plans must include the resources, remedies, interim target dates, and responsible officials. Further, the remediation target dates must be within three years of the date the system was determined not to be substantially compliant.

For fiscal year 2003, USAID had a target to conduct a study to make more effective use of capital planning, enterprise architecture, and modern business practices to modernize the Agency's business systems and accelerate the Agency-wide deployment of its core financial management system. According to USAID's updated remediation plan in the "<u>USAID CFO FY-2004 Financial</u>

Management Budget Justification" USAID conducted the planned study as scheduled.

Computer Security Act

The Computer Security Act of 1987 (Public Law No. 100-235) requires Federal agencies to protect information by (1) identifying sensitive systems, (2) developing and implementing security plans for sensitive systems, and (3) establishing a training program to increase security awareness and knowledge of accepted security practices. To further improve program management and evaluations of agencies' computer security efforts, the Federal Information Security Management Act (Public Law No. 107-347) was passed in January 2002.

Since September 1997, the OIG has reported that USAID did not implement an effective computer security program as required. In response to OIG audits, USAID has made substantial computer security improvements. For example, USAID:

- Implemented centralized controls of all firewalls deployed through the Agency network.

- Integrated encryption capabilities into three communication paths being used through the Agency-wide network.

- Executed a performance measure program that monitors the Missions' Information Security Technology risk levels.

- Developed a technical assessment guide to determine USAID's network detection capabilities.

- Developed information security training for personnel in key information security positions.

Although USAID has taken steps to improve computer security, more work is needed to ensure that sensitive data are not exposed to unacceptable risks of loss or destruction. USAID plans to correct this material weakness by October 2003. The OIG will continue to monitor USAID's progress in improving computer security.

Debt Collection and Improvement Act of 1996

The Debt Collection and Improvement Act of 1996 and the Federal Claims Collection Standards authorize USAID to:

1. Collect debts owed to the Agency by means of administrative offset.

2. Assess interest, penalties, and administrative costs on overdue debts against its debtors.

3. Contract for private collection services.

4. Disclose information on debts to credit reporting agencies.

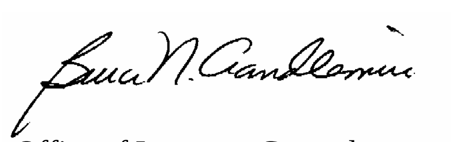
5. Report compromises to the Internal Revenue Service.

USAID's Claims Collection Standards, 22 CFR 213, cover the due process rights of debtors and procedures for collecting delinquent debt.

USAID has not complied with all elements of the Debt Collection and Improvement Act of 1996 that require Federal agencies to report to the Department of Treasury any receivables that should be included in the Treasury’s offset program. This situation occurred primarily because USAID does not have an effective process for establishing accounts receivable.

Office of Management and Budget (OMB) Bulletin No. 01-09

The Office of Management and Budget Bulletin No. 01-09 requires Federal agencies to reconcile intragovernmental assets, liabilities, and revenue amounts with trading partners semi-annually in FY 2002 and quarterly beginning in FY 2003. USAID has not complied with all elements of this specific requirement. Specifically, USAID has not reconciled all intragovernmental activities with its trading partners. This occurred because USAID lacked the dedicated resources needed to conduct this periodic reconciliation.



Office of Inspector General
November 14, 2003

Management Comments and Our Evaluation

We received USAID's management comments to the findings and recommendations included in our draft report. USAID management agreed with all findings and recommendations. Management commented that they are extremely pleased that the OIG was able to issue unqualified opinions on all of USAID's principal financial statements. Also, USAID's management recognized the OIG's dedication and cooperation throughout the audit process. We have evaluated USAID's management comments on the recommendations and have reached management decisions on all four recommendations. The following is a brief summary of USAID's management comments on each of the four recommendations included in this report and our evaluation of those comments.

Recommendation No. 1

USAID management agreed with Recommendation No. 1. The Office of Financial Management agreed to work with the Office of Policy and Program Coordination to implement this recommendation. We agree with this management decision. Regarding recommendation No. 1.2, USAID management commented that they agree to take the action that is consistent with the cited Automated Directives System policy requiring all strategic objectives to be assigned to an Agency goal except for Program Development and Learning Objectives and Objectives exempted from strategic planning requirements for foreign policy reasons. We believe that whenever exempted programs are assigned strategic objectives, those strategic objectives should be assigned to a corresponding Agency goal according to the Automated Directives System.

Recommendation No. 2

USAID management agreed with Recommendation No. 2 and plan to implement this recommendation by March 31, 2004. We agree with the management decision on this recommendation and will review USAID's implementation of this recommendation in our FY 2004 GMRA audit.

Recommendation No. 3

USAID management agreed with Recommendation No. 3. Management commented that they agree to implement this recommendation and will engage overseas staff in the implementation process. USAID management commented that it has a target completion date of June 30, 2004 for the implementation of this recommendation. We agree with this management decision and will review USAID's progress in the implementation of this recommendation in our FY 2004 GMRA audit.

Recommendation No. 4

USAID management agreed with Recommendation No. 4. Management commented that it plan to implement this recommendation and convene a follow-up team to review USAID's progress in the implementation and eventual closure of this recommendation. USAID commented that it would implement this recommendation by June 30, 2004. We agree with this management decision and will review USAID's progress in its implementation during our FY 2004 GMRA audit.

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

Scope and Methodology

Scope

This audit was conducted in accordance with generally accepted government auditing standards. Following those standards, we assessed the reliability of USAID's fiscal year 2003 financial statements, related internal controls, and compliance with provisions of applicable laws and regulations.

We obtained an understanding of the account balances reported in USAID's FY 2003 financial statements. The OIG determined whether the amounts were reliable, whether applicable policies and procedures were established, and whether they had been placed in operation to meet the objectives of the Federal Accounting Standards Advisory Board and other regulations. We considered all reasonable efforts made by USAID's management to improve its financial management and respond to our previous recommendations relating to the operations of its financial portfolio.

We statistically selected and reviewed FY 2003 financial statements and financial related activities at USAID/Washington and 16 USAID missions[16]. A planning materiality threshold of five percent and testing materiality threshold of three percent was calculated. These materiality thresholds were based on USAID FY 2002 total assets net of intergovernmental balances. Any amount over $75 million was considered material and was included in our audit of USAID's FY 2003 financial statements. All exceptions were considered in the aggregate to determine whether USAID's FY 2003 financial statements were reliable.

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

[16] The 16 missions selected were USAID: Mali, Hungary, Mozambique, Haiti, Egypt, Jamaica, Dominican Republic, Bangladesh, India, El Salvador, Senegal, South Africa, Ukraine, Russia, Ghana, and Nigeria. USAID Dominican Republic, Haiti, and Jamaica were substituted for USAID/Kenya because of security concerns.

Methodology

In accomplishing our audit objectives, we reviewed significant line items and amounts related to USAID's fiscal year 2003 financial statements. These financial statements include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. To accomplish the audit objectives we:

- Obtained an understanding of the components of internal control and assessed the level of control risk relevant to the assertions embodied in the class of transactions, account balances, and disclosure components of the financial statements.

- Performed tests of compliance with laws and regulations that could have a direct and material effect on USAID's financial statements including the Federal Financial Management Improvement Act.

- Conducted internal control reviews at USAID/Washington and 16 statistically selected missions and detailed audit tests of selected account balances at USAID/Washington and the 16 statistically selected missions.

- Statistically selected and confirmed outstanding advances to grantees and selected direct loan balances.

- Reviewed prior audit reports related to USAID financial activities and determined their impact on USAID's fiscal year 2003 financial statements.

- Conducted meetings with USAID management, employees, contractors, grantees, and other parties associated with the information presented in the FY 2003 financial statements.

- Followed up on previous financial statement audit recommendations and restated those recommendations not implemented by USAID management.

- Conducted a limited review of the internal controls related to the existence and completeness assertions relevant to the performance measures included in the MD&A. Reviewed the October 10, 2003, draft of the MD&A.

USAID's Management Comments

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

November 10, 2003

MEMORANDUM

TO: AIG/A, Bruce N. Crandlemire

FROM: CFO, Lisa D. Fiely /s/

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2002 and 2003 (Report No. 0-000-04-001-C)

Fiscal year 2003 was a landmark year for Federal financial management at USAID. We are pleased that your draft report titled "USAID's Consolidated Financial Statements, Internal Controls, and Compliance for Fiscal Years 2002 and 2003" so fairly presents both our progress and our remaining challenges. We are extremely pleased that you are able to issue unqualified opinions on all of USAID's five principal financial statements. We wish to recognize the OIG's dedication and cooperation throughout the audit process. We appreciate the excellent counsel and support the auditors provided to us. As noted in your report, in addition to receiving an unqualified audit opinion, we met the significant challenge set by the Office of Management and Budget (OMB) and the U.S. Department of Treasury (U.S. Treasury) of adopting the earlier reporting date of November 15, 2003, 45 days after the close of the fiscal year. We also appreciate your acknowledgement of the improvements that we made throughout the year to improve financial systems and processes.

Following are our management decisions regarding the proposed audit recommendations:

USAID's Methodology for Assigning Strategic Objectives to Agency Goals Needs Improvement

Recommendation 1: We recommend that USAID's CFO coordinate with the PPC Bureau to:

1.1 Obtain annual certifications from responsible offices showing that their strategic objectives are properly assigned to the appropriate Agency goals.

1.2 Implement ADS 201.3.7.1 by requiring that all strategic objectives be assigned to an Agency goal.

1.3 Develop separate allocation methodologies for strategic objectives that must be allocated to more than one Agency goal.

Management Decision: We agree to work with PPC to implement these recommendations. Regarding recommendation 1.2, we agree to take action that is consistent with the cited ADS policy; therefore, we will require that all strategic objectives be assigned to an Agency goal, except Program Development and Learning Objectives and objectives exempted from strategic planning requirements for foreign policy reasons. Target completion date is September 30, 2004.

USAID's Process for Reviewing Quarterly Accounts Payable and Accrued Program Expenses via its Accruals Reporting System Needs Improvement.

Recommendation 2: We recommend that USAID's CFO:

2.1 Establish and implement procedures to obtain updated Cognizant Technical Officer information whenever personnel changes affect the information recorded in the Accruals Reporting System.

