

**U.S. TRADE AND DEVELOPMENT AGENCY**

Performance and Accountability Report

September 30, 2006

(With Independent Auditors' Report Thereon)

**U.S. TRADE AND DEVELOPMENT AGENCY**

Performance and Accountability Report

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**Table of Contents**

	<b>Page</b>
Director's Message	i
Management's Discussion and Analysis	ii
Annual Performance Report for FY 2006	iv
Independent Auditors' Report on Financial Statements	1
Balance Sheets	3
Statements of Net Cost	4
Statements of Changes in Net Position	5
Statements of Budgetary Resources	6
Statements of Financing	7
Notes to Financial Statements	8
Required Supplementary Information	18
Independent Auditors' Report on Internal Control Over Financial Reporting	
Independent Auditors' Report on Compliance and Other Matters	

# U.S. TRADE AND DEVELOPMENT AGENCY

Director's Message

September 30, 2006

## **Mission Statement**

U.S. Trade and Development Agency (USTDA or the Agency) advances economic development and U.S. commercial interests in developing and middle-income countries. The Agency funds various forms of technical assistance, feasibility studies, training, orientation visits and business workshops that support the development of a modern infrastructure and a fair and open trading environment.

USTDA's strategic use of foreign assistance funds to support sound investment policy and decision-making in host countries creates an enabling environment for trade, investment and sustainable economic development. Operating at the nexus of foreign policy and commerce, USTDA is uniquely positioned to work with U.S. firms and host countries in achieving the Agency's trade and development goals. In carrying out its mission, USTDA gives emphasis to economic sectors that may benefit from U.S. exports of goods and services.

## **Data Assessment**

USTDA develops and promulgates accounting systems and procedures for use by its staff to maximize accountability, standardization and cost effectiveness; monitors agency compliance with these systems and procedures; reviews reports of the independent auditors to ensure compliance with auditor recommendations; monitors the activities of the Agency's programs; and performs analysis of required changes in procedure that affects the financial reporting of the Agency.

In addition, the Agency conducts independent program audits each year to supplement the work of the independent financial statement auditors and provides oversight of decentralized accounts payable processing and payroll activities. The Agency also performs internal control information system reviews and conducts fact finding activities to support decisions impacting revisions to the Agency's accounting and financial reporting systems.

The Agency has a service level agreement with the National Business Center (NBC) of the Department of the Interior, for Payroll and Accounting services. The Operating Effectiveness of the NBC's Oracle Federal Financials, General Information Technology and Accounting Operations Controls was examined and a Type II Statement of Accounting Standards No. 70 (Type II SAS 70) report was issued for the period March 1, 2005 through September 30, 2005. USTDA relies on the assurance that the SAS 70 report presents fairly, in all material respects, the relevant aspects of NBC's controls in operation as of September 30, 2005. The deficiencies noted in the SAS 70 report are mitigated by compensating controls at the agency level.

## **Statement of Assurance**

USTDA's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). USTDA conducted its own assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. In addition, the Agency conducted its assessment of the effectiveness of its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, USTDA can provide reasonable assurance that internal control over financial reporting as of June 30, 2006 was operating effectively, and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

## U.S. TRADE AND DEVELOPMENT AGENCY

Management's Discussion and Analysis

For the year ended September 30, 2006

### Description of the Reporting Entity

United States Trade and Development Agency (USTDA or the Agency) is an independent U.S. government agency administered under the authority of Section 661 of the Foreign Assistance Act of 1961, as amended (22 U.S.C. §2421).

USTDA advances economic development and U.S. commercial interests in developing and middle income countries. The Agency funds various forms of technical assistance, feasibility studies, training, orientation visits and business workshops that support the development of a modern infrastructure and a fair and open trading environment.

USTDA's strategic use of foreign assistance funds to support sound investment policy and decision-making in host countries creates an enabling environment for trade, investment and sustainable economic development. Operating at the nexus of foreign policy and commerce, USTDA is uniquely positioned to work with U.S. firms and host countries in achieving the Agency's trade and development goals. In carrying out its mission, USTDA gives emphasis to economic sectors that may benefit from U.S. exports of goods and services.

The organization was established on July 1, 1980 as the U.S. Trade and Development Program (TDP) by delegation of authority as a component of the International Development Cooperation Agency (IDCA). In 1988, under the Omnibus Trade and Competitiveness Act, the organization was made a separate component agency of IDCA. On October 28, 1992, the Jobs Through Exports Act of 1992 established USTDA as an independent agency under the foreign policy guidance of the Secretary of State.

### Performance Goals and Results

The government-wide implementation of annual performance plans under the *Government Performance and Results Act of 1993* (GPRA) required agencies to develop strategic plans and subsequent reports beginning with fiscal year (FY) 1999. USTDA focuses on meeting stated goals and objectives in its current Strategic Plan covering the 2003-2007 time period. USTDA's Annual Performance Report for FY 2006 is included in this document.

### Evaluations

USTDA's evaluations staff is responsible for maintaining status reports on the results of the Agency's activities and providing summary reports on the Agency's success in achieving U.S. export and host country development objectives.

Management has designed and followed a plan to provide reasonable assurance that reported performance information is relevant and reliable.

