U.S. TRADE AND DEVELOPMENT AGENCY

Annual Financial Report

September 30, 2005

(With Independent Auditors' Report Thereon)

U.S. TRADE AND DEVELOPMENT AGENCY

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U.S. TRADE AND DEVELOPMENT AGENCY

Management's Discussion and Analysis

For the year ended September 30, 2005

Description of the Reporting Entity

The 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), and 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. The 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 2005 is included in this document.

Evaluations

USTDA's evaluations staff analyzes program results using various indicators such as sector, region, and type of activity. The Agency measures the performance of its activities by the amount of U.S. exports that the activities assist by calculating the Multiplier (a ten-year rolling average of the dollar amount in U.S. exports produced for every $1 in expended USTDA funding) and the Hit Rate (a ten-year rolling average of the percentage of Agency projects that have led to U.S. exports). At the same time, the Agency's activities are designed to assist host countries' economic development. The 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.

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Financial Results

USTDA's net cost of operations for the year ended September 30, 2005 was $54,421,748 and total budgetary resources for the year was $81,380,333. FY 2005 net cost of operations was approximately $3.4 million less than FY 2004, due to decreased grant expenditures. FY 2005 budgetary resources increased approximately $2.8 million from FY 2004 levels primarily due to an increase of $1.4 million in appropriations funding and an increase 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 2005.

Financial Condition

As of September 30, 2005, USTDA reported a net position of $117,156,163. Total assets of $129,424,870 included fund balance with Treasury of $121,262,730. Total liabilities reported were $12,268,707.

Limitations of the Financial Statements

These financial statements have been prepared to report the financial position and results of operations of the 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 FY 2005

Mission Statement

The 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.

USTDA Performance in FY 2005

Written in 2003, the Performance Plan for FY 2005 contained five far-reaching goals for its requested budget of $50 million:

Create an enabling environment for trade, investment and sustainable economic development in the host country by providing technical assistance and project planning. USTDA planned and organized several activities in support of this performance goal; over 45 percent of USTDA's funding was used for trade capacity building projects in 2005. For example, the Agency funded trade capacity building projects in support of free trade negotiations with Thailand and funded projects in support of discussions of the Trade and Investment Agreement in Indonesia. Also, in this year's annual trade talks with China, USTDA developed several projects that will help open the Chinese banking sector to U.S. participation and increase efficiency, reduce intellectual property rights infractions through better training of Chinese customs officials on how to better identify counterfeit goods, and eliminate technical barriers to trade involving the Chinese import of U.S. genetically modified products. USTDA also supported projects involving Central American Free Trade Agreement (CAFTA) implementation and Andean Free Trade Agreement negotiations.

Attract private financing for major projects in developing countries by assisting U.S firms with early project development. USTDA funded many activities throughout the world to help attract private financing and U.S. involvement in the implementation of priority infrastructure activities, particularly in the water and aviation sectors. USTDA's 2005 investment in Uganda to help develop a potential partnership in the water sector between a beverage operation and the municipality of Jinja is a good example of the Agency's work in this area.

Level the playing field for U.S. firms facing concessional financing and other assistance offered by foreign competitors. USTDA's de minimus training grant program is specifically designed to help U.S. companies that are facing government subsidized competition. USTDA recently supported several projects that fall into this category, including locomotive engine procurement in South Africa, a jet engine contract in Thailand, and a refinery upgrade project in India. In addition, USTDA has supported many aviation activities in China to help level the playing field for U.S. aviation companies that are facing strong European government subsidized competition. More than 15 U.S. aviation companies joined together at our suggestion and have benefited from our program in the last two years.

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Increase access to foreign project sponsors and project-specific export information for small and medium-sized U.S. firms.

Following OMB guidance, USTDA worked in FY 2005 to improve the delivery and accessibility of information to the business people that regularly interact with USTDA, the general public, and our own internal staff. Electronic access to Agency information is particularly important for small businesses around the U.S. that may not have Washington offices or means to easily obtain information available in Washington. We moved forward with initiatives to enable broader access to USTDA services, such as renovating our public website and scanning larger numbers of documents for electronic access. We have completed adjustments to our public website to make it accessible to users with disabilities in accordance with the Rehabilitation Act of 1973, as amended.