2.2 Establish and implement procedures to evaluate the reliability of the Accrual Reporting System by performing quarterly reviews using valid statistical analysis techniques.

2.3 Establish and implement procedures to compile and maintain quarterly analytical information on the number and amount of modified and system-generated accruals certified in the Accruals Reporting System by USAID's Cognizant Technical Officers – by USAID Bureau – to assist in planning follow-up reviews of Accrual Reporting System information.

Management Decision: We agree to implement recommendations 2.1, 2.2, and 2.3. Target completion date is March 31, 2004.

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

Recommendation 3: We recommend that the CFO require its Office of Financial Management to develop and implement specific procedures for its overseas missions to reconcile their fund balance accounts with the U.S. Treasury account.

Management Decision: We agree to implement recommendation 3 and will engage overseas staff in this process. Target completion date is June 30, 2004.

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

Recommendation 4: We recommend that the USAID CFO:

4.1 Issue revised and expanded policy and procedural guidance for the careful reviews needed to identify the amount of unliquidated obligations that are no longer needed.

4.2 Review the lists of unliquidated obligations totaling $119 million identified in this report and make a determination regarding the deobligation of those funds.

Management Decision: We agree to implement these recommendations. A follow-up team will be convened to review progress and issues since the quick hit effort in 2002. This team will be responsible for taking the necessary actions to close these recommendations. Target completion date is June 30, 2004.

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

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

Office of Management and Budget's (OMB) Circular No. A-50 states that a management decision on audit recommendations shall be made within a maximum of six months after a final report is issued. Corrective action should proceed as rapidly as possible. The following audit recommendations directed to USAID either have not been corrected and/or final action has not been completed as of September 30, 2003. We have also noted where final action was taken subsequent to fiscal year-end but prior to the date of this report.

Audit of USAID's Compliance with
Federal Computer Security Requirements
Audit Report No. A-000-97-008-P, September 30, 1997

Recommendation No. 2: We recommend that the Acting Assistant Administrator for Management demonstrate support for an effective computer security program by taking action to direct the computer security program manager to develop and implement an effective computer security program by:

2.2 Ensuring that adequate resources and skills are available to implement the program.

2.4 Implementing disciplined processes to ensure compliance with the Computer Security Act of 1987 and OMB Circular A-130.

2.5 Bringing sensitive computer systems, including the New Management System, into compliance with computer security requirements by: (1) assigning security responsibility, (2) preparing security plans, (3) completing contingency/disaster recovery plans, (4) identifying technical controls, (5) conducting security reviews, and (6) obtaining management's authorization before allowing systems to process data.

Recommendation is pending final action by USAID.

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

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

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

Recommendation is pending final action by USAID.

Report to USAID Managers on Selected
USAID Internal Controls for Fiscal Year 1998
Audit Report No. 0-000-99-002-F, March 31, 1999

Recommendation No. 10: We recommend that USAID's Bureau for Policy and Program Coordination:

10.2 Develop internal controls for identifying the full costs (USAID program and operating expenses and funding by other donors and host countries) of USAID programs, activities, and outputs.

Recommendation is pending final action by USAID.

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

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

2.1 Provide detailed guidelines to overseas missions for writing off old reconciling items. These guidelines should include the reconciliation steps that should be completed before USAID missions request write-offs.

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

Recommendation is pending final action by USAID.

Audit of USAID's Efforts to Meet the Requirements of the Government Performance and Results Act of 1993, Audit Report No. 9-000-03-011-P, dated September 30, 2003

Recommendation No. 1: We recommend that the USAID Bureau for Policy and Program Coordination improve USAID's performance-reporting system to enable the reporting of current-year results for its program activities.

Recommendation is awaiting final action by USAID.

Recommendation No. 2: We recommend that the USAID Bureau for Policy and Program Coordination incorporate annual output indicators into USAID's performance-reporting system that will supplement longer-term outcome indicators.

Recommendation is awaiting final action by USAID.

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

Consolidated Financial Statements for Fiscal Year 2003

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TABLE OF CONTENTS

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Financial Highlights

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

Balance Sheet

The Balance Sheet presents amounts available for use by USAID: assets; the amounts owed (liabilities); and, amounts that comprise the difference between assets and liabilities, which is the Agency's net financial position or equity.

Assets. Consistent with the prior year, Fund Balance with Treasury and Loans Receivable represents the vast majority of USAID assets. Together, they account for 91.2 percent ($19.9 billion) of the $21.8 billion in total assets as of September 30. USAID maintains funds with Treasury to pay its operating and program expenses. These funds increased by about $2.3 billion (19.5 percent) from $11.9 billion to $14.2 billion during FY 2003. This increase is due to an increase in the FY 2003 appropriation for Economic Support as well as a supplemental appropriation bill for Iraq relief and reconstruction signed into law on April 16, 2003.

Loans Receivable, resulting from disbursement of funds under the Direct Loan Programs, totaled $5.7 billion at year end, net of estimated write-offs due to loan defaults. This balance is $301 million, or 5 percent, lower than the preceding year's ending balance because of routine collection during the year of outstanding amounts owed.

The largest percentage change in assets from FY 2002 to FY 2003 occurred in accounts receivables. Intragovernmental Accounts Receivable increased by $638 million, or 128.5 percent primarily because of the increase in disbursing authority receivable from the Department of Agriculture's Commodity Credit Corporation. Net Accounts Receivable with the Public increased by $35 million, or 113.1 percent mainly because of credit program accounts receivable activity.

Liabilities. Total USAID liabilities amount to $9.3 billion at yearend. This amount represents an $840 million, or 9.9 percent, increase in total liabilities from the prior year.

Credit program liabilities, consisting mainly of amounts payable to the U.S. Treasury, account for most of USAID's total liabilities. In FY 2003, the amount payable to the Treasury decreased by $189 million (3.2 percent) from $5.9 billion to $5.7 billion during FY 2003. The remaining credit program liabilities of $1.2 billion represent the estimated liability associated with USAID's guarantees of loans made by private lending institutions. The loan guarantee liability increased by $111 million (10.6 percent) from last year. To calculate this liability, USAID uses prescribed post-1991 and pre-1992 methods, both of which are prescribed by federal regulation.

The largest percentage change in liabilities occurred in Intragovernmental Debt. Debt increased by $62 million, or 372.8 percent, due to an increase in net borrowing in the Direct Loan Programs.

Net Position. USAID's net position or equity totals $12.5 billion as of September 30. Most of this amount—$11.8 billion or 94.3 percent—represent funds appropriated by Congress for use over multiple years and have not been expended at the end of FY 2003.

Statement of Net Cost

This statement provides the reader with an understanding of the full cost of operating USAID programs. The majority of costs incurred by USAID is in direct support of its programs. The agency's indirect costs relate to general operations such as salaries, training, and support for the Office of Inspector General. Overall, costs increased by $2.1 billion, or 26.2 percent, from FY 2002. This increase is consistent with the increase in appropriated funds for additional program and operational activity.

During FY 2003, USAID made further improvements to the Statement of Net Cost. A detailed analysis of the linkage between strategic objectives and Agency goals was conducted and several linkages were updated to reflect the current focus of program activities. This review results in a more refined depiction of costs associated with Agency goals. Additionally, the Statement of Net Cost is now presented by responsibility segment. Federal financial accounting standards require that agencies define and establish responsibility segments for reporting an agency's net cost. A responsibility segment carries out a mission or conducts a major line of activity. Managers of responsibility segments usually report to the top management directly, and their resources and the results of their operations can be clearly distinguished from those of other organizational segments. USAID's functional and geographic bureaus meet the criteria of a responsibility segment. The Agency's net cost by responsibility segment is presented in Footnote 17 of the financial statements.

Following is a break out of net cost by outcome goal for FY 2003.

U.S. Agency for International Development

Program Costs and Percentage of Costs by Outcome Goal

	Outcome Goal	Net Cost (In thousands)	Percent
Goal 1	Broad-Based Economic Growth and Agricultural Development	$3,702,625	37%
Goal 2	Strengthen Democracy and Good Governance	972,366	10%
Goal 3	Human Capacity Built Through Education and Training	331,251	3%
Goal 4	Stabilizing World Population and Protecting Human Health	2,163,167	22%
Goal 5	Protect the Environment for Long-Term Sustainability	757,063	8%
Goal 6	Promote Humanitarian Assistance	2,067,093	20%
TOTALS		$9,993,565	100.0%

Statement of Changes in Net Position

This statement identifies those items that caused USAID's net position to change from the beginning to the end of the reporting period. The statement includes two major components—Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations increased by $1.7 billion, or 17 percent, from FY 2002 to FY 2003. This increase is principally the result of the supplemental appropriation bill for Iraq relief and reconstruction authorizing new funding in April 2003.

Cumulative Results of Operations amounts to $714 million as of September 30, an increase of 23.5 percent from the $578 million balance a year earlier. This balance is the cumulative difference, for all previous fiscal years through 2003, between funds available to USAID from all financing sources and the net cost of USAID programs and operations.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on how budgetary resources were made available for the year and what the status of budgetary resources was at year-end. During Fiscal Year 2003, USAID received over $10.8 billion in direct appropriations, less $437 million in net appropriations transfers to other agencies.

USAID obligated over 81 percent of all available budgetary resources for the year. Among the unobligated funds, over 93 percent is available for new programming and obligating in future years.

Appropriations received from the U.S. Treasury increased by 33 percent from FY 2002. This was primarily because of increased funding in the following major appropriations:

- $2 billion for the Economic Support Fund
- $393 million for the Child Survival and Health Programs
- $221 million for the Development Assistance Fund
- $108 million for International Disaster Assistance Fund

Consequently, the increase in appropriated funds also caused increases in the Obligations Incurred and Net Outlays.

Statement of Financing

The statement of Financing reconciles net obligations as reported on the Statement of Budgetary Resources to net costs reported on the Statement of Net Costs. Net obligations increased by $2.1 billion, or 26.5 percent, from FY 2002. This increase is due to increased appropriations received for FY 2003.