## **U.S. TRADE AND DEVELOPMENT AGENCY**

Management's Discussion and Analysis (cont'd)

For the year ended September 30, 2006

### **Financial Results**

USTDA's net cost of operations for the year ended September 30, 2006 was \$55,082,119, and total budgetary resources for the year was \$68,216,254. The net cost of operations for FY 2006 was approximately \$700,000 more than FY 2005 due to increased grant expenditures. The budgetary resources for FY 2006 decreased approximately \$13 million from FY 2005 levels primarily due to decreases of approximately \$8 million in nonexpenditure transfers, \$2 million in expenditure transfers and \$3 million in recoveries.

The accompanying statements of net cost, changes in financial position, budgetary resources, and financing illustrate in detail the financial results of USTDA's operations for FY 2006.

### **Financial Condition**

As of September 30, 2006, USTDA reported a net position of \$110,674,081. Total assets of \$121,285,067 included fund balance with Treasury of \$114,840,690. Total liabilities reported were \$10,610,986.

### **Management's Responsibility for Internal Controls**

USTDA's internal control procedures are designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use or disposition of the Agency's assets. Management has designed and implemented a plan to ensure the effectiveness and efficiency of operations, to test the reliability of financial reporting and to ensure compliance with applicable laws and regulations.

### **Limitations of the Financial Statements**

These financial statements have been prepared to report the financial position and results of operations of USTDA pursuant to the requirements of 31 U.S.C. §3515(b). While the statements have been prepared from the books and records of the Agency in accordance with 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 that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.

# U.S. TRADE AND DEVELOPMENT AGENCY

## Annual Performance Report

For the year ended September 30, 2006

### Performance Goals and Achievements for Previous Fiscal Years

USTDA uses two specific performance measures, the “multiplier” and the “hit rate,” to ascertain whether its program achieves the long-term strategic objectives of advancing U.S. commercial interests in development projects. The targets for the “multiplier” and “hit rate” performance measures, while ambitious, have remained fairly constant. USTDA projects often take many years to mature and, therefore, the measures are applied on the basis of a ten-year rolling average.

USTDA’s other long-term strategic objective of advancing economic development in developing and middle-income countries is being analyzed in terms of newly-designed development measures.

The newly-established measurements for developmental impact are:

- Percentage of implemented activities resulting in infrastructure/industrial projects (infrastructure).
- Percentage of implemented activities leading to adoption of market-oriented reforms (market reform).
- Percentage of implemented activities creating ten or more jobs, or training at least ten people (jobs/training).
- Percentage of implemented activities resulting in the transfer of advanced technology or increased productivity (technology transfer).

The past four years have demonstrated the ability of USTDA to achieve and/or exceed its ambitious commercial impact goals. USTDA’s performance during the period highlights the results-oriented nature of USTDA’s program.

Because the maturation period of developmental projects is typically lengthy, developmental impact evaluations are not made until six years after completion of a USTDA activity. Consequently, as reflected in the table below, no actual results are required for FY 2003 – FY 2006.

	2006 Goal	2006 Actual	2005 Actual	2004 Actual	2003 Actual
Multiplier <sup>1</sup>	35:1	43:1	43:1	38:1	42:1
Hit Rate <sup>2</sup>	35%	35%	36%	37%	39%

Infrastructure	55%	N/A	N/A	N/A	N/A
Reform	25%	N/A	N/A	N/A	N/A
Jobs/Training	30%	N/A	N/A	N/A	N/A
Tech Transfer	50%	N/A	N/A	N/A	N/A

<sup>1</sup> The Multiplier is a ten-year rolling average of the dollar amount in U.S. exports produced for every \$1 in expended USTDA program funding.

<sup>2</sup> The Hit Rate is a ten-year rolling average of the percentage of agency projects that have led to U.S. exports.

# U.S. TRADE AND DEVELOPMENT AGENCY

## Annual Performance Report

For the year ended September 30, 2006

Since 2004, USTDA has been required to review all feasibility studies and technical assistance activities completed in each fiscal year and assess whether they have the potential to contribute to the agency's long-term commercial goals (i.e. the hit rate and multiplier).

The chart below reflects, for each year, the percentage of USTDA activities that have the potential to contribute to the agency's long-term commercial goals.

2006 Goal	2006 Actual	2005 Actual	2004 Actual	2003 Actual
60%	83%	72%	66%	N/A

### **FY 2006 Performance Goals and Achievements**

For the most recent ten-year period for which information is complete, USTDA identified \$11.5 billion in U.S. exports from completed projects of which USTDA spent \$270 million. This resulted in an export multiplier of approximately \$43. With respect to the commercial impact indicators, USTDA outperformed its export multiplier benchmark (\$43 vs. \$35 per \$1 invested by USTDA).

The hit rate represents the proportion of USTDA activities for which USTDA has identified exports. For the same ten-year period, 413 projects out of a total of 1,188 produced exports, yielding a hit rate of 35%, equivalent to the agency's stated goal.

