USAID
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OFFICE OF INSPECTOR GENERAL

Audit of USAID's Financial Statements for Fiscal Years 2008 and 2007

AUDIT REPORT NO. 0-000-09-001-C
November 14, 2008

WASHINGTON, DC

Office of Inspector General

November 14, 2008

MEMORANDUM

TO: David D. Ostermeyer, Chief Financial Officer

FROM: Joseph Farinella, AIG/A /s/

SUBJECT: Audit of USAID's Financial Statements for Fiscal Years 2008 and 2007

The Office of Inspector General (OIG) is transmitting its report on the *Audit of USAID's Financial Statements for Fiscal Years 2008 and 2007*. Pursuant to the Government Management Reform Act of 1994, USAID is required to prepare consolidated financial statements as of the end of the fiscal year. USAID is also required to submit a Performance and Accountability Report, including audited financial statements, to the Office of Management and Budget (OMB) and the Department of Treasury by November 17, 2008. In accordance with fiscal year 2008 requirements of OMB Circular A-136, USAID has elected to prepare an alternative Agency Financial Report that includes an Agency Head Message, Management's Discussion and Analysis, and a Financial Section.

The OIG has issued unqualified opinions on each of USAID's principal financial statements for fiscal years 2008 and 2007.

With respect to internal control, we identified one deficiency that we consider to be a material weakness. The material weakness pertains to USAID's reconciliation of its Fund Balance with the U.S. Treasury. Additionally, we identified certain deficiencies in internal control that we consider to be significant deficiencies. The significant deficiencies pertain to USAID's (1) accounting for loans receivable, (2) accounting for accounts payable and accrued expenses, (3) general ledger posting models, and (4) reconciliation of intragovernmental transactions.

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

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

We appreciate the cooperation and courtesies that your staff extended to us during the audit. The OIG is looking forward to working with you on our audit of the fiscal year 2009 financial statements.

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CONTENTS

SUMMARY OF RESULTS

In our opinion, USAID's consolidated balance sheets, consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources present fairly, in all material respects, the financial position of USAID as of September 30, 2008, and 2007; and its net cost, net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles.

We identified one deficiency in internal control that we consider to be a material weakness, related to USAID's reconciliation of Fund Balance with the U.S. Treasury. We also identified four deficiencies in internal control considered to be significant deficiencies, related to the following aspects of USAID's management:

- Accounting for loans receivables
- Accounting for accounts payable and accrued expenses
- General ledger posting models weaknesses
- Reconciliation of intragovernmental transactions

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

BACKGROUND

USAID was created in 1961 to advance U.S. foreign policy interests by promoting broad-based sustainable development and providing humanitarian assistance. USAID has missions in more than 88 countries, 46 of which have full accounting operations with USAID controllers. For the fiscal year ended September 30, 2008, USAID reported total budgetary resources of approximately $15 billion.

Pursuant to the Government Management Reform Act of 1994, USAID is required to submit audited financial statements to the Office of Management and Budget (OMB) annually. Pursuant to this Act, for fiscal year (FY) 2008, USAID has prepared the following:

- Consolidated Balance Sheet
- Consolidated Statement of Changes in Net Position
- Consolidated Statement of Net Cost
- Combined Statement of Budgetary Resources
- Notes to the Principal Financial Statements
- Other Required Supplementary Information

AUDIT OBJECTIVE

> Did USAID's principal financial statements present fairly the assets, liabilities, net position, net costs, changes in net position, and budgetary resources for fiscal years 2008 and 2007?

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2008, and 2007, and for the years then ended.

In accordance with *Government Auditing Standards*, the OIG has also issued reports (dated November 14, 2008) on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2008, and 2007, and the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources of USAID for the years ended September 30, 2008, and 2007.

We conducted our audits in accordance with auditing standards generally accepted in the United States; Generally Accepted *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2008, and 2007, and for the years then ended.

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

In accordance with Generally Accepted *Government* Auditing Standards, we have also issued reports, dated November 14, 2008, on our consideration of USAID's internal control over financial reporting and on our tests of USAID's compliance with certain provisions of laws and regulations. These reports are an integral part of an overall audit conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report.