Limitations to the Financial Statements

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

U.S. Agency for International Development
CONSOLIDATED BALANCE SHEET
As of September 30, 2003 and 2002
(in thousands)

	2003	2002
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 14,215,414	11,897,972
Accounts Receivable (Note 3)	1,134,074	496,369
Other Assets (Note 4)	32,998	46,527
Total Intragovernmental	15,382,486	12,440,868
Cash and Other Monetary Assets (Note 5)	240,412	262,088
Accounts Receivable, Net (Note 3)	66,313	31,116
Loans Receivable, Net (Note 6)	5,696,597	5,997,453
Inventory and Related Property (Note 7)	24,027	20,241
General Property, Plant, and Equipment, Net (Note 8 and 9)	64,333	54,449
Advances and Prepayments (Note 4)	350,067	329,762
Total Assets	21,824,235	19,135,977
LIABILITIES (Note 16)		
Intragovernmental		
Accounts Payable (Note 10)	27,299	69,572
Debt (Note 11)	79,165	16,744
Due to U.S. Treasury (Note 11)	5,669,725	5,859,175
Other Liabilities (Note 12, 13, and 14)	14,843	50,253
Total Intragovernmental	5,791,032	5,995,744
Accounts Payable (Note 10)	1,842,778	1,101,961
Loan Guarantee Liability (Note 6)	1,159,415	1,048,751
Federal Employees and Veteran's Benefits (Note 14)	27,400	28,251
Other Liabilities (Note 12)	511,257	317,635
Total Liabilities	9,331,882	8,492,342
Commitments and Contingencies (Note 15)		
NET POSITION		
Unexpended Appropriations	11,777,877	10,065,290
Cumulative Results of Operations	714,476	578,345
Total Net Position	12,492,353	10,643,635
Total Liabilities and Net Position	$ 21,824,235	$ 19,135,977

The accompanying notes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET COSTS
For the Years Ended September 30, 2003 and 2002
(in thousands)

			FY 2003	FY 2002
Goal 1:	Broad-Based Economic Growth and Agricultural Development			
		Intragovernmental	$ 214,639	$ 132,431
	Appropriations Used	With the public	3,569,174	2,808,027
		Total	3,783,813	2,940,458
		Less earned revenues	(81,188)	(59,673)
		Net program costs	3,702,625	2,880,785
Goal 2:	Human Capacity Built Through Education and Training			
		Intragovernmental	24,212	75,921
	Appropriations Used	With the public	307,797	737,461
		Total	332,009	813,382
		Less earned revenues	(758)	(8,876)
		Net program costs	331,251	804,506
Goal 3:	Protect the Environment for Long-Term Sustainability			
		Intragovernmental	118,568	38,791
	Appropriations Used	With the public	736,453	498,318
		Total	855,021	537,109
		Less earned revenues	(97,958)	(24,860)
		Net program costs	757,063	512,249
Goal 4:	Stabilizing World Population and Protecting Human Health			
		Intragovernmental	172,047	82,005
	Appropriations Used	With the public	1,996,562	1,472,830
		Total	2,168,609	1,554,835
		Less earned revenues	(5,442)	(48,687)
		Net program costs	2,163,167	1,506,148
Goal 5:	Strengthen Democracy and Good Governance			
		Intragovernmental	27,426	60,947
	Appropriations Used	With the public	945,811	641,207
		Total	973,237	702,154
		Less earned revenues	(871)	(11,210)
		Net program costs	972,366	690,944
Goal 6:	Lives Saved through Humanitarian Assistance			
		Intragovernmental	56,065	70,924
	Appropriations Used	With the public	2,012,834	1,538,770
		Total	2,068,899	1,609,694
		Less earned revenues	(1,806)	(81,077)
		Net program costs	2,067,093	1,528,617
		Less earned revenues not attributed to programs	-	(5,890)
		Net Cost of Operations (Note 17)	$ 9,993,565	$ 7,917,359

The accompanying notes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF NET POSITION
For the Years Ended September 30, 2003 and 2002
(in thousands)

	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriation	Cumulative Results of Operations	Unexpended Appropriation
Beginning Balances	$ 578,345	$ 10,065,290	$ 10,326	$ 9,789,358
Prior period adjustments (Note 19)	1,690	-	483,897	(483,782)
Beginning Balances, as adjusted	580,035	10,065,290	494,223	9,305,576
Budgetary Financing Sources				
Appropriations Received	-	10,536,974	-	7,936,485
Appropriations transferred-in/out	-	113,059	-	213,366
Other adjustments (recissions, etc)	-	(51,797)	-	(70,739)
Appropriations used	8,885,648	(8,885,648)	7,319,398	(7,319,398)
Nonexchange revenue	-	-		-
Donations and forfeitures of cash				
and cash equivalents	100,316	-	104,919	-
Transfers-in/out without reimbursement	1,128,139	-	565,633	-
Other financing sources	-	-		-
Transfers-in/out without reimbursement	-	-	(1,928)	-
Imputed financing from costs absorbed by others	13,902	-	13,459	-
Total Financing Sources	10,128,005	1,712,588	8,001,481	759,714
Net Cost of Operations	9,993,565	-	7,917,359	-
Ending Balances	$ 714,475	$ 11,777,878	$ 578,345	$ 10,065,290

U.S. Agency for International Development
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2003 and 2002
(in thousands)

	FY 2003 Budgetary	FY 2003 Credit Program Financing	FY 2002 Budgetary	FY 2002 Credit Program Financing
Budget Authority				
Appropriations Received	10,801,068	-	7,971,616	
Borrowing Authority (Note 20)	-	62,886		465
Net Transfers	(436,693)	-	669,622	
Other	-	-	32,525	
Total Budget Authority	10,364,375	62,886	8,673,763	465
Unobligated Balance:				
Beginning of Period	1,592,265	798,979	1,769,666	796,958
Net Transfers, Actual	(1,684)	-	(4,599)	
Total Unobligated Balance	1,590,581	798,979	1,765,067	796,958
Spending Authority from Offsetting Collections:				
Earned				
Collected	892,844	208,543	1,029,293	129,867
Receivable from Federal Sources	(5,961)	11,328	(678)	(11,327)
Change in Unfilled Customer Orders				
Advance Received	(331)	-		
Anticipated for Rest of Year, Without Advances	-	-		
Subtotal	886,552	219,871	1,028,615	118,540
Recoveries of Prior Year Obligations	158,594	14,180	128,325	5,904
Permanently Not Available	(712,773)	(465)	(987,596)	(48,249)
Total Budgetary Resources	12,287,329	1,095,451	10,608,174	873,618
Obligations Incurred Direct (Note 20)	9,973,855	113,832	9,012,090	74,639
Unobligated Balance, Available	2,172,882	981,619	1,544,909	793,076
Unobligated Balance, Unavailable	140,592	-	51,175	5,903
Total Status of Budgetary Resources	12,287,329	1,095,451	10,608,174	873,618
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period (Note 20)	9,431,741	26,868	8,887,092	14,665
Obligated Balance, Transferred, Net	1,819	-		
Obligated Balance, Net, End of Period:				
Accounts Receivable	(3,832)	-	(9,987)	11,327
Unfilled Customer Orders From Federal Sources	-	-		
Undelivered Orders	9,209,121	1,731	8,341,194	14,733
Accounts Payable	1,367,956	(135)	1,100,015	808
Outlays:				
Disbursements	8,680,899	113,597	8,340,309	67,860
Collections	(892,551)	(208,543)	(1,029,292)	(129,868)
Subtotal	7,788,348	(94,946)	7,311,017	(62,008)
Less: Offsetting Receipts				
Net Outlays	$ 7,788,348	$ (94,946)	$ 7,311,017	$ (62,008)

The accompanying notes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATED STATEMENT OF FINANCING
For the Year Ended September 30, 2003 and 2002
(in thousands)

	2003	2002
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred (Note 21)	$10,087,687	$9,086,729
Appropriations transferred to/from other agencies (net)	1,440,612	117,337
Total Obligations Incurred	11,528,299	9,204,066
Less: Spending authority from offsetting collections and recoveries (Note 20)	(1,279,197)	(1,147,155)
Spending authority transferred to/from other agencies (net)	(52,961)	3,503
Total Spending authority from offsetting collections and recoveries	(1,332,158)	(1,143,652)
Net Obligations	10,196,141	8,060,414
Other Resources		
Donated and Credit Program Revenue	(170,456)	(74,574)
Imputed Financing From Costs Absorbed by Others	13,902	13,459
Net other resources used to finance activities	(156,554)	(61,115)
Total resources used to finance activities	10,039,587	7,999,299
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(1,318,994)	(1,111,255)
Resources that fund expenses recognized in prior periods	20	(995)
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,091,885	959,754
Other	(6,057)	6,275
Resources that finance the acquisition of assets	80,309	33,413
Total resources used to finance items not part of net cost of operations	(152,837)	(112,808)
Total resources used to finance net cost of operations	9,886,750	7,886,491
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods (Note 21):		
Increase in annual leave liability	2,168	1,206
Upward/Downward reestimates of credit subsidy expense	98,115	(22,947)
Other	36,435	39,221
Total components of net cost of operations that will require or generate resources in future periods	136,718	17,480
Components not Requiring or Generating Resources		
Depreciation and Amortization	6,925	10,525
Revaluation of assets or liabilities	3,133	(2,056)
Other	(39,961)	4,919
Total components of net cost of operations that will not require or generate resources	(29,903)	13,388
Total components of net cost of operations that will not require or generate resources in the current period	106,815	30,868
Net Cost of Operations	$ 9,993,565	$ 7,917,359