All public information located on our website and in our database is also available to the public in hard copy form. Each report located in our database has a corresponding hard copy version in our public library and is available to the public unless it contains confidential or proprietary business information. Our resource staff is available during business hours to assist in the retrieval of this information and to provide it in the manner that best suits the customer.

Increase productivity and efficiency by conducting business online.

The Trade and Development Agency Management Information System, Next Generation (TDAMIS-NG) aims to integrate the Agency's disconnected yet relational databases by establishing a single software platform that records and conveys all of this information with seamless coordination. TDAMIS-NG is due for release in early 2006 but has undergone substantial development in FY 2005.

Senior staff and Agency decision-makers can utilize TDAMIS-NG to gain more effective access to information, thereby allowing them to make more informed decisions and to provide faster responses to public inquiries regarding the status of activities. We have also continued with improvements to our interactive public website to provide easy electronic access to Agency information for U.S. firms.

Initial and recurring investments in the development of TDAMIS-NG will be small in comparison to the savings accruing from the reduced number of hours needed to maintain and access three databases, the time savings generated by looking for data that will be centrally located, and the time savings resulting from faster access by senior staff and customers to important information. Possible errors resulting from numerous entries of the same data will be reduced with the advent of an integrated database.

Performance Goals and Achievement for Previous Fiscal Years

USTDA has long used the Multiplier and Hit Rate as measures of commercial success. In addition, the Agency has now established and implemented new measures to track its effectiveness in delivering developmental impact as well.

In FY 2005, USTDA received a 92% effectiveness rating from OMB's Performance Assessment Rating Tool (PART). This improved rating was largely received on the basis of the Agency's development and utilization of its newly established method of measuring its developmental impact. Based upon the data collected in the first two years of using the developmental impact metric, it is anticipated that the developmental impact metric will join the Agency's long-standing measurement of commercial impact as a relatively predictable way to show that allocation of funds to the Agency will result in specific commercial and developmental results.

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The newly established measurements for developmental impact are:

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

	2005 Plan	2005 Actual	2004 Actual	2003 Actual[1]
Multiplier[2]	35:1	43:1	39:1	41.7:1
Hit Rate[3]	38%	36%	37%	38.9%

Infrastructure	>55%	N/A[4]	N/A	N/A
Reform	>25%	N/A[4]	N/A	N/A
Jobs/Training	>30%	N/A[4]	N/A	N/A
Tech Transfer	>50%	N/A[4]	N/A	N/A

[1] The Hit Rate and Multiplier figures for FY 2003 shown in this table are higher than those reported on the USTDA Annual Performance Report for FY 2003 due to the inclusion of projects funded with transfer funds in the calculations on the previous report.

[2] 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.

[3] The Hit Rate is a ten-year rolling average of the percentage of Agency projects that have led to U.S. exports.

[4] Under PART, evaluation of developmental impact of projects funded in FY 2005 will be finalized in FY 2011.

During the first part of the period measured by the Hit Rate (1993-2002), the economies of Asia and the Newly Independent States, notably Russia, suffered severe declines. As a result, the Hit Rate has also declined modestly.

Since then, the Agency has shifted toward trade capacity building and technical assistance, and as the Asian economies have recovered and grown during the latter part of the period measured, it is expected that the Hit Rate will increase and come close to, or make, the stated goals.

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Data Verification:

USTDA has an evaluations staff that analyzes each year's investments to identify successes and verify that measurements are accurate. The Agency 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. Accordingly, USTDA has expanded the scope of its outside evaluations to gather annually the project-by-project data necessary to measure both its developmental and its commercial impact in developing countries.

Program Evaluations

In FY 2004, the Agency's outside evaluations contractor, QED Group, LLC, conducted an evaluation of 396 Agency activities. This evaluation found that the projects in the QED portfolio had produced, to date, over $5.6 billion in U.S. exports. Additionally, the evaluation found that 42% of the technical assistance and feasibility projects had actual, specific benefits to the economic development of the host countries.