### **Reliability and Completeness of the Performance Data**

USTDA maintains an internal evaluations team and also contracts with independent evaluators. Both teams review USTDA activities for commercial impacts and developmental impacts. Review of USTDA activities takes place while activities are ongoing and upon completion. USTDA has had extensive experience measuring the success of its activities against its commercial goals. There is no indication from either the Agency's internal evaluation team or its external evaluations team that there are any material inadequacies that would significantly impede the use of proper performance data by the Agency's manager and government decision-makers.

### **Performance Goal Levels in the Performance Budget**

While USTDA has broadened the focus of its program to better match the Administration's trade and foreign policy priorities, it will continue to meet and/or exceed its commercial impact goals. Based on USTDA's budget for fiscal year 2007, the Agency expects to again exceed its commercial impact goals. As a result, there is no identified need to adjust the Agency's performance goals.



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

The Director  
U.S. Trade & Development Agency:

We have audited the accompanying balance sheets of the U.S. Trade and Development Agency (USTDA) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, and financing (hereinafter referred to as "financial statements"), for the years then ended. These financial statements are the responsibility of the USTDA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the USTDA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USTDA as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the "Management Discussion and Analysis" and "Required Supplementary Information" sections is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Annual Performance Report for FY 2006 is presented for purposes of additional analysis and are not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.





In accordance with *Government Auditing Standards*, we have also issued our reports dated November 13, 2006, on our consideration of the USTDA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 13, 2006

**U.S. TRADE AND DEVELOPMENT AGENCY**

Balance Sheets

September 30, 2006 and 2005

<b>Assets</b>	<b>FY 2006</b>	<b>FY 2005</b>
	<hr/>	<hr/>
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 114,840,690	\$ 121,262,730
Accounts receivable (Note 3)	—	20,535
Other (Note 3)	112,224	112,224
	<hr/>	<hr/>
Total intragovernmental	114,952,914	121,395,489
General property and equipment, net (Note 4)	365,970	378,505
Accounts receivable (Note 3)	61,325	37,928
Other (Note 3)	5,904,858	7,612,948
	<hr/>	<hr/>
Total assets	\$ 121,285,067	\$ 129,424,870
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Position</b>		
Liabilities (Note 5)		
Intragovernmental:		
Accounts payable	\$ 131,661	\$ 328,953
Other (Note 5)	2,093,740	2,436,428
	<hr/>	<hr/>
Total intragovernmental	2,225,401	2,765,381
Accounts payable	7,797,137	8,908,512
Other (Note 5)	588,448	594,814
	<hr/>	<hr/>
Total liabilities	10,610,986	12,268,707
Net position:		
Unexpended appropriations	110,532,610	117,045,514
Cumulative results of operations	141,471	110,649
	<hr/>	<hr/>
Total net position	110,674,081	117,156,163
	<hr/>	<hr/>
Total liabilities and net position	\$ 121,285,067	\$ 129,424,870
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

**U.S. TRADE AND DEVELOPMENT AGENCY**

Statements of Net Cost

For the years ended September 30, 2006 and 2005

	<u><b>FY 2006</b></u>	<u><b>FY 2005</b></u>
Cost of Operations:		
Grants program costs:	\$ 55,620,353	\$ 54,072,952
Less earned revenue	<u>(850,000)</u>	<u>(12,456)</u>
Net grant program cost	54,770,353	54,060,496
Costs not assigned to programs	<u>311,766</u>	<u>361,252</u>
Net cost of operations (Note 6)	<u><u>\$ 55,082,119</u></u>	<u><u>\$ 54,421,748</u></u>

See accompanying notes to financial statements.

**U.S. TRADE AND DEVELOPMENT AGENCY**

Statements of Changes in Net Position

For the years ended September 30, 2006 and 2005

	<u>FY 2006</u>		<u>FY 2005</u>	
	<u>Cumulative results of operations</u>	<u>Unexpended appropriations</u>	<u>Cumulative results of operations</u>	<u>Unexpended appropriations</u>
Beginning balances	\$ 110,649	\$ 117,045,514	\$ (4,361)	\$ 112,805,206
Budgetary financing sources:				
Appropriations received	—	50,900,000	—	51,500,000
Appropriations transferred – in/out	—	2,905,000	—	10,775,000
Other adjustments (rescissions, etc.)	—	(5,470,260)	—	(3,735,313)
Appropriations used	54,847,644	(54,847,644)	54,299,379	(54,299,379)
Other financing sources:				
Imputed financing	265,297	—	237,379	—
Total financing sources	55,112,941	(6,512,904)	54,536,758	4,240,308
Net cost of operations	(55,082,119)	—	(54,421,748)	—
Net change	30,822	(6,512,904)	115,010	4,240,308
Ending balance	\$ <u>141,471</u>	\$ <u>110,532,610</u>	\$ <u>110,649</u>	\$ <u>117,045,514</u>

See accompanying notes to financial statements.