The accompanying notes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATING BALANCE SHEET
As of September 30, 2003 and 2002
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Intra-Agency Eliminations	Total
ASSETS								
Intragovernmental								
Fund Balance with Treasury	$ 1,345,880	$ 12,673,983	$ 183,798	$ 3,484	$ 23,253	$ (14,984)	$ -	$ 14,215,414
Accounts Receivable	-	-	1,134,074	-	-	-	-	1,134,074
Other Assets	-	32,375	623	-	-	-	-	32,998
Total Intragovernmental	1,345,880	12,706,358	1,318,495	3,484	23,253	(14,984)	-	15,382,486
Cash and Other Monetary Assets	50	-	240,362	-	-	-	-	240,412
Accounts Receivable, Net	142,288	13,145	1,306	-	-	4,329	(94,755)	66,313
Loans Receivable, Net	5,696,597	-	-	-	-	-	-	5,696,597
Inventory and Related Property	-	17,089	6,938	-	-	-	-	24,027
General Property, Plant, and Equipment, Net	-	1,197	63,136	-	-	-	-	64,333
Advances and Prepayments	1,402	305,679	42,289	99	598	-	-	350,067
Total Assets	7,186,217	13,043,468	1,672,526	3,583	23,851	(10,655)	(94,755)	21,824,235
LIABILITIES							*/	
Intragovernmental								
Accounts Payable	1,239	36,481	13,740	-	-	(24,161)	-	27,299
Debt	79,165	-	-	-	-	-	-	79,165
Due to U.S. Treasury	5,669,725	-	-	-	-	-	-	5,669,725
Other Liabilities	4,096	-	6,417	-	-	4,330	-	14,843
Total Intragovernmental	5,754,225	36,481	20,157	-	-	(19,831)	-	5,791,032
Accounts Payable	129,649	1,390,539	416,359	295	691	-	(94,755)	1,842,778
Loan Guarantee Liability	1,159,415	-	-	-	-	-	-	1,159,415
Federal Employees and Veteran's Benefits	-	-	27,400	-	-	-	-	27,400
Other Liabilities	201,082	-	277,588	-	23,411	9,176	-	511,257
Total Liabilities	7,244,371	1,427,020	741,504	295	24,102	(10,655)	(94,755)	9,331,882
Commitments and Contingencies								
NET POSITION								
Unexpended Appropriations	44,421	11,596,111	137,345	-	-	-	-	11,777,877
Cumulative Results of Operations	(102,575)	20,337	793,677	3,288	(251)	-	-	714,476
Total Net Position	(58,154)	11,616,448	931,022	3,288	(251)	-	-	12,492,353
Total Liabilities and Net Position	$ 7,186,217	$ 13,043,468	$ 1,672,526	$ 3,583	$ 23,851	$ (10,655)	$ (94,755)	$ 21,824,235

The accompanying notes are an integral part of these statements

		Credit	Program	Operating	Revolving	Trust Funds	Other	Intra-Agency Eliminations	Total
Goal 1:	Broad-Based Economic Growth and Agricultural Development								
	Intragovernmental	69,471	48,587	97,634	41	-	-	(1,094)	214,639
	With the Public	50,006	3,350,615	165,112	1,479	1,962	-	-	3,569,174
	Total	119,477	3,399,202	262,746	1,520	1,962	-	(1,094)	3,783,813
	Less earned revenues	(77,873)	(1,630)	(1,829)	(1,205)	-	-	1,349	(81,188)
	Net Program Costs	41,604	3,397,572	260,917	315	1,962	-	255	3,702,625
Goal 2:	Strengthen Democracy and Good Governance								
	Intragovernmental	-	11,032	16,527	7	-	-	(140)	27,426
	With the Public	-	919,754	25,697	251	109	-	-	945,811
	Total	-	930,786	42,224	258	109	-	(140)	973,237
	Less earned revenues	-	(370)	(311)	(205)	-	-	15	(871)
	Net Program Costs	-	930,416	41,913	53	109	-	(125)	972,366
Goal 3:	Human Capacity Built Through Education and Training								
	Intragovernmental	-	4,653	19,674	8	-	-	(123)	24,212
	With the Public	-	276,688	30,681	299	129	-	-	307,797
	Total	-	281,341	50,355	307	129	-	(123)	332,009
	Less earned revenues	-	(156)	(371)	(244)	-	-	13	(758)
	Net Program Costs	-	281,185	49,984	63	129	-	(110)	331,251
Goal 4:	Stabilizing World Population and Protecting Human Health								
	Intragovernmental	-	58,604	114,272	48	-	-	(877)	172,047
	With the Public	-	1,816,397	177,677	1,738	750	-	-	1,996,562
	Total	-	1,875,001	291,949	1,786	750	-	(877)	2,168,609
	Less earned revenues	-	(1,966)	(2,150)	(1,416)	-	-	90	(5,442)
	Net Program Costs	-	1,873,035	289,799	370	750	-	(787)	2,163,167
Goal 5:	Protect the Environment for Long-Term Sustainability								
	Intragovernmental	87,960	5,308	25,893	11	-	-	(604)	118,568
	With the Public	63,316	632,313	40,260	394	170	-	-	736,453
	Total	151,276	637,621	66,153	405	170	-	(604)	855,021
	Less earned revenues	(98,599)	(179)	(487)	(320)	-	-	1,627	(97,958)
	Net Program Costs	52,677	637,442	65,666	85	170	-	1,023	757,063
Goal 6:	Promote Humanitarian Assistance								
	Intragovernmental	-	35,305	21,037	9	-	-	(286)	56,065
	With the Public	-	976,899	1,035,480	318	137	-	-	2,012,834
	Total	-	1,012,204	1,056,517	327	137	-	(286)	2,068,899
	Less earned revenues	-	(1,183)	(394)	(259)	-	-	30	(1,806)
	Net Program Costs	-	1,011,021	1,056,123	68	137	-	(256)	2,067,093
	Net Costs of Operations	94,281	8,130,671	1,764,402	954	3,257	-	-	9,993,565

The accompanying notes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF NET POSITION
For the Year Ended September 30, 2003
(in thousands)

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Other Funds	Total
Beginning Balances	5,922	9,894,918	738,958	4,242	(405)	-	10,643,635
Prior period adjustments	1,690	-	-	-	-	-	1,690
Beginning Balances, as adjusted	7,612	9,894,918	738,958	4,242	(405)	-	10,645,325
Budgetary Financing Sources:							
Appropriations Received	17,674	9,801,300	718,000	-	-	-	10,536,974
Appropriations transferred-in/out	11,184	97,907	3,968	-	-	-	113,059
Other adjustments (recissions, etc)	(343)	(47,007)	(4,447)	-	-	-	(51,797)
Appropriations used	-	-	-	-	-	-	-
Nonexchange revenue	-						-
Donations and forfeitures of cash and cash equivalents	-	-	96,905	-	3,411	-	100,316
Transfers-in/out without reimbursement	-	-	1,128,139	-	-	-	1,128,139
Other budgetary financing sources	-	-	-	-	-	-	-
							-
Other Financing Sources:							-
Donations and forfeitures of property	-	-	-	-	-	-	-
Transfers-in/out without reimbursement	-	-	-	-	-	-	-
Imputed financing from costs absorbed by others	-	-	13,902	-	-	-	13,902
Other	-	-	-	-	-	-	-
Total Financing Sources	28,515	9,852,200	1,956,467	-	3,411	-	11,840,593
Net Cost of Operations	94,281	8,130,671	1,764,402	954	3,257	-	9,993,565
Ending Balances	(58,154)	11,616,447	931,023	3,288	(251)	-	12,492,353

The accompanying notes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2003

	Credit Program Funds	Program Funds	Operating Funds	Revolving Funds	Trust Funds	Credit-Financing	Allocations to Other Agencies	Total
Budgetary Resources:								
Budget Authority	68,858	8,125,623	721,968	-	9,094	62,886	1,438,832	10,427,261
Unobligated Balances - Beginning of Period	121,635	1,309,465	39,446	3,262	1,936	798,979	114,837	2,389,560
Spending Authority from Offsetting Collections	872,335	5,002	5,364	3,649	-	219,871	202	1,106,423
Recoveries of Prior-Year Obligations	40,020	92,113	21,254	1	1,122	14,180	4,084	172,774
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-
Permanently Not Available	(660,571)	(47,007)	(4,447)	-	-	(465)	(748)	(713,238)
Total Budgetary Resources	442,277	9,485,196	783,584	6,912	12,152	1,095,451	1,557,207	13,382,780
Status of Budgetary Resources:								
Obligations Incurred	73,770	7,699,567	746,200	4,178	10,157	113,832	1,439,983	10,087,687
Unobligated Balances	368,050	1,780,688	35,607	2,734	1,995	981,619	(16,192)	3,154,501
Unobligated Balances	457	4,942	1,777	-	-	-	133,416	140,592
Total Status of Budgetary Resources	442,277	9,485,197	783,584	6,912	12,152	1,095,451	1,557,207	13,382,780
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	23,909	8,968,661	178,099	1,007	15,695	26,868	244,370	9,458,609
Obligated Balance, Transferred, Net	1,819	-	-	-	-	-	-	1,819
Obligated Balance, Net, End of Period	(5,842)	9,082,772	175,584	751	21,259	1,596	1,298,721	10,574,841
Outlays::								
Disbursements	65,310	7,495,577	731,111	4,434	3,472	113,597	380,995	8,794,496
Collections	(872,336)	(7,408)	(9,014)	(3,649)	-	(208,543)	(144)	(1,101,094)
Less: Offsetting Receipts	-	-	-	-	-	-	-	-
Net Outlays	(807,026)	7,488,169	722,097	785	3,472	(94,946)	380,851	7,693,402

The accompanying notes are an integral part of these statements

U.S. Agency for International Development
CONSOLIDATING STATEMENT OF FINANCING
For the Year Ended September 30, 2003 and 2002
(in thousands)

