U.S. TRADE AND DEVELOPMENT AGENCY

Performance and Accountability Report

September 30, 2007

(With Independent Auditors' Report Thereon)

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Table of Contents

U.S. TRADE AND DEVELOPMENT AGENCY

Director's Message

September 30, 2007

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.

Data Assessment

The 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 service level agreements with the National Business Center (NBC) of the Department of the Interior for Payroll, Personnel, 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 June 16, 2006 through June 15, 2007. In addition, the NBC provided assurance that these controls did not change for the period June 15, through September 30, 2007, and that the description of controls in the FY 2007 Type II SAS 70 examination report presents fairly the aspects of NBC controls that were in place as of September 30, 2007. USTDA relies on these assurances.

U.S. TRADE AND DEVELOPMENT AGENCY

Management's Discussion and Analysis

For the year ended September 30, 2007

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 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.

In addition, the Agency uses four newly-established measurements for development impact:

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

U.S. TRADE AND DEVELOPMENT AGENCY

Management's Discussion and Analysis

For the year ended September 30, 2007

(A) Commercial Objectives:

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 "multiplier" and "hit rate").

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.

2007 Goal	2007 Actual	2006 Actual	2005 Actual	2004 Actual
60%	66%	83%	72%	66%

Over the past four years, USTDA has demonstrated the ability 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.

	2007 Goal	2007 Actual	2006 Actual	2005 Actual	2004 Actual
Multiplier[1]	37.5:1	39:1	43:1	43:1	38:1
Hit Rate[2]	35%	35%	35%	36%	37%

For the most recent ten-year period in which information is complete, USTDA identified $11.2 billion in U.S. exports from the completed projects of which USTDA spent $287 million. This resulted in an export multiplier of approximately $39. With respect to the commercial impact indicators, USTDA outperformed its export multiplier benchmark ($39 vs $37.5 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, 423 projects out of 1,197 produced exports, yielding a hit rate of 35%, equivalent to the agency's stated goal.

[1] The multiplier is a ten year rolling average of the dollar amount in US exports produced for every $1 in expended USTDA program funding

[2] The hit rate is a ten year rolling average of the percentage of agency projects that have led to US exports.

(B) Development Objectives:

Because the maturation period of development projects is typically lengthy, developmental impact evaluations are not made until six years after completion of a USTDA activity. Consequently, no actual results are required for the period from FY 2004 – FY 2007. Beginning in 2011, the Agency will be required to show whether or not its implemented projects are meeting the following goals:

- 55% result in infrastructure improvements
- 25% lead to the adoption of market-oriented reforms
- 30% result in the creation of ten or more jobs, or the training of ten or more people
- 50% lead to the transfer of advanced technology or increased productivity

(C) 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 evaluations 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.

(D) 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 2008 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.

Evaluations

The USTDA 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.

Financial Condition

The accompanying balance sheet as of September 30, 2007, reports a net position of $109,811,362. Total assets of $119,796,530 included fund balance with Treasury of $114,883,040. Total liabilities reported were $9,985,168.

Financial Results

USTDA's net cost of operations for the year ended September 30, 2007 was $53,598,176 and total budgetary resources for the year was $66,877,856. The net cost of operations for FY 2007 was approximately $1.5 million less than FY 2006, due to decreased grant expenditures. The budgetary resources for FY 2007 decreased approximately $1.3 million from FY 2006 levels. The decrease was primarily due to decreases of approximately $4.6 million in the unobligated balance brought forward, and $0.9 million in recoveries, and increases of $2.3 million in nonexpenditure transfers, and ($1.8) million in funds permanently not available.

The accompanying statements of net cost, changes in net position, and budgetary resources illustrate in detail the financial results of USTDA's operations for FY 2007.

Management Assurances

The U.S. Trade and Development Agency's (USTDA) 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 an assessment of the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, USTDA can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of June 30, 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, USTDA conducted an assessment of the effectiveness of its internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, USTDA can provide reasonable assurance that internal control over financial reporting as of June 30, 2007 was operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

/s/
Leocadia Zak
Acting Director

July 10, 2007
Date

The Agency has service level agreements with the National Business Center (NBC) of the Department of the Interior for Payroll, Personnel, 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. In addition, the NBC provided assurance that these controls remained in effect through September 30, 2007. The results of this examination provide reasonable assurance that USTDA's financial management systems complied substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S, Government Standard General Ledger at the transaction level.