Budget Information for FY 2005 (from Budget Appendix)

Appropriations (requested): $50,000,000

Appropriations (actual): $51,500,000

Personnel: 50 FTE

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

The Director
U.S. Trade and Development Agency:

We have audited the accompanying balance sheets of the U.S. Trade and Development Agency (USTDA) as of September 30, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, and financing, 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. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 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 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 USTDA's internal control over financial reporting. Accordingly, we express no such opinion. 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 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 U.S. Trade and Development Agency, as of September 30, 2005 and 2004, 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 accounting principles generally accepted in the United States of America.

The information in the "Management's Discussion and Analysis" and "Required Supplementary Information" sections is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements,* Part A, *Form and Content of the Performance and Accountability Report*. 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 Annual Performance Report section is an integral part of USTDA's *Annual Financial Report*. However, this information is not a required part of the financial statements and is presented for purposes of additional analysis. The information in the Annual Performance Report section 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 reports dated November 7, 2005, on our consideration of USTDA's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts, 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 considering the results of our audit.

KPMG LLP

November 7, 2005

U.S. TRADE AND DEVELOPMENT AGENCY

Balance Sheets

As of September 30, 2005 and 2004

Assets	**2005**	**2004**
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 121,262,730	$ 112,772,667
Accounts receivable (Note 3)	20,535	5,332
Other (Note 3)	112,224	210,311
Total intragovernmental	121,395,489	112,988,310
General property, plant and equipment, net (Note 4)	378,505	224,641
Accounts receivable (Note 3)	37,928	—
Interest receivable (Note 3)	—	303,683
Other (Note 3)	7,612,948	8,982,712
Total assets	$ 129,424,870	$ 122,499,346
Liabilities and Net Position		
Liabilities (Note 5)		
Intragovernmental:		
Accounts payable	$ 328,953	$ 261,811
Other (Note 5)	2,436,428	670,759
Total intragovernmental	2,765,381	932,570
Accounts payable	8,908,512	8,291,553
Other (Note 5)	594,814	474,378
Total liabilities	12,268,707	9,698,501
Net position:		
Unexpended appropriations	117,045,514	112,805,206
Cumulative results of operations	110,649	(4,361)
Total net position	117,156,163	112,800,845
Total liabilities and net position	$ 129,424,870	$ 122,499,346

See accompanying notes to financial statements.

U.S. TRADE AND DEVELOPMENT AGENCY

Statements of Net Cost

For the years ended September 30, 2005 and 2004

	2005	2004
Cost of Operations:		
Grants program costs:		
Gross costs	$ 54,072,952	$ 57,755,439
Less earned revenue	(12,456)	(187,544)
Net grant program costs	54,060,496	57,567,895
Costs not assigned to programs	361,252	283,387
Net cost of operations (Note 6)	$ 54,421,748	$ 57,851,282

See accompanying notes to financial statements.

U.S. TRADE AND DEVELOPMENT AGENCY

Statements of Changes in Net Position

For the years ended September 30, 2005 and 2004

	2005		2004	
	Cumulative results of operations	**Unexpended appropriations**	**Cumulative results of operations**	**Unexpended appropriations**
Beginning balances	$ (4,361)	112,805,206	$ 16,813	110,499,420
Budgetary financing sources:				
Appropriations received	—	51,500,000	—	50,000,000
Appropriations transferred – in/out	—	10,775,000	—	13,100,000
Other adjustments (rescissions, etc.)	—	(3,735,313)	—	(3,174,432)
Appropriations used	54,299,379	(54,299,379)	57,619,782	(57,619,782)
Other financing sources:				
Imputed financing	237,379	—	210,326	—
Total financing sources	54,536,758	4,240,308	57,830,108	2,305,786
Net cost of operations	(54,421,748)	—	(57,851,282)	—
Net change	115,010	4,240,308	(21,174)	2,305,786
Ending balances	$ 110,649	117,045,514	$ (4,361)	112,805,206

See accompanying notes to financial statements.