	Credit	Program	Operating	Revolving	Trust	Other	Total
Resources Used to Finance Activities:							
Budgetary Resources Obligated							
Obligations Incurred	187,593	9,139,559	746,199	4,179	10,157	-	10,087,687
Appropriations transferred to/from other agencies (net)	-	255,488	1,185,124	-	-	-	1,440,612
Total Obligations Incurred	187,593	9,395,047	1,931,323	4,179	10,157	-	11,528,299
Less: Spending authority from offsetting collections and recoveries	(1,146,406)	(101,402)	(26,617)	(3,650)	(1,122)	-	(1,279,197)
Spending authority transferred to/from other agencies (net)	-	4,142	(57,103)	-	-	-	(52,961)
Total Spending authority from offsetting collections and recoveries	(1,146,406)	(97,260)	(83,720)	(3,650)	(1,122)	-	(1,332,158)
Net Obligations	(958,813)	9,297,787	1,847,603	529	9,035	-	10,196,141
Other Resources							
Donated and Credit Program Revenue	(176,472)	2,406	3,650	(40)	-	-	(170,456)
Imputed Financing From Costs Absorbed by Others	-	-	13,902	-	-	-	13,902
Net other resources used to finance activities	(176,472)	2,406	17,552	(40)	-	-	(156,554)
Total resources used to finance activities	(1,135,285)	9,300,193	1,865,155	489	9,035	-	10,039,587
Resources Used to Finance Items not Part of the Net Cost of Operations:							
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	40,280	(1,157,115)	(196,907)	425	(5,677)	-	(1,318,994)
Resources that fund expenses recognized in prior periods	-	-	20	-	-	-	20
Budgetary offsetting collections and receipts that do not affect net cost of	-	-	-	-	-	-	
operations	-	-	-	-	-	-	
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	1,091,845	-	-	40	-	-	1,091,885
Other	-	(2,406)	(3,651)	-	-	-	(6,057)
Resources that finance the acquisition of assets	(892)	(7,695)	88,896	-	-	-	80,309
Total resources used to finance items not part of net cost of operations	1,131,233	(1,167,216)	(111,642)	465	(5,677)	-	(152,837)
Total resources used to finance net cost of operations	(4,052)	8,132,977	1,753,513	954	3,358	-	9,886,750
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:							
Components Requiring or Generating Resources in Future Periods:							
Increase in annual leave liability	215	-	2,054	-	(101)	-	2,168
Upward/Downward reestimates of credit subsidy expense	98,115	-	-	-	-	-	98,115
Other	-	-	36,435	-	-	-	36,435
Total components of net cost of operations that will require or generate resources in future periods	98,330	-	38,489	-	(101)	-	136,718
Components not Requiring or Generating Resources							
Depreciation and Amortization	-	618	6,307	-	-	-	6,925
Revaluation of assets or liabilities	-	-	3,133	-	-	-	3,133
Other	3	(2,924)	(37,040)	-	-	-	(39,961)
Total components of net cost of operations that will not require or generate resources	3	(2,306)	(27,600)	-	-	-	(29,903)
Total components of net cost of operations that will not require or generate resources in the current period	98,333	(2,306)	10,889	-	(101)	-	106,815
Net Cost of Operations	94,281	8,130,671	1,764,402	954	3,257	-	9,993,565

The accompanying notes are an integral part of these statements

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

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

B. Reporting Entity

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

Programs

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

Iraq Relief and Reconstruction Fund

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

for families of innocent Iraqi civilians who suffer losses as a result of military operations; (4) electricity; (5) healthcare; (6) telecommunications; (7) economic and financial policy; (8) education; (9) transportation; (10) rule of law and governance; (11) humanitarian 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, protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

Assistance for the New Independent States of the Former Soviet Union

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

Special Assistance Initiatives

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

International Disaster Assistance

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

Child Survival and Disease

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

Central America and the Caribbean Emergency Disaster Recovery Fund

This program was established by a FY 1999 emergency supplemental bill and is for necessary expenses to provide relief for natural disasters in Central America, South America, and Columbia.

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.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Urban and Environmental Program

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

Micro and Small Enterprise Development Program

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

Israeli Loan Guarantee Program

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

Ukraine Guarantee Program

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

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

does not "crowd-out" private sector lending. DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

Fund Types

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

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

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

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

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

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

C. Basis of Accounting

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints on, and controls of, the use of federal funds.

The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position have been prepared on an accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules. Finally, the

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued

Statement of Financing has been prepared to reconcile budgetary to financial (proprietary) accounting information.

D. Budgets and Budgetary Accounting

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

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

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

E. Revenues and Other Financing Sources

USAID receives the majority of its funding through congressional appropriations --annual, 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 Commodity Credit Corporation and the Department of State.

Additional financing sources for USAID's various credit programs and trust funds include amounts obtained through collection of guaranty fees, interest income on rescheduled loans, penalty interest on delinquent balances, permanent indefinite borrowing authority from U.S. Treasury, proceeds from the sale of overseas real property acquired by USAID, and advances from foreign governments and international organizations.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

F. Fund Balances with the U.S. Treasury

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

G. Foreign Currency

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end.

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 USG of making the loan. This cost, known as “subsidy”, takes into account all cash inflows and outflows associated with the loan, including the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, and offsets from fees and other estimated cash flows. This allowance is re-estimated when necessary and changes reflected in the operating statement.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Property, Plant and Equipment

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

M. Liabilities

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

N. Liabilities for Loan Guarantees

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

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.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

For loan guarantees made before the CRA (pre-1992), the liability for loan guarantees represents an unfunded liability. Footnote 5 presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement to for USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

O. Annual, Sick, and Other Leave

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

P. Retirement Plans and Post Employment Benefits

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

USAID recognizes a current-period expense for the future cost of post retirement health benefits and life insurance for its employees while they are still working. USAID accounts for and
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 Statements of Net Position and Financing and are also included as a element of net cost by goal on the Statement of Net Cost.

Q. Net Position

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- Unexpended appropriations are the portion of the appropriations represented by undelivered orders and unobligated balances.

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

R. Non-entity Assets

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

S. Program Costs

Program costs are presented on the Statement of Net Cost by agency goal. The six agency goals that support USAID objectives are:

1. Broad-based economic growth and agricultural development encouraged
2. Human capacity built through education and training
3. Global environment protected
4. World population stabilized and human health protected
5. Democracy and good governance strengthened
6. Lives saved, suffering associated with natural or man-made disasters reduced, and conditions necessary for political and/or economic development re-established

Mission related program expenses by goal area are obtained from the Mission Accounting and Control system (MACS). USAID/Washington program expenses by goal area are obtained directly from Phoenix. A cost allocation model is used to distribute Management Bureau operating costs to specific goals. Expenses related to Credit Reform and revolving funds are directly applied to specific agency goals based on their objectives. Trust funds and remaining operating expenses are allocated based on established program and operating ratios.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 2. FUND BALANCES WITH TREASURY (In Thousands)

Fund Balances with Treasury as of September 30, 2003 and 2002 consisted of the following:

Fund Balances	**2003**	**2002**
Trust Funds	$23,253	$17,631
Revolving Funds	1,312,955	948,819
Appropriated Funds	12,894,164	10,947,817
Other Funds	(14,958)	(16,295)
Total	$14,215,414	$11,897,972

Status of Fund Balance:

	2003	**2002**
Unobligated Balance		
Available	$3,260,019	$2,264,796
Unavailable	7,294	14,487
Obligated Balance Not Yet Disbursed	10,948,101	9,618,689
Total	$14,215,414	$11,897,972

As of September 30, 2003 there was a cash reconciliation difference of $34.6 million between USAID and the Department of Treasury's Fund Balances. The difference as of September 30, 2002 was $45.1 million. For FY 2003 and FY 2002 reporting purposes, USAID adjusted its fund balance downward by these differences to equal the Department of Treasury's fund balance. By adjusting USAID's fund balance to equal Treasury's fund balance, there is consistency between various published reports. Also, based on past experience, the Department of Treasury's balances are more accurate and the differences are usually cleared when USAID processes the required disbursements.

The $34.6 million cash reconciliation difference was posted to separate Fund Balance sub-accounts and the cash differences remain identified as such. USAID is currently performing a reconciliation of the $34.6 million total amount in these accounts and will make adjustments accordingly.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 3. ACCOUNTS RECEIVABLE, NET (In Thousands)

The primary components of USAID's accounts receivable as of September 30, 2003 and 2002 were as follows:

	Receivable Gross	Allowance Accounts	Receivable Net 2003	Receivable Net 2002
Entity				
Intragovernmental				
Appropriation Reimbursements and other Accounts Receivable from Federal Agencies	$209	N/A	$209	$543
Disbursing Authority Receivable from USDA	1,133,865	N/A	1,133,865	495,826
Total Intragovernmental	1,134,074	N/A	1,134,074	496,369
Accounts Receivable	71,163	(9,180)	61,983	29,792
Total Entity	1,205,237	(9,180)		526,161
Total Non-Entity	4,651	(321)	4,330	1,324
Total Receivables	$1,209,888	($9,501)	$4,330	$527,485

Reconciliation of Uncollectible Amounts (Allowance Accounts)

	2003	2002
Beginning Balance	$14,346	$13,090
Additions	1,636	4,444
Reductions	(6,481)	(3,188)
Ending Balance	$9,501	$14,346

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 4. ADVANCES AND PREPAYMENTS (In Thousands)

Advances and Prepayments as of September 30, 2003 and 2002 consisted of the following:

	2003	**2002**
Intragovernmental		
Advances to Federal Agencies	$32,998	$46,527
Total Intragovernmental	32,998	46,527
Advances to Contractors/ Grantees	290,433	252,639
Travel Advances	1,763	2,240
Advances to Host Country Governments and Institutions	38,785	53,988
Prepayments	5,661	7,932
Advances, Other	13,425	12,963
Total Advances and Prepayments	$383,065	$376,289

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. Other Advances consist primarily of amounts advanced for living quarters and home service.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 5. CASH AND OTHER MONETARY ASSETS (In Thousands)

Cash and Other Monetary Assets as of September 30, 2003 and 2002 are as follows:

Cash and Other Monetary Assets	**2003**	**2002**
Imprest Fund- Headquarters	$140	$0
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	240,222	262,038
Total Cash and Other Monetary Assets	$240,412	$262,088

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. USAID's cumulative balance of the Department of State provided imprest funds was $ 4.9 million in FY 2003 and $4.1 million in FY 2002. These imprest funds are not included in USAID's Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this amounted to $ 240.2 million in FY 2003 and $262 million in FY 2002. USAID does not have any non-entity cash or other monetary assets.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands)
USAID operates the following loan and/or loan guarantee programs:

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

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

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

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

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued
Direct Loans

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

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct loans
Direct Loans	$ 8,272,735	$ 322,098	$ 3,260,015	$ 5,334,818
MSED	1,360	90	1,529	(79)
Total	$ 8,274,095	$ 322,188	$ 3,261,544	$ 5,334,739

Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method)
as of September 30, 2002:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Direct loans
Direct Loans	$ 8,843,329	$ 350,800	$ 3,428,309	$ 5,765,820
MSED	1,386	83	1,838	(369)
Total	$ 8,844,715	$ 350,883	$ 3,430,147	$ 5,765,451

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

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

Direct Loans Obligated After FY 1991
as of September 30, 2002:

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct loans
Direct Loans	$ 120,667	$ -	$ 186,673	$ (66,006)
MSED	311	25	468	(131)
Total	$ 120,979	$ 25	$ 187,141	$ (66,137)