**U.S. TRADE AND DEVELOPMENT AGENCY**

Statements of Budgetary Resources

For the years ended September 30, 2006 and 2005

	<u>FY 2006</u>	<u>FY 2005</u>
<b>Budgetary resources:</b>		
Unobligated balance, brought forward, October 1	\$ 13,894,310	\$ 11,950,519
Recoveries of prior year unpaid obligations	5,987,204	8,890,127
<b>Budget authority:</b>		
Appropriations (net of rescission)	50,391,000	51,088,000
<b>Spending authority from offsetting collections:</b>		
Collected	—	2,000,000
Nonexpenditure transfers	2,905,000	10,775,000
Permanently not available	(4,961,260)	(3,323,313)
<b>Total budgetary resources</b>	<b>\$ 68,216,254</b>	<b>\$ 81,380,333</b>
<b>Status of budgetary resources:</b>		
<b>Obligations incurred:</b>		
Direct (Note 7)	\$ 58,957,659	\$ 65,486,023
Reimbursable	—	2,000,000
<b>Subtotal</b>	<b>58,957,659</b>	<b>67,486,023</b>
<b>Unobligated balance available:</b>		
Apportioned (Note 10)	7,047,812	9,715,028
Unobligated balance not available	2,210,783	4,179,282
<b>Total status of budgetary resources</b>	<b>\$ 68,216,254</b>	<b>\$ 81,380,333</b>
<b>Change in obligated balance:</b>		
Unpaid obligations, brought forward, October 1	\$ 106,969,919	\$ 100,467,528
Obligations incurred	58,957,659	67,486,023
Less: Gross outlays	(55,302,019)	(52,093,505)
Less: Recoveries of prior years' obligations	(5,987,204)	(8,890,127)
<b>Obligated balance, net – end of the period: (Note 9)</b>	<b>104,638,355</b>	<b>106,969,919</b>
<b>Net Outlays:</b>		
Gross outlays	\$ 55,302,019	\$ 52,093,505
Less: Offsetting collections	—	(2,000,000)
<b>Net outlays</b>	<b>\$ 55,302,019</b>	<b>\$ 50,093,505</b>

See accompanying notes to financial statements.

**U.S. TRADE AND DEVELOPMENT AGENCY**

Statements of Financing

For the years ended September 30, 2006 and 2005

	<u>FY 2006</u>	<u>FY 2005</u>
Resources used to finance activities:		
Obligations incurred (Note 7)	\$ 58,957,659	\$ 67,486,023
Less spending authority from offsetting collections and recoveries:		
Collected	—	(2,000,000)
Recoveries of prior years' obligations	(5,987,204)	(8,890,127)
Adjustments	<u>(5,036)</u>	<u>—</u>
Obligations net of offsetting collections and recoveries	<u>52,965,419</u>	<u>56,595,896</u>
Other resources:		
Imputed financing from costs absorbed by others	265,297	237,379
Other	<u>(40,791)</u>	<u>(15,203)</u>
Net other resources used to finance activities	<u>224,506</u>	<u>222,176</u>
Total resources used to finance activities	<u>53,189,925</u>	<u>56,818,072</u>
Resources used to finance items not part of the net cost of operations:		
Change in budgetary resources obligated for goods and services ordered but not received	2,727,189	(4,289,393)
Change in offsetting collections and receipts that do not affect the net cost of operations	(850,000)	1,987,544
Resources that finance the acquisition of assets	<u>(69,371)</u>	<u>(212,375)</u>
Total resources used to finance items not part of the net cost of operations	<u>1,807,818</u>	<u>(2,514,224)</u>
Costs of operations that require resources in future periods:		
Increase in accrued leave liability	(2,565)	59,388
Costs of operations that do not require resources:		
Depreciation and amortization	83,563	58,512
Other	<u>3,378</u>	<u>—</u>
Total costs that do not require resources	<u>84,376</u>	<u>117,900</u>
Net cost of operations	<u>\$ 55,082,119</u>	<u>\$ 54,421,748</u>

See accompanying notes to financial statements.

## U.S. TRADE AND DEVELOPMENT AGENCY

Notes to Financial Statements

September 30, 2006 and 2005

### (1) Summary of Significant Accounting Policies

#### (a) *Description of Reporting Entity*

The U.S. Trade and Development Agency (USTDA or the Agency) is an independent U.S. government agency administered under the authority of Section 661 of the Foreign Assistance Act of 1961, as amended (22 U.S.C. §2421).

USTDA advances economic development and U.S. commercial interests in developing and middle-income countries. The Agency funds various forms of technical assistance, feasibility studies, training, orientation visits, and business workshops that support the development of a modern infrastructure and a fair and open trading environment.

USTDA's strategic use of foreign assistance funds to support sound investment policy and decision making in host countries creates an enabling environment for trade, investment, and sustainable economic development. Operating at the nexus of foreign policy and commerce, USTDA is uniquely positioned to work with U.S. firms and host countries in achieving the Agency's trade and development goals. In carrying out its mission, USTDA gives emphasis to economic sectors that may benefit from U.S. exports of goods and services.

The organization was established on July 1, 1980 as the U.S. Trade and Development Program (TDP) by delegation of authority as a component of the International Development Cooperation Agency (IDCA), and in 1988, under the Omnibus Trade and Competitiveness Act, the organization was a separate component agency of IDCA. On October 28, 1992, the Jobs Through Exports Act of 1992 established USTDA as an independent agency under the foreign policy guidance of the Secretary of State.