U.S. TRADE AND DEVELOPMENT AGENCY

Statements of Budgetary Resources

For the years ended September 30, 2005 and 2004

		2005		2004
Budgetary resources:				
Budget authority:				
Appropriations (net of rescission)	$	51,088,000	$	49,705,000
Net transfers		10,775,000		13,100,000
Unobligated balance:				
Beginning of the period		11,950,519		13,361,985
Spending authority from offsetting collections - collected		2,000,000		200,000
Recoveries of prior year's obligations		8,890,127		5,039,069
Permanently not available		(3,323,313)		(2,879,432)
Total budgetary resources	$	81,380,333	$	78,526,622
Status of budgetary resources:				
Obligations incurred:				
Direct	$	65,486,023	$	66,376,103
Reimbursable		2,000,000		200,000
Subtotal		67,486,023		66,576,103
Unobligated balance available:				
Apportioned (Note 7)		9,715,028		9,005,324
Unobligated balance not available		4,179,282		2,945,195
Total status of budgetary resources	$	81,380,333	$	78,526,622
Relationship of obligations to outlays:				
Obligated balance, net – beginning of the period	$	100,467,528	$	98,231,910
Obligations incurred		67,486,023		66,576,103
Recoveries of prior years' obligations		(8,890,127)		(5,039,069)
Obligated balance, net – end of the period:				
Accounts payable		(9,543,887)		(8,798,740)
Accounts receivable		(20,535)		(5,332)
Unfilled customer orders from Federal sources		(2,000,000)		
Undelivered orders		(95,405,497)		(91,663,456)
Total outlays	$	52,093,505	$	59,301,416
Outlays:				
Disbursements	$	52,093,505	$	59,301,416
Collections/refund		(2,000,000)		(200,000)
Net outlays	$	50,093,505	$	59,101,416

See accompanying notes to financial statements.

U.S. TRADE AND DEVELOPMENT AGENCY

Statements of Financing

For the years ended September 30, 2005 and 2004

	2005	2004
Resources used to finance activities:		
Budgetary resources obligated		
Obligations incurred	$ 67,486,023	$ 66,576,103
Less spending authority from offsetting collections and recoveries:		
Collected	(2,000,000)	(200,000)
Recoveries of prior years' obligations	(8,890,127)	(5,039,069)
Obligations net of offsetting collections and recoveries	56,595,896	61,337,034
Other resources:		
Imputed financing from costs absorbed by others	237,379	210,326
Other	(15,203)	6,279
Net other resources used to finance activities	222,176	216,605
Total resources used to finance activities	56,818,072	61,553,639
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	$ (4,289,393)	$ (3,735,987)
Changes in offsetting collections and receipts that do not affect the net cost of operations	1,987,544	12,456
Resources that finance the acquisition of assets	(212,375)	(49,254)
Total resources used to finance items not part of the net cost of operations	(2,514,224)	(3,772,785)
Costs of operations that require resources in future periods:		
Increase in accrued annual leave liability	59,388	26,224
Costs of operations that do not require resources:		
Depreciation and amortization	58,512	44,204
Total costs of operations that do not require resources	117,900	70,428
Net cost of operations	$ 54,421,748	$ 57,851,282

See accompanying notes to financial statements.

(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).

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(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 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) 2005, USTDA received a two-year appropriation to be used for program and administrative expenses, which is available for obligations through September 30, 2006. In FY 2005, USTDA also received appropriation transfers totaling $10,775,000 from the U.S. Agency for International Development (USAID) to fund activities in Iraq, Afghanistan, Central and Eastern Europe and Eurasia. In addition USTDA received a reimbursable transfer in the amount of $2,000,000 from the U.S. Department of Defense for training in Iraq.

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.

(h) Liabilities

Liabilities represent amounts owed by USTDA as the result of transactions or events that have occurred as of September 30, 2005. 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.

(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 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 10.7% for a total contribution rate of 11.5%. The cost of providing a FERS benefit, which is 12% as computed by OPM is more than the amounts contributed by USTDA and the employees. In accordance with 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.