USAID, Office of Inspector General
November 14, 2008

REPORT ON INTERNAL CONTROL

We have audited the consolidated balance sheets of USAID as of September 30, 2008, and 2007. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources for the fiscal years ended September 30, 2008, and 2007, and have issued our report thereon dated November 14, 2008. We conducted the audits in accordance with auditing standards generally accepted in the United States; Generally Accepted *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audits of USAID's financial statements for the fiscal years ended September 30, 2008, and 2007, we considered USAID's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USAID's internal control. We limited our system of internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. Accordingly, we do not express an opinion on USAID's internal control.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified one deficiency in internal control that we consider to be a material weakness, as defined above, relating to reconciliation of Fund Balance with the U.S. Treasury.

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

- Accounting for loans receivables
- Accounting for accounts payable and accrued expenses

- General ledger posting models weaknesses
- Reconciliation of intragovernmental transactions

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

We also noted other matters involving the internal control over financial reporting, which we reported to USAID management in a separate letter dated November 14, 2008.

Material Weakness

USAID Does Not Reconcile Its Fund Balance with the U.S. Treasury and Resolve Reconciling Items

(Repeat Finding)

USAID continues to have large unreconciled differences between the Fund Balance recorded in its financial accounting system and the Fund Balance reported by the U.S. Department of Treasury throughout FY 2008. As of September 30, 2008, these differences totaled $38 million ($371 million absolute value) and remained unreconciled because USAID was not investigating and resolving all the differences and was not performing reconciliations of its Fund Balance account in accordance with Treasury Financial Manual (TFM) Volume 1, Part 2-5100. In addition, USAID did not report all monthly cash disbursements and cash receipts on its Statement of Transactions (SF-224) that were recorded on its general ledger. Instead, USAID reported only cash disbursements and cash receipts that were in agreement with those recorded in Treasury's system, and thus avoided Treasury's scrutiny because no differences were reported by Treasury on the Statement of Differences (SF-6652). Many of the differences are composed of items that date back several years, and USAID does not have a system to resolve such differences on a current or retroactive basis. As a result, USAID recorded adjustments of $38 million at the end of FY 2008 to ensure that its Fund Balance agreed with what was reported by the U.S. Treasury on its Form 2108, *Year End Closing Statement*, without fully documenting and investigating the reasons for the differences.

U.S. Treasury reconciliation procedures state that an agency may not arbitrarily adjust its Fund Balance with the U.S. Treasury account, and may only do so after clearly establishing the causes for any errors and properly correcting those errors. USAID CFO Bulletin 06-1001, *Reconciliations with U.S. Treasury*, requires USAID to perform timely monthly reconciliations with the U.S. Treasury and requires a certification that reconciliations have been performed in accordance with TFM Volume 1, Part 2-5100. Bulletin 06-1001 has not been fully implemented by USAID.

Before adjustments, USAID's reported Fund Balance was $38 million more than the balance reported by the U.S. Treasury on its September 30, 2008, account statement. This occurred because USAID does not have a system in place to identify and track differences between its accounting system and the U.S Department of Treasury until those differences are resolved. As of September 30, 2008, approximately $20.9 million of cash transactions remained in a suspense status at USAID pending additional information. The transactions in the suspense account were fully processed at the Department of Treasury as of the end of FY 2008. USAID could not identify the reasons for many other differences, including some that have been outstanding for many years.

USAID made some attempts to resolve unreconciled Fund Balance differences, but did not consistently document its efforts in investigating and resolving the differences. This issue was reported in a previous audit report.[1] Fund Balance reconciliations with Treasury are ongoing efforts and we will continue to monitor USAID's progress with these reconciliations in future audits.

Recommendation No. 1: We recommend that USAID's Chief Financial Officer implement a process in accordance with the Supplement to Treasury Financial Manual Volume 1, Part 2-5100, section V (A), Periodic Review and Evaluation, to perform and document monthly reconciliation of its Fund Balance with Treasury account with the U.S. Treasury and to identify, track, and resolve all differences in a timely manner.