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.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

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, 2007 and 2006, and the related statements of net cost, changes in net position, and statements of budgetary resources (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. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 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, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis section is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. 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.

The information in the Other Accompanying Information section is presented for purposes of additional analysis and is 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 9, 2007, 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 9, 2007

U.S. TRADE AND DEVELOPMENT AGENCY

Balance Sheets

As of September 30, 2007 and 2006

Assets		**FY 2007**		**FY 2006**
Intragovernmental:				
Fund balance with Treasury (Note 2)	$	114,883,040	$	114,840,690
Other (Note 3)		—		112,224
Total intragovernmental		114,883,040		114,952,914
General property and equipment, net (Note 4)		329,857		365,970
Accounts receivable (Note 3)		9,428		61,325
Other (Note 3)		4,574,205		5,904,858
Total assets	$	119,796,530	$	121,285,067
Liabilities and Net Position				
Liabilities (Note 5)				
Intragovernmental:				
Accounts payable	$	61,743	$	131,661
Other (Note 5)		1,703,343		2,093,740
Total intragovernmental		1,765,086		2,225,401
Accounts payable		7,597,606		7,797,137
Other (Note 5)		622,476		588,448
Total liabilities		9,985,168		10,610,986
Net position:				
Unexpended appropriations		109,796,445		110,532,610
Cumulative results of operations		14,917		141,471
Total net position		109,811,362		110,674,081
Total liabilities and net position	$	119,796,530	$	121,285,067

See accompanying notes to financial statements.

U.S. TRADE AND DEVELOPMENT AGENCY

Statements of Net Cost

For the Years ended September 30, 2007 and 2006

	FY 2007	FY 2006
Cost of Operations:		
Grants program costs:	$ 53,843,261	$ 55,620,353
Less earned revenue	(637,500)	(850,000)
Net grant program cost	53,205,761	54,770,353
Costs not assigned to programs	392,415	311,766
Net cost of operations (Note 6 & 12)	$ 53,598,176	$ 55,082,119

See accompanying notes to financial statements.

U.S. TRADE AND DEVELOPMENT AGENCY

Statements of Changes in Net Position

For the Years ended September 30, 2007 and 2006

	FY 2007	FY 2006
Cumulative results of operations:		
Beginning balances	$ 141,471	$ 110,649
Adjustments:		
Expired funds (Note 7)	(58,885)	—
Budgetary financing sources:		
Appropriations used	53,252,543	54,847,644
Other financing sources:		
Imputed financing	277,964	265,297
Total financing sources	53,471,622	55,112,941
Net cost of operations	(53,598,176)	(55,082,119)
Net change	(126,554)	30,822
Ending balances	$ 14,917	$ 141,471
Unexpended appropriations:		
Beginning balances	$ 110,532,610	$ 117,045,514
Budgetary financing sources:		
Appropriations received	50,431,726	50,900,000
Appropriations transferred in/out	5,245,000	2,905,000
Other adjustments (rescissions, etc.)	(3,160,348)	(5,470,260)
Appropriations used	(53,252,543)	(54,847,644)
Total budgetary financing sources	(736,165)	(6,512,904)
Total unexpended appropriations	109,796,445	110,532,610
Net position	$ 109,811,362	$ 110,674,081

See acompanying notes to financial statements.