The total amount of imputed financing for retirement and other postretirement benefits paid by OPM for FY 2005 is calculated at $237,379, which includes $67,239 for pension cost for CSRS and FERS, $169,433 for the Federal Employees Health Benefit Program (FEHP), and $707 for Federal Employees Group Life Insurance (FEGLI). These amounts are included in USTDA's FY 2005 financial statements. In FY 2004, OPM funded $210,326 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 and agencies and is therefore not disclosed by USTDA. The reporting of these amounts is the responsibility of OPM. USTDA has properly computed this amount and recorded a liability for it.

USTDA paid approximately $377,115 and $335,635 for retirement system coverage for its employees during FY 2005 and FY 2004, 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 2004 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.

(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, 2005 and 2004, as follows:

	2005	2004
Fund Balances:		
Appropriated Funds	$ 118,826,302	$ 112,405,591
Miscellaneous Receipts	436,428	354,620
Other Fund Types (Reimbursable)	2,000,000	12,456
Total	$ 121,262,730	$ 112,772,667
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	$ 9,715,028	$ 9,005,324
Unavailable	4,179,282	2,945,195
Obligated Balance not yet disbursed	106,969,920	100,467,528
Non-Budgetary	398,500	354,620
Total	$ 121,262,730	$ 112,772,667

(3) Other Assets

Other Assets at September 30, 2005 and 2004 consisted of the following components:

		2005		2004
Intragovernmental:				
Accounts Receivable	$	20,535	$	5,332
Advances and Prepayments		112,224		210,311
Total Intragovernmental		132,759		215,643
Accounts Receivable		37,928		—
Interest Receivable		—		303,683
Advances and Prepayments		7,612,948		8,982,712
Total Other Assets	$	7,783,635	$	9,502,038

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.

(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, 2005 and 2004 consisted of:

2005	Depreciation method	Service life		Acquisition value	Accumulated depreciation/ amortization	Net book value
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 Improvement	Straight-line	8 years		20,255	3,797	16,458
Total General Property and Equipment			$	744,803	366,298	378,505

2004	Depreciation method	Service life		Acquisition value	Accumulated depreciation/ amortization	Net book value
Computer Equipment	Straight-line	5 years	$	141,210	122,213	18,997
Furniture and Fixtures	Straight-line	10 years		166,964	87,400	79,564
Computer Software	Straight-line	5 years		29,711	19,163	10,548
Other Equipment	Straight-line	10 years		174,308	77,765	96,543
Leasehold Improvements	Straight-line	8 years		20,255	1,266	18,989
Total General Property and Equipment			$	532,448	307,807	224,641

During FY 2005 and FY 2004, USTDA purchased $212,355 and $49,254 in property and equipment, respectively. No capital assets were disposed of during FY 2005. Total assets disposed of during FY 2004 amounted to $14,956, and were fully depreciated.

(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:

	2005	2004
Intragovernmental:		
Other Miscellaneous (To Be Returned to Treasury)	$ 436,428	$ 658,303
Total Intragovernmental	436,428	658,303
Unfunded Annual Leave	$ 288,390	$ 229,002
Total Liabilities Not Covered by Budgetary Resources	$ 724,818	$ 887,305

Other Liabilities:

	Non-Current	Current	2005
Intragovernmental:			
Accounts Payable	$ —	328,953	328,953
Deferred Revenue	—	2,000,000	2,000,000
Total Intragovernmental	—	2,328,953	2,328,953
Accounts Payable	—	8,908,512	8,908,512
Other	—	306,424	306,424
Total Other Liabilities	$ —	11,543,889	11,543,889

	Non-Current	Current	2004
Intragovernmental:			
Accounts Payable	$ —	261,811	261,811
Deferred Revenue	—	12,456	12,456
Total Intragovernmental	—	274,267	274,267
Accounts Payable	—	8,291,553	8,291,553
Other	—	245,376	245,376
Total Other Liabilities	$ —	8,811,196	8,811,196

(Continued)

(6) Intragovernmental Costs and Exchange Revenue

In FY 2005 and FY 2004, program costs consisted of the following:

Grants Program		**2005**		**2004**
Intragovernmental Costs	$	2,881,555	$	2,234,917
Public Costs		51,552,649		55,803,909
Total Grant Program Costs		54,434,204		58,038,826
Intragovernmental Earned Revenue		(12,456)		(187,544)
Net Grant Program Costs	$	54,421,748	$	57,851,282

All costs incurred by USTDA in FY 2005 and FY 2004 were related to the grants program.