Significant Deficiencies

USAID's Process to Reconcile Loans Receivable Is Not Adequate and Does Not Resolve Differences Between USAID and Its Loan Services Provider

USAID's process for reconciling its loans receivable differences generated from the interface between its general ledger (Phoenix) and the subsidiary ledger maintained by the Midland Loan Services Division of PNC Bank (Midland) Enterprise Loan System (ELS) needs improvement. At the end of each month, Midland activates the interface with the Phoenix system to record USAID loan activity for the preceding month. This interface is necessary because the Phoenix accounting system does not use the same accounting identification information for the loans that are recorded in and maintained by Midland's ELS. During our review of the loans receivable balances, we identified several differences between the two systems that were not reconciled. These differences occurred for the following reasons:

1. Some differences were due to errors in the General Ledger Transaction Interface Table (translation table) in the Phoenix accounting system that was not updated to capture all relevant loans receivable transactions recorded in the ELS.

2. Other differences were caused by a valid business process rule used by Midland to record restructured loans in accordance with the bilateral agreement. When loans are restructured or written off, Midland modifies the corresponding loan information in its ELS. However, USAID does not modify the loan information in

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[1] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006*, p. 6, November 14, 2007, http://www.usaid.gov/oig/public/fy08rpts/0-000-08-001-c.pdf.

its Phoenix accounting system until updated information and approvals relating to the restructured loan are received from the U.S. Treasury and OMB.

As a result, we identified certain credit program activities that were recorded by Midland in accordance with the bilateral agreement but were not recorded in USAID's Phoenix accounting system. Because USAID did not reconcile the loans receivable balances in its Phoenix accounting system with the balances maintained by Midland's ELS, we identified differences of approximately $241 million between USAID's Phoenix accounting system and Midland's ELS that required adjustments to present more reliable loans receivable balances at fiscal year end.

Generally Accepted Accounting Principles require that the sum of the account balances in the subsidiary ledger equal the total of each line item in the general ledger at the end of each accounting period. Also, Federal Accounting Standards Advisory Board, Technical Release No. 6, states that the Agency should have an audit trail from individual transactions in the subsidiary ledger to the general ledger. This will ensure that cash transactions can be identified by type so that they may be further identified by subsidy expense component.

USAID has contracted with Midland to service its loan portfolio and to maintain accurate loan balances. Midland processes USAID's loans receivable transactions in ELS and runs a monthly interface between ELS and Phoenix to ensure that the information in ELS agrees with the information in Phoenix. For each transaction, Midland converts ELS transaction codes into Phoenix transaction codes. The converted codes are used to upload loans receivable data into Phoenix based on a general ledger translation table created by USAID. If the translation table is not updated and maintained, USAID cannot correctly upload all of the Midland loan transactions to the Phoenix accounting system.

We noted that USAID has conducted some reconciliation of its loans receivable with Midland's balances and identified several differences between rescheduled loan balances reported by Midland and those recorded in the Phoenix accounting system. Although USAID has taken steps to update the Phoenix translation table, it cannot correct all the discrepancies identified above until USAID receives the subsidies for the related restructured loans from the U.S. Treasury.

We also observed that Midland Loan Services followed the procedures outlined in the bilateral agreement and wrote off several loans when the bilateral agreement was entered into force by Congress's action or inaction 30 days after the agreement was made between the U.S. Government and the borrower. USAID could not write off those loans in its Phoenix accounting system because it did not receive the corresponding approval from OMB and the subsidy from the Department of Treasury. Therefore, reconciliation between Phoenix and Midland's ELS is necessary to identify the differences and resolve them when appropriate information becomes available. If the interface process does not properly update the Phoenix general ledger for the ELS transactions, the financial statement balances may be misstated. Additionally, USAID's Office of the Chief Financial Officer should ensure that its Washington Financial Services Division and its Central Accounting and Reporting Division coordinate the process of authorizing and recording loan subsidy activity. Because USAID's reconciliation process does not resolve all differences between USAID and its loan services provider, we are including the following recommendation:

Recommendation No. 2: We recommend that USAID's Office of the Chief Financial Officer implement procedures to reconcile loans receivable balances in Phoenix with the loans receivable balances in Midland's Enterprise Loan System and to investigate and resolve differences in a timely manner.