U.S. TRADE AND DEVELOPMENT AGENCY

Statements of Budgetary Resources

For the Years ended September 30, 2007 and 2006

	FY 2007	FY 2006
Budgetary resources:		
Unobligated balance, brought forward, October 1	$ 9,258,596	$ 13,894,310
Recoveries of prior year unpaid obligations	5,100,492	5,987,204
Budget authority:		
Appropriations	50,431,726	50,900,000
Spending authority from offsetting collections:		
Collected	2,390	—
Nonexpenditure transfers	5,245,000	2,905,000
Permanently not available		
Cancellation of expired accounts	(3,160,348)	(4,961,260)
Enacted reductions	—	(509,000)
Total budgetary resources	$ 66,877,856	$ 68,216,254
Status of budgetary resources:		
Obligations incurred:		
Direct (Note 8)	$ 57,138,818	$ 58,957,659
Subtotal	57,138,818	58,957,659
Unobligated balance available:		
Apportioned (Note 9)	7,725,135	7,047,812
Unobligated balance not available	2,013,903	2,210,783
Total status of budgetary resources	$ 66,877,856	$ 68,216,254
Change in obligated balance:		
Unpaid obligations, brought forward, October 1	$ 104,638,355	$ 106,969,919
Obligations incurred	57,138,818	58,957,659
Less: Gross outlays	(52,723,522)	(55,302,019)
Less: Recoveries of prior years' obligations	(5,100,492)	(5,987,204)
Obligated balance, net – end of the period (Note 10)	103,953,159	104,638,355
Net Outlays:		
Gross outlays	$ 52,723,522	$ 55,302,019
Less: Offsetting collections	(2,390)	—
Net outlays	$ 52,721,132	$ 55,302,019

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).

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.

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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 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, and budgetary resources 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 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position 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 Statement of Budgetary Resources is prepared using budgetary accounting methods.

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 FY 2007, USTDA received a two-year appropriation to be used for program and administrative expenses, which is available for obligation through September 30, 2008. In FY 2007, USTDA also received appropriation transfers totaling $5,245,000 from the U.S. Agency for International Development (USAID) to fund activities in Eurasia and Africa.

In accordance with Sec. 511 of the Foreign Operations Export Finance and Reporting Appropriations Acts in regards to Support for East European Democracy Act (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.

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. The U.S. 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, 2007. 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 are approximately $1.4 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. Undelivered Orders as of September 30, 2007 was $95,995,701.

(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 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 represent 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 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 post-retirement benefits paid by OPM for FY 2007 is calculated at $277,964 which includes $54,459 for pension cost for CSRS and FERS; $222,880 for the Federal Employees Health Benefit Program (FEHP); and $625 for Federal Employees Group Life Insurance (FEGLI). These amounts are included in USTDA's FY 2007 financial statements. In FY 2006, OPM funded $265,297 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 $409,197 and $389,892 for retirement system coverage for its employees during FY 2007 and FY 2006, 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.

(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, 2007 and 2006, as follows:

		2007		**2006**
Fund balances:				
Appropriated funds	$	113,179,697	$	112,746,950
Miscellaneous Receipts		1,190,843		943,740
Other fund types (reimbursable)		512,500		1,150,000
Total	$	114,883,040	$	114,840,690
Status of fund balance with Treasury				
Unobligated balance:				
Available	$	7,725,135	$	7,047,812
Unavailable		2,013,903		2,210,783
Obligated balance not yet disbursed		103,953,159		104,638,355
Non-budgetary		1,190,843		943,740
Total	$	114,883,040	$	114,840,690

(3) Other Assets

Other assets at September 30, 2007 and 2006 consisted of the following components:

		2007		**2006**
Intragovernmental:				
Advances and prepayments	$	—	$	112,224
Total intragovernmental	$	—	$	112,224
Accounts receivable		9,428		61,325
Advances and prepayments		4,574,205		5,904,858
Total other assets	$	4,583,633	$	6,078,407

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, 2007, and 2006 consisted of:

2007	Depreciation method	Service life		Acquisition value	Accumulated depreciation/ amortization	Net book value
Computer Equipment	Straight-line	5 years	$	269,028	146,296	122,732
Furniture and Fixtures	Straight-line	10 years		180,362	119,593	60,769
Computer Software	Straight-line	5 years		11,721	8,205	3,516
Other Equipment	Straight-line	10 years		228,428	96,981	131,447
Leasehold Improvement	Straight-line	8 years		20,255	8,862	11,393
Total general property and equipment			$	709,794	379,937	329,857

2006	Depreciation method	Service life		Acquisition value	Accumulated depreciation/ amortization	Net book value
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			$	672,499	306,529	365,970

During FY 2007 and FY 2006, USTDA purchased property and equipment for $44,139 and $69,371, respectively. During FY 2007, USTDA disposed of fully depreciated property that cost $6,844.