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Total Amount of Direct Loans Disbursed

Direct Loan Programs	FY 2003	FY 2002
Direct Loans	$ 8,488,798	$ 8,963,997
MSED	452	1,697
Total	$ 8,489,250	$ 8,965,694

Subsidy Expense for Direct Loans by Program and Component:

Modifications and Reestimates (FY 2003)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loans	$ -	$ (49)	$ (169)	$ (218)
Total	$ -	$ (49)	$ (169)	$ (218)

Modifications and Reestimates (FY 2002)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Direct Loans	$ -	$ -	$ (3,618)	$ (3,618)
Total	$ -	$ -	$ (3,618)	$ (3,618)

Total Direct Loan Subsidy Expense

Direct Loan Programs	FY 2003	FY 2002
Direct Loans	$ (218)	$ (3,618)
Total	$ (218)	$ (3,618)

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Schedule for Reconciling Subsidy Cost Allowance Balances
(Post-1991 Direct Loans)

	FY 2003		
	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance			
Beginning balance of the subsidy cost allowance	$ 186,673	$ 468	$ 187,141
Add: subsidy expense for direct loans disbursed during the reporting years by component:			
(a) Interest rate differential costs			
(b) Default costs (net of recoveries)			
(c) Fees and other collections			
(d) Other subsidy costs			
Total of the above subsidy expense components			
Adjustments:			
(a) Loan modifications	$ 25,653		$ 25,653
(b) Fees received			
(c) Foreclosed property acquired			
(d) Loans written off	-		-
(e) Subsidy allowance amortization	3,356	412	3,768
(f) Other	(1,690)		(1,690)
Ending balance of the subsidy cost allowance before reestimates	$ 213,992	$ 880	$ 214,872
Add or subtract subsidy reestimates by component:			
(a) Interest rate reestimates			
(b) Technical/default reestimates			
Total of the above reestimates components			
Ending balance of the subsidy cost allowance	$ 213,992	$ 880	$ 214,872

Schedule for Reconciling Subsidy Cost Allowance Balances
(Post-1991 Direct Loans)

	FY 2002		
	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance			
Beginning balance of the subsidy cost allowance	$ 180,622	$ 468	$ 181,089
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	$ 6,627		$ 6,627
(b) Fees received			
(c) Foreclosed property acquired			
(d) Loans written off	(6,343)		(6,343)
(e) Subsidy allowance amortization	267	-	267
(f) Other	5,500		5,500
Ending balance of the subsidy cost allowance before reestimates	$ 186,673	$ 468	$ 187,141
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	$ 186,673	$ 468	$ 187,141

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Defaulted Guaranteed Loans

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

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

Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): FY 2002

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
UE	$ 442,358	$ 70,485	$ 214,705	$ 298,138
Total	$ 442,358	$ 70,485	$ 214,705	$ 298,138

Defaulted Guaranteed Loans from Post-1991 Guarantees

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

In FY 2002, the UE Program experienced $6.5 million in defaults on payments, and the DCA Program experienced $.25 million in defaults on payments on post-1991 guaranteed loans.

Guaranteed Loans Outstanding:

Guaranteed Loans Outstanding (FY 2003):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 1,954,929	$ 1,954,929
MSED	95,542	48,492
Israel	10,789,083	10,789,083
DCA	549,631	235,866
Total	$ 13,389,185	$ 13,028,370

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Guaranteed Loans Outstanding (FY 2002):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 2,093,798	$ 2,093,798
MSED	115,700	58,150
Israel	9,206,027	9,206,027
DCA	297,620	106,110
Total	$ 11,713,145	$ 11,464,085

New Guaranteed Loans Disbursed (FY 2003):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ -	$ -
MSED	100	50
DCA	267,446	133,723
Total	$ 267,546	$ 133,773

New Guaranteed Loans Disbursed (FY 2002):

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
UE	$ 21,500	$ 21,500
MSED	9,000	4,500
DCA	38,420	19,210
Total	$ 68,920	$ 45,210

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

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

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
UE	$ 311,383	$ 175,521	$ 486,904
MSED	-	265	265
Israel	-	673,261	673,261
DCA	-	(1,015)	(1,015)
Total	$ 311,383	$ 848,032	$ 1,159,415

Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees)
as of September 30, 2002:

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
UE	$ 328,083	$ 58,316	$ 386,399
MSED	-	(431)	(431)
Israel	-	665,267	665,267
DCA	-	(2,484)	(2,484)
Total	$ 328,083	$ 720,668	$ 1,048,751

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees (FY 2003):

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

Subsidy Expense for New Loan Guarantees (FY 2002):

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
UE	$ -	$ 1,612	$ (114)	$ -	$ 1,498
DCA	-	1,124	(285)	-	839
Total	$ -	$ 2,736	$ (399)	$ -	$ 2,337

Modifications and Reestimates (FY 2003):

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$ -	$ -	$ 48,211	$ 48,211
MSED			4,163	4,163
DCA	-	-	150	150
Total	$ -	$ -	$ 52,524	$ 52,524

Modifications and Reestimates (FY 2002):

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
UE	$ -	$ 2,080	$ 7,257	$ 9,337
MSED	-	(1,324)	2,078	754
Total	$ -	$ 756	$ 9,335	$ 10,091

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Total Loan Guarantee Subsidy Expense:

Loan Guarantee Programs	FY 2003	FY 2002
DCA	$ 2,389	$ 839
UE	48,211	10,835
MSED	7,576	754
Total	$ 58,176	$ 12,428

Subsidy Rates for Loan Guarantees by Program and Component:

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

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	-	3.23%	-	-	3.23%

Schedule for Reconciling Loan Guarantee Liability Balances
(Post-1991 Loan Guarantees)

	FY 2003				
	DCA	MSED	UE	Israel	Total
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	$ (2,484)	$ (431)	$ 58,316	$ 665,267	$ 720,668
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	2,239	3,413	-		5,652
Total of the above subsidy expense components	$ 2,239	$ 3,413	$ -	$ -	$ 5,652
Adjustments:					
(a) Loan guarantee modifications					
(b) Fees received			7,464	117,715	125,179
(c) Interest supplements paid					-
(d) Foreclosed property and loans acquired					-
(e) Claim payments to lenders		(2,318)	(7,077)		(9,395)
(f) Interest accumulation on the liability balance		-	4,693	44,736	49,429
(g) Other	41	(2,595)	63,914		61,360
Ending balance of the loan guarantee liability before reestimates	$ (204)	$ (1,931)	$ 127,310	$ 827,718	$ 952,892
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	-	-	-		-
(b) Technical/default reestimate	(811)	2,196	48,211	(154,456)	(104,860)
Total of the above reestimate components	$ (811)	$ 2,196	$ 48,211	$ (154,456)	$ (104,860)
Ending balance of the loan guarantee liability	$ (1,015)	$ 265	$ 175,521	$ 673,261	$ 848,032

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Schedule for Reconciling Loan Guarantee Liability Balances
(Post-1991 Loan Guarantees)

	FY 2002				
	DCA	MSED	UE	Israel	Total
Beginning Balance, Changes, and Ending Balance					
Beginning balance of the loan guarantee liability	$ 212	$ 289	$ 74,945	$ 626,050	$ 701,496
Add: subsidy expense for guaranteed loans disbursed during the reporting years by component:					
(a) Interest supplement costs					
(b) Default costs (net of recoveries)	839		1,499		2,338
(c) Fees and other collections					
(d) Other subsidy costs					-
Total of the above subsidy expense components	$ 839	$ -	$ 1,499	$ -	$ 2,338
Adjustments:					
(a) Loan guarantee modifications					
(b) Fees received			2,673		2,673
(c) Interest supplements paid					-
(d) Foreclosed property and loans acquired					-
(e) Claim payments to lenders		(259)	(6,548)		(6,807)
(f) Interest accumulation on the liability balance		118	5,241	39,217	44,576
(g) Other	(559)	1,008	(4,405)		(3,956)
Ending balance of the loan guarantee liability before reestimates	$ 492	$ 1,156	$ 73,405	$ 665,267	$ 740,320
Add or subtract subsidy reestimates by component:					
(a) Interest rate reestimate	(1,428)	6,280	504		5,356
(b) Technical/default reestimate	(1,548)	(7,867)	(15,593)		(25,008)
Total of the above reestimate components	$ (2,976)	$ (1,587)	$ (15,089)	$ -	$ (19,652)
Ending balance of the loan guarantee liability	$ (2,484)	$ (431)	$ 58,316	$ 665,267	$ 720,668

Administrative Expense

Loan Programs	FY 2003	FY 2002
DCA	$ 8,155	$ 3,066
UE	448	1,156
MSED	936	2,482
Total	$ 9,539	$ 6,704

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 6. LOANS RECEIVABLE AND LIABILITIES FOR LOAN GUARANTEES
(In Thousands) - Continued

Other Information

1 Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Fifteen countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $28.3 million that is more than six months delinquent. Ten countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $507.2 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $20.7 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $466.4 million.

2 The MSED Liquidating Account general ledger has a loan receivable balance of $1.4 million. This includes two loans pending closure. These loans are being carried at 100% bad debt allowance.

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 7. INVENTORY AND RELATED PROPERTY (In Thousands)

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2003 and 2002 are as follows:

	2003	2002
Items Held for Use		
Office Supplies	$6,937	$8,691
Items Held in Reserve for Future Use		
Disaster assistance materials and supplies	7,120	5,909
Birth control supplies	9,970	5,641
Total	$24,027	$20,241

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

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

The components of PP&E at September 30, 2003 were:

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

The components of PP&E at September 30, 2002 were:

	Useful Life	Cost	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets				
Equipment	3 to 5 years	$40,631	($27,988)	$12,643
Buildings, Improvements, & Renovations	20 years	41,557	(18,671)	22,886
Land and Land Rights	N/A	4,056	-	4,056
Assets Under Capital Lease		7,081	(958)	6,123
Construction in Progress	N/A	647	-	647
Internal Use Software	5 years	10,526	(2,432)	8,094
Total		$104,498	($50,049)	$54,449

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

For FY 2003, USAID capitalization criteria for assets was $25,000 except for internal use software. The capitalization criteria for internal use software was $300,000. Assets meeting these criteria are depreciated using the half-year straight line depreciation method.