(7) Unobligated Balances Available – Apportioned

USTDA's total available unobligated balance of budget authority at September 30, 2005 and 2004 consisted of the following:

		2005
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		325,959
Total unobligated and available appropriations	$	9,715,028

U.S. TRADE AND DEVELOPMENT AGENCY

Notes to Financial Statements

September 30, 2005 and 2004

		2004
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA funds)	$	3,086,411
Funds transferred from USAID for feasibility studies and related activities in Eastern Europe (SEED funds)		191,050
Funds transferred from USAID for feasibility studies and related activities in Afghanistan		3,500,000
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA no-year funds)		466,045
USTDA two-year appropriations		1,435,859
Unrestricted no-year funds		325,959
Total unobligated and available appropriations	$	9,005,324

U.S. TRADE AND DEVELOPMENT AGENCY

Required Supplementary Information
Intragovernmental Assets

September 30, 2005

Trading partner	Trading partner number		Fund balance with Treasury	Accounts receivable	Advances and prepayments
Department of the Treasury	20	$	121,262,730	—	—
Federal Aviation Administration	69		—	11,074	112,224
Department of the Interior	46		—	9,461	—
Total		$	121,262,730	20,535	112,224

Intragovernmental Liabilities

September 30, 2005

Trading partner	Trading partner number		Accounts payable	Deferred revenue	Funds to be returned to the U.S. Treasury
Agency for International Development	72	$	35,000	—	—
Department of State	19		80,013	—	—
General Services Administration (GSA)	47		213,940	—	—
Department of the Treasury	20		—	—	436,428
Department of Defense			—	2,000,000	—
Total		$	328,953	2,000,000	436,428

Intra-governmental Revenue and Expenses

for the year ended September 30, 2005

Revenue:			
Overseas Private Investment Corporation	71	$	12,456
Total Revenue		$	12,456
Expenses:			
Agency for International Development	72	$	35,000
Department of the Interior	14		865,387
Department of State	19		320,584
General Services Administration	47		1,569,516
Office of Personnel Management	24		86
Federal Aviation Administration	69		33,565
U.S. Postal Service	18		14,656
Pension Benefit Guaranty Corporation	16		42,761
Total Expenses		$	2,881,555

See accompanying independent auditors' report.

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Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

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, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the years then ended, and have issued our report thereon dated November 7, 2005. We conducted our audit 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. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our fiscal year 2005 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. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on USTDA's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

As required by OMB Bulletin No. 01-02, in our fiscal year 2005 audit, with respect to internal control related to performance measures determined by management to be key and reported in the "Management's Discussion and Analysis" section of the *Annual Financial Report*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion thereon.

We noted certain additional matters that we reported to the management of USTDA in a separate letter dated November 7, 2005.

This report is intended solely for the information and use of the USTDA's management, OMB, the 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 7, 2005

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, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, and financing, for the years then ended, and have issued our report thereon dated November 7, 2005. We conducted our audit 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. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of USTDA is responsible for complying with laws, regulations, contracts, and grant agreements applicable to USTDA. As part of obtaining reasonable assurance about whether USTDA's fiscal year 2005 financial statements are free of material misstatement, we performed tests of 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. 01-02, including certain requirements 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 USTDA. However, providing an opinion on compliance with laws and regulations 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 of this report, 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. 01-02.

The results of our tests of compliance with certain provisions of other laws and regulations discussed in the second 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. 01-02.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether USTDA's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the U.S. 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 USTDA's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

We noted certain additional matters that we reported to management of USTDA in a separate letter dated November 7, 2005.

This report is intended solely for the information and use of USTDA's management, OMB, the 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 7, 2005