(5) Liabilities

Liabilities are recognized when they are incurred regardless of whether they are covered by available budgetary resources. Total liabilities reported on the financial statements represent the sum of liabilities not covered by budgetary resources, and those covered by budgetary resources.

	2007	2006
Intragovernmental Liabilities:		
Liabilities not covered by budgetary resources:		
Miscellaneous receipts to be returned to Treasury	$ 1,190,843	$ 943,740
Liabilities covered by budgetary resources:		
Deferred revenue	512,500	1,150,000
Accounts payable	61,743	131,661
Total intragovernmental liabilities	$ 1,765,086	$ 2,225,401
Other Liabilities:		
Liabilities not covered by budgetary resources:		
Accrued annual leave	$ 324,367	$ 285,824
Liabilities covered by budgetary resources:		
Accounts payable	7,597,606	7,797,137
Accrued payroll	298,109	302,624
Total other liabilities	$ 8,220,082	$ 8,385,585
Total Liabilities	$ 9,985,168	$ 10,610,986

(6) Intragovernmental Costs and Exchange Revenue

In FY 2007 and FY 2006, program costs consisted of the following:

Grants Program		2007		2006
Intragovernmental costs	$	2,544,128	$	2,785,549
Public costs		51,691,548		53,146,570
Total grant program costs		54,235,676		55,932,119
Intragovernmental earned revenue		(637,500)		(850,000)
Net grant program costs	$	53,598,176	$	55,082,119

All costs incurred by USTDA in FY 2007 and FY 2006 were related to the grants program.

(7) Expired Funds

Funds previously reported as accounts receivable of $58,885 expired on October 1, 2006, and are no longer part of budgetary resources. The receipt of funds relating to expired appropriations is reported as miscellaneous revenue to be returned to Treasury.

(8) Apportionment Categories of Obligations Incurred

In FY 2007 and 2006 USTDA obligated funds in the following categories.

Obligations		2007		2006
Category A	$	11,284,459	$	10,716,206
Category B		45,854,359		48,241,453
Total obligations incurred	$	57,138,818	$	58,957,659

Category A represents funds that are obligated for operating expenses.

Category B represents funds that are obligated for program activities.

(9) Unobligated Balances Available – Apportioned

USTDA's total available unobligated balance of budget authority at September 30, 2007 and 2006 consisted of the following:

		2007
Unrestricted no-year funds	$	325,959
Successor appropriations - no-year funds		1,033,745
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA no-year funds)		170,412
Total no-year funds	$	1,530,116
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA funds)		2,181,157
Funds transferred from USAID for feasibility studies and related activities in Azerbijan.		1,000,000
Successor appropriations - multiple year		94,724
USTDA two-year appropriations		2,919,138
Total unobligated and available appropriations	$	7,725,135

None of these transfers represent allocations from USAID.

		2006
Unrestricted no-year funds	$	325,959
Successor appropriations - no-year funds		1,779,419
Funds transferred from USAID for feasibility studies and related activities in the New Independent States (FSA no-year funds)		206,815
Total no-year funds	$	2,312,193
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
Successor appropriations - multiple year		1,102,794
USTDA two-year appropriations		1,374,655
Total unobligated and available appropriations	$	7,047,812

None of these transfers represent allocations from USAID.

(10) Undelivered Orders

USTDA's undelivered orders balances at September 30, 2007 and 2006 consisted of the following**:**

Purpose	2007	2006
Obligated balance at the end of the period	$ 103,953,159	$ 104,638,355
Accounts payable (covered by budgetary resources)	7,957,458	8,231,422
Undelivered orders	$ 95,995,701	$ 96,406,933

Accounts payable in this note excludes liabilities not covered by budgetary resources and deferred revenue.

(11) Permanent Indefinite Appropriations

USTDA's no-year funds at September 30, 2007 and 2006 existed for the following purposes.