#### (b) *Basis of Presentation*

These financial statements have been prepared to report the financial position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of USTDA, as required by its authorizing legislation (Public Law 102-549, Title II). These financial statements include all activity related to USTDA's appropriation (No. 11-1001) and reimbursable interagency agreements, whereby USTDA receives transfers from other federal agencies for use in specific regions or sectors.

#### (c) *Budgets and Budgetary Accounting*

Congress annually adopts a budget appropriation that provides USTDA with authority to use funds from the U.S. Treasury to meet operating and program expense requirements. All revenue received from other sources, except for appropriations transferred from other federal agencies and transfers received under reimbursable interagency agreements, must be returned to the U.S. Treasury.

#### (d) *Basis of Accounting*

USTDA's financial statements are prepared using the accrual method. The accrual method of accounting requires recognition of the financial effects of transactions, events, and circumstances in the period(s) when those transactions, events, and circumstances occur, regardless of when cash is received or paid. USTDA also uses budgetary accounting to facilitate compliance with legal

## U.S. TRADE AND DEVELOPMENT AGENCY

Notes to Financial Statements

September 30, 2006 and 2005

constraints and to keep track of its budget authority at the various stages of execution, including commitments, obligation, and eventual outlay.

The standards used in the preparation of the accompanying financial statements are issued by the Federal Accounting Standards Advisory Board, which are the accounting principles generally accepted in the United States of America.

(e) ***Revenue and Other Financing Sources***

During fiscal year (FY) 2006, USTDA received a two-year appropriation to be used for program and administrative expenses, which is available for obligations through September 30, 2007. In FY 2006, USTDA also received appropriation transfers totaling \$2,905,000 from the U.S. Agency for International Development (USAID) to fund activities in Central and Eastern Europe and Eurasia.

In accordance with Sec. 511 of the Foreign Operations Export Finance and Reporting Appropriations Acts in regards to SEED, Economic Support Funds (ESF), and the freedom Support Act (FSA) funds, USTDA has adopted the following policy.

SEED, ESF and FSA funds for FY 2002-2005 that were originally obligated prior to expiration shall remain available for reobligation for an additional 4 years from the date on which the availability of such funds would otherwise have expired, if such funds were initially obligated before they expired. SEED, ESF and FSA funds for FY 1999-2001 that were originally obligated prior to expiration shall remain available for reobligation until expended.

During FY 2006 USTDA reprogrammed approximately \$1.9 million.

Appropriations are recognized as a financing source at the time they are authorized and apportioned. Appropriations used to fund grant activities and administrative expenses are recognized as expenses and revenues as the resultant related expenses are incurred.

(f) ***Fund Balance with Treasury***

USTDA does not maintain cash in commercial bank accounts. Treasury processes cash receipts and disbursements. The balance of funds with Treasury primarily represents appropriated funds that are available to pay current liabilities and finance authorized purchase commitments relative to goods or services.

(g) ***Property and Equipment***

Property and equipment is stated at cost less accumulated depreciation. USTDA capitalizes property and equipment with an acquisition cost greater than \$5,000 and useful life exceeding one year. Depreciation is calculated based on an estimated useful life of 10 years for all assets, except computer equipment and software, which is depreciated over 5 years. Leasehold improvements are amortized over the estimated period of occupancy or the life of the improvement, whichever is less. Expenditures for repairs and maintenance are charged to operating expenses as incurred.



## U.S. TRADE AND DEVELOPMENT AGENCY

Notes to Financial Statements

September 30, 2006 and 2005

**(h) Liabilities**

Liabilities represent amounts owed by USTDA as the result of transactions or events that have occurred as of September 30, 2006. Liabilities for which Congress has not appropriated funds are classified as liabilities not covered by budgetary resources (e.g., unfunded accrued leave). There is no certainty that Congress will appropriate funds to satisfy this liability. All liabilities other than unfunded accrued leave are considered current liabilities.

USTDA has no capital leases. Regarding its building lease, the General Services Administration (GSA) entered into a lease agreement for USTDA's rental of building space. USTDA pays GSA a standard-level users' charge for the annual rental. The standard-level users' charge approximates the commercial rental rates for similar properties. Average annual rent expense and related charges approximate \$1.3 million through 2012.

**(i) Undelivered Orders**

Undelivered orders represent the amount of orders for goods and services outstanding for which funds have been obligated but the liabilities have not been accrued. The balance of Undelivered Orders as of September 30, 2006 was \$96,406,933.

**(j) Accrued Leave**

Annual leave is accrued as a liability as it is earned. Liabilities are reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current year pay rates. To the extent that the current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future appropriations. USTDA's handling of annual leave earned but not taken is fully compliant with established regulations. Sick leave and other types of nonvested leave are charged to expense as the leave is used.

**(k) Cumulative Results of Operations**

Cumulative results of operations represents the difference between net property and equipment and unfunded annual leave, plus the net difference between expenses and financing sources since the inception of an activity.

**(l) Retirement Plan**

USTDA's employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees participating in CSRS contribute 7.0% of their gross pay to the plan, and USTDA contributes 8.51%. The cost of providing a CSRS benefit, which is 25% as computed by the Office of Personnel Management (OPM), is more than the amounts contributed by USTDA and the employees. In accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, USTDA reports the full cost of providing pension benefits to include the cost financed by OPM.