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

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

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

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 9. LEASES (In Thousands)

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

Entity as Lessee:

Capital Leases:	**2003**	**2002**
Summary of Assets Under Capital Lease:		
Buildings	$ 5,311	$ 7,081
Accumulated Depreciation	$ 1,117	$ 958

Future Payments Due:

Fiscal Year	Future Costs	Future Costs
2003	-	1,185
2004	912	567
2005	426	144
2006	222	-
2007	192	-
2008	-	-
After 5 Years	-	-
Net Capital Lease Liability	1,752	1,896
Lease Liabilities Covered by Budgetary Resources	1,752	1,896
Lease Liabilities Not Covered by Budgetary Resources	-	-

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

Operating Leases:	**2003**	**2002**

Future Payments Due:

Fiscal Year	Future Costs	Future Costs
2003	-	70,470
2004	72,452	66,525
2005	70,968	64,486
2006	68,755	59,155
2007	68,022	58,091
2008	67,496	-
After 5 Years	344,031	254,747
Total Future Lease Payments	691,724	573,474

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 9. LEASES (In Thousands) - Continued

Of the $691 million in future lease payments, $ 527 million is attributable to the Ronald Reagan Building in Washington D.C., USAID's headquarters. This building is leased by the General Services Administration (GSA). USAID is charged rent intended to approximate commercial rental rates. Lease payments for FY 2003 and 2002 amounted to $36 million and $33 million respectively. An approximate increase of 9.8% will take effect in FY 2004. The remaining $128 million relates to other USAID Washington activity and mission related operating leases.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 10. ACCOUNTS PAYABLE (In Thousands)

The Accounts Payable covered by budgetary resources as of September 30, 2003 and 2002 consisted of the following:

	2003	**2002**
Intragovernmental		
Accounts Payable	$27,299	$69,572
Disbursements in Transit	-	-
Total Intragovernmental	27,299	69,572
Accounts Payable	1,842,778	1,101,961
Disbursements in Transit	-	-
Total Accounts Payable	$1,870,077	$1,171,533

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

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 11. DEBT (In Thousands)

USAID Intragovernmental debt as of September 30, 2003 and 2002 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

	2002 Beginning Balance	Net Borrowing	2002 Ending Balance	Net Borrowing	2003 Ending Balance
Urban & Environmental	$ -	$ -	$ -	$ -	$ -
Direct Loan	62,815	(47,255)	15,560	62,421	77,981
MSED	1,713	(529)	1,184	0	1,184
Total Debt	$64,528	$ (47,784)	$16,744	$ 62,421	$79,165

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

The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from the Treasury under the Credit Reform Act. In addition, there is net liquidating account equity in the amount of $5.7 billion, which under the Credit Reform Act is required to be recorded as Due to Treasury. Both of these accounts are used exclusively for credit reform activity. All debt shown is intragovernmental debt.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 12. OTHER LIABILITIES (In Thousands)

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

Intragovernmental	**2003**	**2002**
OPAC Suspense	-	($2,901)
Deposit and Clearing Accounts	-	2,030
Unfunded FECA Liability	6,417	6,421
Other	8,426	44,703
Total Intragovernmental	14,843	50,253
Accrued Funded Payroll/Benefits	6,329	4,841
Deferred Credit	4,305	1,692
Liability for Deposit Funds and Suspense Accounts – Non-Entity	9,176	3,044
Foreign Currency Trust Fund	240,222	262,038
Trust Fund Balances	23,106	17,424
Unfunded Leave	28,714	26,696
Capital Lease Liability	1,981	1,896
Other	197,424	4
Total Other Liabilities	$526,100	$367,888

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

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

Accrued unfunded benefits for annual leave and separation pay as of September 30, 2003 and 2002 are:

	2003	2002
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$28,409	$26,291
FSN Separation Pay Liability	305	405
Total Accrued Unfunded Annual Leave and Separation Pay	$28,714	$26,696

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

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

The provision for workers' compensation benefits payable, as of September 30, 2003 and 2002 are as follows:

	2003	2002
Liabilities Not Covered by Budgetary Resources		
Accrued Unfunded Workers' Compensation	$6,417	$6,421
Future Workers' Compensation Benefits	27,400	28,251
Total Accrued Unfunded Workers Compensation Benefits	$33,817	$34,672

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

USAID's total FECA liability is $33.8 million as of September 30, 2003 and comprises of unpaid FECA billings for $6.4 million and estimated future FECA costs of $27.4 million.

For FY 2002, USAID's total FECA liability was $34.7 million and comprised of unpaid FECA billings for $6.4 million and estimated future FECA costs of $28.3 million.

Estimated future FECA costs are determined by the Department of Labor. This liability is determined using a paid losses extrapolation method calculated over a 37 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. The interest rate assumptions used for discounting were 5.50% in year 1 and year 2, 5.55% in year 3, and 5.60% in year 4 and thereafter.

The decrease of $851 million for Future Workers' Compensation Benefits is shown as a financing source yet to be provided on the Statement of Financing.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 15. COMMITMENTS AND CONTINGENCIES

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

USAID is involved in a group of cases before the US Court of Federal Claims which disputes appropriate indirect cost rates to be charged where contract rates do not match Negotiated Indirect Cost Rate Agreement (NICRA) rates. It is reasonably possible that USAID might lose this case. Any adverse judgment would likely be paid out of the Department of Treasury's Judgment Fund, but then be reimbursed by the Agency. In this case the amounts claimed are $2.2 million, exclusive of Equal Access to Justice Fees. To date, discovery has officially concluded on one of the cases in this group. Agreement was not reached during settlement discussions, and dispositive motions were filed by both parties. The Court entered summary judgment in favor of the Government. The plaintiff appealed the judgment to the Federal Circuit Court of Appeals.

In addition to the $2.2 Million in amounts claimed, the government may incur Equal Access to Justice Fees, which are estimated to be in the $500,000 range.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

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

Liabilities not covered by budgetary resources as of September 30, 2003 and 2002 are as follows:

	2003	2002
Contingent Liabilities for Loan Guarantees	$311,383	$328,083
Accrued Unfunded Annual Leave and Separation Pay	28,714	26,696
Accrued Unfunded Workers Compensation Benefits	33,817	34,672
Total Liabilities not covered by Budgetary Resources	373,914	389,451
Total Liabilities covered by Budgetary Resources	8,957,967	8,102,890
Total Liabilities	$9,331,882	$8,492,342

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 17. SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENTS (in thousands)

		Africa	Asia & Near East	Europe & Eurasia	Latin America & Caribbean	Global Health	DCHA	EGAT	Intra-Agency Eliminations	Total
Goal 1:	Broad-Based Economic Growth and Agricultural Development									
	Intragovernmental	11,257	83,365	43,489	3,567	-	38,480	35,575	(1,094)	214,639
	With the Public	344,810	2,375,094	365,825	236,559	-	106,821	140,065	-	3,569,174
	Total	356,067	2,458,459	409,314	240,126	-	145,301	175,640	(1,094)	3,783,813
	Less earned revenues	(1,060)	(7,961)	(46,320)	1,641	-	(3,507)	(25,330)	1,349	(81,188)
	Net Program Costs	355,007	2,450,498	362,994	241,767	-	141,794	150,310	255	3,702,625
Goal 2:	Human Capacity Built Through Education and Training									
	Intragovernmental	7,864	2,322	2,685	5,095	-	789	5,580	(123)	24,212
	With the Public	155,494	67,683	6,883	29,700	-	16,573	31,464	-	307,797
	Total	163,358	70,005	9,568	34,795	-	17,362	37,044	(123)	332,009
	Less earned revenues	(251)	(73)	(84)	(160)	-	(26)	(177)	13	(758)
	Net Program Costs	163,107	69,932	9,484	34,635	-	17,336	36,867	(110)	331,251
Goal 3:	Protect the Environment for Long-Term Sustainability									
	Intragovernmental	5,038	2,613	9,701	4,185	-	7,215	90,420	(604)	118,568
	With the Public	82,056	390,063	88,096		-	11,378	106,390	-	677,983
	Total	87,094	392,676	97,797	4,185	-	18,593	196,810	(604)	796,551
	Less earned revenues	(268)	(286)	(305)	(132)	-	(225)	(98,369)	1,627	(97,958)
	Net Program Costs	86,826	392,390	97,492	4,053	-	18,368	98,441	1,023	698,593
Goal 4:	Stabilizing World Population and Protecting Human Health									
	Intragovernmental	53,912	23,141	8,777	26,164	60,930	-	-	(877)	172,047
	With the Public	474,222	357,955	98,364	161,187	904,834	-	-	-	1,996,562
	Total	528,134	381,096	107,141	187,351	965,764	-	-	(877)	2,168,609
	Less earned revenues	(1,701)	(735)	(277)	(820)	(1,999)	-	-	90	(5,442)
	Net Program Costs	526,433	380,361	106,864	186,531	963,765	-	-	(787)	2,163,167
Goal 5:	Strengthen Democracy and Good Governance									
	Intragovernmental	5,713	1,238	6,376	3,785	-	5,987	4,467	(140)	27,426
	With the Public	162,527	182,576	325,621	155,907	-	106,704	12,476	-	945,811
	Total	168,240	183,814	331,997	159,692	-	112,691	16,943	(140)	973,237

Less earned revenues	(181)	(41)	(204)	(121)	-	(199)	(140)	15	(871)
Net Program Costs	168,059	183,773	331,793	159,571	-	112,492	16,803	(125)	972,366
Goal 6: Lives Saved through Humanitarian Assistance									
Intragovernmental	7	9,145	2,984	4,635	-	39,580	-	(286)	56,065
With the Public	16,037	183,467	64,212	115,601	-	1,633,517	-	-	2,012,834
Total	16,044	192,612	67,196	120,236	-	1,673,097	-	(286)	2,068,899
Less earned revenues	-	(295)	(94)	(147)	-	(1,300)	-	30	(1,806)
Net Program Costs	16,044	192,317	67,102	120,089	-	1,671,797	-	(256)	2,067,093
Net Costs of Operations	1,315,476	3,669,271	975,729	746,646	963,765	1,961,787	302,421	-	9,935,095

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

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

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

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

Total Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2002 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$5,176,694	($81,359)	$5,095,335
International Security Assistance- 152	2,935,308	(158,914)	2,776,394
Conduct of Foreign Affairs- 153	44,880	-	44,880
Federal Employee Retirement and Disability- 602	750	-	750
Total	$8,157,632	($240,273)	$7,917,359

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

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

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

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

Intragovernmental Cost and Earned Revenue by Budget Functional Classification, as of September 30, 2002 are as follows:

Function Classification	Gross Cost	Earned Revenue	Net Cost
International Development and Humanitarian Assistance- 151	$381,943	($63,762)	$318,180
International Security Assistance- 152	34,196	(152,988)	(118,792)
Conduct of Foreign Affairs- 153	44,880	-	44,880
Federal Employee Retirement and Disability- 602	-	-	-
Total	$461,019	($216,750)	$244,269

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 19. PRIOR PERIOD ADJUSTMENTS

USAID recorded one prior period adjustment during FY 2003. This adjustment, in the amount of $1,689,951.00, was to adjust the allowance for subsidy for prior year amortization of the reestimate interest expense in the Direct Loan Financing fund (Enterprise for the Americas Initiative Debt Restructuring Financing).