Purpose	2007	2006
General program activities	$ 325,959	$ 325,959
Freedom Support Act (FSA) transfer funds for feasibility studies and program activities	170,412	206,815
FSA successor appropriation	310,022	797,685
Support for Eastern European Democracy (SEED) funds successor appropriations	723,723	981,734
Total permanent indefinite appropriations	$ 1,530,116	$ 2,312,193

(12) Reconciliation of Net Cost to Budget

This information was formerly presented in a Statement of Financing. The Agency changed its method of reporting the reconciliation of Net Cost of Operations (proprietary) to Budgetary Resources during FY 2007. In accordance with OMB Circular A-136, the Statement of Financing is no longer considered a basic statement.

	2007	2006
Resources used to finance activities:		
Budgetary resources obligated	$ 57,138,818	$ 58,957,659
Recoveries of prior years obligations	(5,100,492)	(5,987,204)
Imputed financing for costs absorbed by others	277,964	265,297
Other	(9,377)	(45,827)
Total resources used to finance activities	$ 52,306,913	$ 53,189,925
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	$ 1,854,108	$ 2,727,189
Change in offsetting collections and receipts that do not affect the net cost of operations	(637,500)	(850,000)
Resources that finance the acquisition of assets	(44,139)	(69,371)
Total resources used to finance items not part of the net cost of operations	$ 1,172,469	$ 1,807,818
Costs that do not require resources:		
Depreciation and amortization	80,252	83,563
Cost of operations that require resources in future periods Increase in accrued leave liability	38,542	(2,565)
Other	—	3,378
Total costs that do not require resources	$ 118,794	$ 84,376
Net cost of operations	$ 53,598,176	$ 55,082,119

U.S. TRADE AND DEVELOPMENT AGENCY

Other Accompanying Information

Intragovernmental Assets, Liabilities, Revenue, and Expenses

September 30, 2007

Intragovernmental Assets

Trading Partner	Partner #		Fund Balance with Treasury
Department of the Treasury	20	$	114,883,040
Total		$	114,883,040

Intragovernmental Liabilities

Trading Partner	Partner #		Accounts Payable		Deferred Revenue		Funds to be Returned to Treasury
Department of Defense	21	$	—	$	512,500		—
Department of the Interior (NBC)	14		35,593		—		—
Department of State	19		25,150		—		—
Department of the Treasury	20		—		—	$	1,190,843
General Services Administration	47		1,000		—		—
Total		$	61,743	$	512,500	$	1,190,843

U.S. TRADE AND DEVELOPMENT AGENCY

Other Accompanying Information

Intragovernmental Assets, Liabilities, Revenue, and Expenses

September 30, 2007

Intragovernmental Revenue

Trading Partner	Trading Partner #		Amount
Department of Defense	21	$	637,500
Total		$	637,500

Intragovernmental Expenses

Trading Partner	Trading Partner #		Amount
Department of the Interior (NBC)	14	$	862,240
Department of State	19		289,670
General Services Administration	47		1,368,532
Office of Personnel Management	24		220
Pension Benefits Guaranty Corporation	71		7,117
U.S. Postal Service	18		16,349
Total		$	2,544,128

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<u>Independent Auditors' Report on Internal Control</u>

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, 2007 and 2006 and the related statements of net cost, changes in net position, and statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated November 9, 2007.

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 Standard*s, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 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 2007 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 as a basis for designing 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. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the USTDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the USTDA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

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

In our fiscal year 2007 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

INTERNAL CONTROL OVER PERFORMANCE MEASURES

As required by OMB Bulletin No. 07-04 in our fiscal year 2007 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, 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 report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin No. 07-04. 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 2007 audit, we noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

We noted certain additional matters that we reported to management of the USTDA in a separate letter dated November 9, 2007.

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 9, 2007

KPMG

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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, 2007 and 2006, and the related statements of net cost, changes in net position, and statements of budgetary resources (hereinafter referred to as "financial statements") for the years then ended, and have issued our report thereon dated November 9, 2007.

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. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 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 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. 07-04, 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 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. 07-04.

Under OMB Bulletin No. 07-04 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.

We noted certain additional matters that we have reported to management of the USTDA in a separate letter dated November 9, 2007.

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 9, 2007