On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 could elect either to join FERS and Social Security or remain in CSRS. A

## U.S. TRADE AND DEVELOPMENT AGENCY

Notes to Financial Statements

September 30, 2006 and 2005

primary feature of FERS is that it offers a savings plan in which USTDA automatically contributes 1% of employees' pay and matches any employee contribution up to an additional 4% of basic pay. For most employees hired since December 31, 1983, USTDA also contributes the employer's matching share for Social Security. For the FERS basic benefit, the employees contribute 0.8% of their basic pay while USTDA contributes 11.2% for a total contribution rate of 12%. The cost of providing a FERS benefit, as computed by OPM is 12%.

The total amount of imputed financing for retirement and other postretirement benefits paid by OPM for FY 2006 is calculated at \$265,297 which includes \$52,003 for pension cost for CSRS and FERS, \$212,646 for the Federal Employees Health Benefit Program (FEHP), and \$648 for Federal Employees Group Life Insurance (FEGLI). These amounts are included in USTDA's FY 2006 financial statements. In FY 2005, OPM funded \$237,379 to pension, health, and life insurance benefits on behalf of USTDA's employees.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments within the Agency as the Agency does not allocate expenditures by department. Cost factors for calculating these amounts are obtained from the OPM Benefits Administration Letter No. 06-304. USTDA has properly computed this amount and recorded a liability.

USTDA paid approximately \$389,892 and \$377,115 for retirement system coverage for its employees during FY 2006 and FY 2005, respectively.

**(m) Use of Estimates**

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements. Actual results could differ from these estimates.

**(n) Reclassification**

Certain amounts on the FY 2005 financial statements were reclassified in order to conform to current year presentation in accordance with OMB Circular A-136. The reclassifications had no material effect on total assets, liabilities, net position, or the change in net position, as previously reported.

**U.S. TRADE AND DEVELOPMENT AGENCY**

Notes to Financial Statements

September 30, 2006 and 2005

**(2) Fund Balance with Treasury**

Fund balance with Treasury represents USTDA's undisbursed budgetary authority and funds to be returned to Treasury at September 30, 2006 and 2005, as follows:

	<u>2006</u>	<u>2005</u>
Fund Balances:		
Appropriated Funds	\$ 112,746,950	\$ 118,826,302
Miscellaneous Receipts	943,740	436,428
Other Fund Types (Reimbursable)	<u>1,150,000</u>	<u>2,000,000</u>
Total	<u>\$ 114,840,690</u>	<u>\$ 121,262,730</u>
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	\$ 7,047,812	\$ 9,715,028
Unavailable	2,210,783	4,179,282
Obligated Balance not yet Disbursed	104,638,355	106,969,920
Non-Budgetary	<u>943,740</u>	<u>398,500</u>
Total	<u>\$ 114,840,690</u>	<u>\$ 121,262,730</u>

**(3) Other Assets**

Other Assets at September 30, 2006 and 2005 consisted of the following components:

	<u>2006</u>	<u>2005</u>
Intragovernmental:		
Accounts Receivable	\$ —	\$ 20,535
Advances and Prepayments	<u>112,224</u>	<u>112,224</u>
Total Intragovernmental	112,224	132,759
Accounts Receivable	61,325	37,928
Interest Receivable	—	—
Advances and Prepayments	<u>5,904,858</u>	<u>7,612,948</u>
Total Other Assets	<u>\$ 6,078,407</u>	<u>\$ 7,783,635</u>

Advances to contractors represent amounts provided to grantees/contractors for costs related to various project planning activities funded by USTDA. During FY 1994 and FY 1995, USTDA established "Evergreen Funds" with multilateral development banks (MDBs) through which several projects were funded. For accounting purposes, these funds were recorded as advances to contractors, and they remain with the MDB until the work is done and bills are submitted and paid. Advances to the MDBs are liquidated on a first-in, first-out basis.

**U.S. TRADE AND DEVELOPMENT AGENCY**

Notes to Financial Statements

September 30, 2006 and 2005

**(4) General Property and Equipment, Net**

Recognition and measurement criteria for general PP&E are dictated in SFFAS No. 6, as amended by SFFAS Nos. 11, 16, and 23. USTDA capitalizes property and equipment with an acquisition cost greater than \$5,000 and a useful life exceeding one year.

General Property and Equipment and related accumulated depreciation at September 30, 2006 and 2005 consisted of:

<u>2006</u>	<u>Depreciation method</u>	<u>Service life</u>	<u>Acquisition value</u>	<u>Accumulated depreciation/amortization</u>	<u>Net book value</u>
Computer Equipment	Straight-line	5 years	\$ 237,138	104,677	132,461
Furniture and Fixtures	Straight-line	10 years	174,144	108,414	65,730
Computer Software	Straight-line	5 years	11,721	5,860	5,861
Other Equipment	Straight-line	10 years	229,241	81,248	147,993
Leasehold Improvement	Straight-line	8 years	20,255	6,330	13,925
Total General Property and Equipment			<u>\$ 672,499</u>	<u>306,529</u>	<u>365,970</u>