Two prior period adjustments were made in FY 2002.

The Department of Treasury advised USAID and the Department of Agriculture on new guidelines for recording transfers from the Department of Agriculture's Commodity Credit Corporation. Since the transfer of funds is not a transfer of appropriated funds, the Unexpended Appropriation Net Position account 3100 should not be used. An adjustment of $483,707,031.18 for changes in accounting principles was made to reduce the Unexpended Appropriation balance via posting to account 3109 Unexpended Appropriations - Prior Year Adjustments and to account 7400 Prior Period Adjustment - Not Restated. This adjustment does not have an effect on the Agency's net position.

A credit adjustment of $190,041.25 was made during FY 2002 to the Micro and Small Enterprise Development financing fund to correct an equity posting error that occurred in FY 2001. This adjustment does not have a material effect on the Agency's net position.

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS
NOTE 20. STATEMENT OF BUDGETARY RESOURCES

A. Apportionment Categories of Obligations Incurred:

	2003	2002
Category A, Direct	$ 1,371,774	$ 631,168
Category B, Direct	8,534,809	8,279,671
Category A, Reimbursable	10,065	7,301
Category B, Reimbursable	171,039	168,589
Total	$ 10,087,687	$9,086,729

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

For credit financing activities, borrowing authority for FY 2003 was $62,886 thousand and for FY 2002, $465 thousand.

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:
A difference exists between FY 02 ending and FY 03 beginning balances for Total Obligations. The FY 2003 beginning obligated balance was increased by $519 thousand based on periodic reviews.

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 Liquidating appropriations for potential claims in excess of funds availability. Both are authorized under the Credit Reform Act of 1990.

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

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 21. STATEMENT OF FINANCING - OTHER

Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

A portion of net increase in contingent liabilities for loan guarantees from FY 2003 includes the $98.2 for credit subsidy expense reestimates requiring resources in future periods which is shown on the Statement of Financing. Accrued Unfunded Annual leave on the balance sheet is shown as a cumulative balance, with the current period changes of $2.2 million. This increase is shown on the Statement of Financing as a change in components requiring resources in future periods.

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

Appropriations that are transferred from other Federal Agencies to USAID are not shown on the Statement of Budgetary Resources, but are shown on the Balance Sheet and Statement of Net Costs. Appropriations that are transferred to other agencies are shown on the Statement of Budgetary Resources, but are not shown on the Balance Sheet nor the Statement of Net Costs. Below is a reconciliation of obligations and spending authority from offsetting collections between the Statement of Budgetary Resources and the Statement of Financing.

Obligations Incurred, Statement of Budgetary Resources		10,087,687
Less: Transfers to Other Agencies		
Department of State	(437,630)	
Department of Treasury	(999,000)	
Nuclear Regulatory Commission	(1,634)	
Others	(1,719)	(1,439,983)
Add: Transfers from Other Agencies		
Department of State	218,173	
Department of Agriculture	1,185,126	
Executive Office of the President	1,477,089	
Others	207	2,880,595
Obligations Incurred, Statement of Financing		11,528,299

USAID FY 2003 FOOTNOTES TO THE FINANCIAL STATEMENTS

NOTE 21. STATEMENT OF FINANCING - OTHER

Spending Authority from Offsetting Collections Per Statement of Budgetary Resources			1,279,197
Less: Transfers to Other Agencies			
Department of State		(4,217)	
Nuclear Regulatory Commission		(69)	(4,286)
Add: Allocations from Other Agencies			
Department of State	262		
Department of Agriculture		56,985	57,247
Spending Authority from Offsetting Collections Per Statement of Financing			1,332,158

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2003
(in thousands)

	Program Funds								Credit - Financing	Other Funds	Allocations to Other Agencies	Consolidated Total
								Operating Fund				
	1010	**1021**	**1035**	**1037**	**1093**	**1095**	**1096**	**1000**				
Budget Authority	368,431	1,481,678	433,801	3,429,136	420,918	1,830,840	-	595,471	-	365,268	-	8,925,543
Unobligated Balances - Beginning of Period	109,457	146,909	53,927	658,990	247,225	68,519	277	35,353	62,886	155,087	1,438,832	2,977,462
Spending Authority from Offsetting Collections	-	5,001	-	-	-	-	-	5,265	798,979	876,084	114,837	1,800,166
Recoveries of Prior-Year Obligations	10,005	26,691	11,261	7,552	22,153	4,520	449	19,800	219,871	52,079	202	374,583
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	14,180	-	4,084	18,264
Permanently Not Available	(3,441)	(9,117)	(1,885)	(14,930)	(5,372)	(11,937)	-	(3,951)	-	(661,392)	-	(712,025)
Total Budgetary Resources	**484,452**	**1,651,162**	**497,104**	**4,080,748**	**684,924**	**1,891,942**	**726**	**651,938**	**1,095,916**	**787,126**	**1,557,955**	**13,383,993**
Status of Budgetary Resources:												
Obligations Incurred	391,647	1,448,271	456,241	3,009,088	489,880	1,747,553	-	625,866	-	365,326	-	8,533,872
Unobligated Balances - Available	91,603	200,589	40,863	1,070,856	194,410	144,389	726	24,924	113,832	420,714	1,439,983	3,742,889
Unobligated Balances - Unavailable	1,202	2,302	-	804	634	-	-	1,148	981,619	1,086	(16,192)	972,603
Total, Status of Budgetary Resources	**484,452**	**1,651,162**	**497,104**	**4,080,748**	**684,924**	**1,891,942**	**726**	**651,938**	**1,095,451**	**787,126**	**1,423,791**	**13,249,364**
Relationship of Obligations to Outlays:												
Obligated Balance, Net, Beginning of Period	574,033	2,306,543	328,383	3,256,802	624,347	1,683,628	112,665	167,654	-	133,315	-	9,187,370
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-	26,868	1,819	244,370	273,057
Obligated Balance, Net, End of Period	527,856	2,506,374	409,634	2,933,916	565,322	1,996,750	90,230	160,842	-	83,600	-	9,274,524
Outlays:												
Disbursements	427,818	1,222,806	363,728	3,324,424	526,581	1,431,260	21,987	616,527	-	364,773	-	8,299,904
Collections	-	(6,058)	-	-	-	(1,350)	-	(8,914)	113,597	(876,085)	380,995	(397,815)
Less: Offsetting Receipts					-		-	-				(208,687)

	-	-	-	-		-			(208,543)	-	(144)		
Net Outlays	**427,818**	**1,216,748**	**363,728**	**3,324,424**	**526,581**	**1,429,910**	**21,987**	**607,613**	**322,140**	**(511,312)**	**381,139**		**8,110,776**

MAJOR FUNDS

Program Fund

1010 Special Assistance Initiatives

1021 Development Assistance

1035 International Disaster Assistance

1037 Economic Support Fund

1093 Assistance for the N.I.S. Of The Former Soviet Union

1095 Child Survival and Disease Programs Funds

1096 Latin American/Caribbean Disaster Recovery

Operating Fund

1000 Operating Expenses of USAID

Credit-Financing Funds

OTHER FUNDS

Operating Funds

0300 Capital Investment Fund

1007 Operating Expenses of USAID Inspector General

1036 Foreign Service Retirement and Disability Fund

Program Funds

1012 Sahel Development Program

1014 Africa Development Assistance

1023 Food and Nutrition Development Assistance

1024 Population and Planning & Health Dev. Asst.

1025 Education and Human Resources, Dev. Asst.

1027 Transition Initiatives

1028 Global Fund to Fight HIV / AIDS

1038 Central American Reconciliation

OTHER FUNDS (cont'd)

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,

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

Assistance

1040 Sub-Saharan Africa Disaster Assistance

1500 Demobilization and Transition Fund

Trust Funds

8342 Foreign Natl. Employees Separation Liability Fund

8502 Tech. Assist. - U.S. Dollars Advance from Foreign

8824 Gifts and Donations

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

1500 Demobilization and Transition Fund

U.S. Agency for International Development
REQUIRED SUPPLEMENTARY INFORMATION: INTRAGOVERNMENTAL AMOUNTS
As of September 30, 2003
(in thousands)

Intragovernmental assets:

Agency	Fund Balance with Treasury	Accounts Receivable, Net	Advances and Prepayments	Totals
Treasury	14,215,414	-	$ 5,415	14,220,829
Dept of Agriculture	-	1,133,865	2,235	1,136,100
Dept of Commerce	-	-	6,157	6,157
Dept of State	-	-	16,639	16,639
Other	-	209	2,552	2,761
Total	14,215,414	1,134,074	32,998	15,382,486

Intragovernmental liabilities:

Agency	Due to Treasury	Accounts Payable	Debt	Other	Totals
Treasury	5,669,725	1,639	79,165	4,096	5,754,625
GSA	-	5,757	-	-	5,757
Dept of Agriculture	-	8,385	-	-	8,385
Dept of Labor	-	-	-	6,417	6,417
Dept of Health and Human Services	-	2,463	-	-	2,463
Other	-	9,055	-	4,330	13,385
Total	5,669,725	27,299	79,165	14,843	5,791,032

Intragovernmental earned revenues and related costs;

USAID's intragovernmental earned revenues are not greater than $500 million. As such, intragovernmental earned revenues and related costs by trading partner are not required to be reported.