<u>2005</u>	<u>Depreciation method</u>	<u>Service life</u>	<u>Acquisition value</u>	<u>Accumulated depreciation/amortization</u>	<u>Net book value</u>
Computer Equipment	Straight-line	5 years	\$ 315,225	148,526	166,699
Furniture and Fixtures	Straight-line	10 years	166,964	97,904	69,060
Computer Software	Straight-line	5 years	29,711	21,506	8,205
Other Equipment	Straight-line	10 years	212,648	94,565	118,083
Leasehold Improvements	Straight-line	8 years	20,255	3,797	16,458
Total General Property and Equipment			<u>\$ 744,803</u>	<u>366,298</u>	<u>378,505</u>

During FY 2006 and FY 2005, USTDA purchased property and equipment for \$69,371 and \$212,355 respectively. During FY 2006, USTDA disposed of property that cost \$141,677 with a net book value of \$3,378.

**U.S. TRADE AND DEVELOPMENT AGENCY**

Notes to Financial Statements

September 30, 2006 and 2005

**(5) Liabilities**

Liabilities are recognized when they are incurred regardless of whether they are covered by available budgetary resources.

Liabilities Not Covered by Budgetary Resources:

	<u>2006</u>	<u>2005</u>
Intragovernmental:		
Other Miscellaneous (To Be Returned to Treasury)	\$ 943,740	\$ 436,428
Total Intragovernmental	943,740	436,428
Unfunded Annual Leave	<u>285,824</u>	<u>288,390</u>
Total Liabilities Not Covered by Budgetary Resources	\$ <u>1,229,564</u>	\$ <u>724,818</u>

Other Liabilities:

	<u>2006</u>	<u>2005</u>
Intragovernmental:		
Accounts Payable	\$ 131,661	\$ 328,953
Deferred Revenue	<u>1,150,000</u>	<u>2,000,000</u>
Total Intragovernmental	1,281,661	2,328,953
Accounts Payable	7,797,137	8,908,512
Other	<u>302,624</u>	<u>306,424</u>
Total Other Liabilities	\$ <u>9,381,422</u>	\$ <u>11,543,889</u>

**U.S. TRADE AND DEVELOPMENT AGENCY**

Notes to Financial Statements

September 30, 2006 and 2005

**(6) Intragovernmental Costs and Exchange Revenue**

In FY 2006 and FY 2005, program costs consisted of the following:

<b>Grants Program</b>	<b>2006</b>	<b>2005</b>
Intragovernmental Costs	\$ 2,785,549	\$ 2,881,555
Public Costs	53,146,570	51,552,649
Total Grant Program Costs	55,932,119	54,434,204
Intragovernmental Earned Revenue	(850,000)	(12,456)
Net Grant Program Costs	<u>\$ 55,082,119</u>	<u>\$ 54,421,748</u>

All costs incurred by USTDA in FY 2006 and FY 2005 were related to the grants program.

**(7) Apportionment Categories of Obligations Incurred**

In FY 2006 and 2005 USTDA obligated funds in the following categories.

<b>Obligations</b>	<b>2006</b>	<b>2005</b>
Category A	\$ 10,716,206	\$ 10,447,345
Category B	48,241,453	55,038,678
Exempt from Apportionment	—	2,000,000
Total Obligations Incurred	<u>\$ 58,957,659</u>	<u>\$ 67,486,023</u>

Category A represents funds that are obligated for operating expenses.

Category B represents funds that are obligated for program activities.

Obligations Exempt from Apportionment are expenditure transfers received in the prior year.

**U.S. TRADE AND DEVELOPMENT AGENCY**

Notes to Financial Statements

September 30, 2006 and 2005

**(8) Permanent Indefinite Appropriations**

USTDA's no-year funds at September 30, 2006 and 2005 existed for the following purposes:

<u>Purpose</u>	<u>2006</u>	<u>2005</u>
General Program Activities	\$ 325,959	\$ 325,959
Freedom Support Act (FSA) Transfer Funds for Program Activities	206,815	541,854
FSA Successor Appropriation	797,685	919,044
Support for Eastern European Democracy Funds Successor Appropriations	<u>981,734</u>	<u>282,996</u>
Total Permanent Indefinite Appropriations	<u>\$ 2,312,193</u>	<u>\$ 2,069,853</u>

**(9) Undelivered Orders**

USTDA's undelivered orders balances at September 30, 2006 and 2005 consisted of the following:

<u>Purpose</u>	<u>2006</u>	<u>2005</u>
Obligated Balance at the End of the Period	\$ 104,638,355	\$ 106,969,919
Other Liabilities Net of Deferred Revenue	<u>(8,231,422)</u>	<u>(9,543,887)</u>
Undelivered Orders	<u>\$ 96,406,933</u>	<u>\$ 97,426,032</u>

**U.S. TRADE AND DEVELOPMENT AGENCY**

Notes to Financial Statements

September 30, 2006 and 2005

**(10) Unobligated Balances Available – Apportioned**

USTDA's total available unobligated balance of budget authority at September 30, 2006 and 2005 consisted of the following:

	<u><b>2006</b></u>
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA funds)	\$ 1,980,000
Funds transferred from USAID for feasibility studies and related activities for the African Global Competitiveness Initiative (AGCI)	10,000
Funds transferred from USAID for feasibility studies and related activities in Romania (SEED funds)	268,170
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA no-year funds)	206,815
Successor appropriations - no-year funds	1,779,419
Successor appropriations - multiple year	1,102,794
USTDA two-year appropriations	1,374,655
Unrestricted no-year funds	<u>325,959</u>
Total unobligated and available appropriations	\$ <u><u>7,047,812</u></u>
	<u><b>2005</b></u>
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA funds)	\$ 1,685,663
Funds transferred from USAID for feasibility studies and related activities for Indian Ocean Tsunami relief.	987,050
Funds transferred from USAID for feasibility studies and related activities in Eastern Europe (SEED funds)	2,275,000
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA no-year funds)	541,854
Successor appropriations - no-year funds	1,202,040
USTDA two-year appropriations	2,697,462
Unrestricted no-year funds	<u>325,959</u>
Total unobligated and available appropriations	\$ <u><u>9,715,028</u></u>



**U.S. TRADE AND DEVELOPMENT AGENCY**

Required Supplementary Information

Intragovernmental Assets, Liabilities, Revenue, Expenses

September 30, 2006

**Intragovernmental Assets**

Trading Partner	Trading Partner number	Fund Balance with Treasury	Accounts Receivable	Advances and Prepayments
Department of the Treasury	20	\$ 114,840,691	\$ —	\$ —
Federal Aviation Administration	69	—	—	112,224
Total Intragovernmental Assets		<u>\$ 114,840,691</u>	<u>\$ —</u>	<u>\$ 112,224</u>

**Intragovernmental Liabilities**

Trading Partner	Trading Partner number	Accounts Payable	Deferred Revenue	Funds to be Returned to Treasury
Agency for International Development	72	\$ 65,900		
Pension Benefit Guaranty Corporation	16	42,761		
U.S. Postal Service	18	100		
Department of the Interior (NBC)	14	22,900		
Department of the Treasury	20			\$ 943,740
Department of Defense	21		\$ 1,150,000	
Total Intragovernmental Liabilities		<u>\$ 131,661</u>	<u>\$ 1,150,000</u>	<u>\$ 943,740</u>

**U.S. TRADE AND DEVELOPMENT AGENCY**

Required Supplementary Information

Intragovernmental Assets, Liabilities, Revenue, Expenses

September 30, 2006

**Intragovernmental Revenue**

<b>Trading Partner</b>	<b>Trading Partner Number</b>	<b>Amount</b>
Department of Defense	21	\$ 850,000
Total Intragovernmental Revenue		\$ <u>850,000</u>

**Intragovernmental Expenses**

<b>Trading Partner</b>	<b>Trading Partner Number</b>	<b>Amount</b>
Agency for International Development	72	\$ 3,808
Department of the Interior (NBC)	14	1,023,682
Department of State	19	335,678
Department of Treasury	20	2,476
General Services Administration	47	1,362,846
Office of Personnel Management	24	1,802
Pension Benefit Guaranty Corporation	16	42,761
U.S. Postal Service	18	12,496
Total Intragovernmental Expenses		\$ <u>2,785,549</u>



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Internal Control

The Director  
U.S. Trade and Development Agency:

We have audited the balance sheets of the U.S. Trade and Development Agency (USTDA), as of September 30, 2006 and 2005 and the related statements of net cost, changes in net position, budgetary resources and financing (hereinafter referred to as "financial statements"), for the years then ended, and have issued our report thereon dated November 13, 2006.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

### Internal Control Over Financial Reporting

The management of the USTDA is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2006 audit, we considered the USTDA's internal control over financial reporting by obtaining an understanding of the USTDA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide an opinion on the USTDA's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

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



## **Internal Controls Over Performance Measures**

Under OMB Bulletin 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the design and operating effectiveness of internal controls over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the operation of the internal controls relating to the existence and completeness assertions of the key performance measures that might be reportable conditions.

As required by OMB Bulletin No. 06-03 in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the "Management Discussion and Analysis" and "Annual Performance Report" sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon. In our fiscal year 2006 audit, we noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

We noted certain additional matters that we reported to the management of the USTDA in a separate letter dated November 13, 2006.

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This report is intended solely for the information and use of the USTDA's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

November 13, 2006



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report on Compliance and Other Matters

The Director  
U.S. Trade and Development Agency:

We have audited the balance sheets of the U.S. Trade and Development Agency (USTDA) as of September 30, 2006 and 2005, and the related statements of net cost, changes in net position, budgetary resources, financing (hereinafter referred to as "financial statements"), for the years then ended, and have issued our report thereon dated November 13, 2006.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the USTDA is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the USTDA. As part of obtaining reasonable assurance about whether the USTDA's fiscal year 2006 financial statements are free of material misstatement, we performed tests of the USTDA's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the USTDA. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 06-03.

The results of our tests of compliance with certain provisions of other laws and regulations discussed in the third paragraph of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.



Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether the USTDA's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) 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 of FFMIA disclosed no instances in which the USTDA's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the USTDA's management, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 13, 2006