Controls to Estimate and Record Accrued Expenses and Accounts Payable Are Not Operating Effectively

USAID's methodology for estimating and recording accounts payable and accrued expenses using cognizant technical officer (CTO) reviews of the information contained in the Accrual Reporting System[2] is not operating effectively. Specifically, we found that CTOs were not reviewing and accurately recording the estimated amounts for quarterly accounts payable and accrued expenses in the general ledger. USAID estimates its accounts payable and accrued expenses using its Accrual Reporting System, which generates estimated accrual amounts that the CTOs must modify or approve and then record in the general ledger. However, the estimated pipeline amounts (which are significantly higher) were recorded as amounts accrued, instead of the estimated accrual amounts calculated by the Accrual Reporting System. From a randomly selected sample of 53 estimated accruals reviewed, we noted that 14 of the 53 items (26 percent) were incorrectly recorded in the general ledger, resulting in an overstatement of approximately $92 million that was not discovered by the responsible CTOs. This occurred because CTOs did not consistently monitor the recording of the amounts accrued in the general ledger. As a result, we proposed an adjustment of $563 million to reflect more accurately USAID's accounts payable and accrued expenses recorded in the general ledger.

Automated Directive System 631.3.4, *Accrued Expenditures*, states that the obligation manager or CTO must (a) review system-generated accrual amounts and/or allocations to determine if the amount can be validated or if it needs to be modified; (b) compare the amount developed based on known actual conditions and based on first-hand knowledge of the project activity to system-generated accrual amounts; and (c) complete the accrual process in accordance with the established time schedule and deadlines, and if the amounts are approximately the same value, validate the accrual amount as indicated in the Accruals Query, and if there is a significant difference, modify the accrual amount in the Accruals Query as appropriate. Because CTOs do not consistently review accounts payable and accrued expenses amounts generated by the Accrual Reporting System before those amounts are recorded in the general ledger and reported in the financial statements, we are making the following recommendation:

Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that cognizant technical officers review and validate the quarterly accounts payable and accrued expenses amounts generated by the Accrual Reporting System before that information is recorded in the general ledger.

[2] The Accrual Reporting System gathers obligation and contract information from USAID's Financial Management and Procurement systems and uses these data to calculate estimated quarterly accrued expenses against individual USAID contracts, grants, or obligation items.

The Posting Models That USAID Uses to Record Financial Transactions and Populate the General Ledger Contain Errors

During our testing of the posting models that are used to record financial transactions in the general ledger, we observed that the models were not populating general ledger accounts in accordance with the guidance from the U.S. Treasury. Specifically, we determined that the models, known as the General Ledger Account Code Entry in the Phoenix accounting system, do not record financial transactions in the correct accounts and sequence. For example, when a receipt of a warrant transaction is initiated, the posting model is supposed to record an entry in the proprietary accounts as well as the budgetary accounts, but it only records the transactions in the budgetary accounts. In addition, we observed that in some instances, the models recorded transactions in erroneous accounts. This occurred because of errors in the posting models. As a result, we identified transactions totaling approximately $9 billion that were erroneously posted to the general ledger. These transactions were subsequently corrected through manual intervention.

Financial transactions are required to be recorded in the financial accounting system according to the posting logic and sequence established in the U.S. Department of Treasury Letter Supplement S2 08-01, United States Standard General Ledger (USSGL) Account Transaction, Part 2, which states, "transactions affecting budgetary status may contain debit or credit entries to multiple USSGL status accounts that may be valid for a particular transaction." Additionally, OMB Circular No. A -127, section 7(c), states that financial events shall be recorded by agencies throughout the financial management system applying the requirements of the USSGL. The application of the USSGL at the transaction level means that the financial management systems will process transactions following the definitions of the general ledger accounts described in the USSGL.

USAID missions are required to enter accounting information for activities conducted at overseas locations, and they rely on the posting models to record their financial information in the correct accounts and sequence. As of May 2008, we identified several USAID transactions that should be recorded in multiple types of accounts but were only being recorded in one type of account. This occurred because the USAID's Office of Financial Management had not developed and implemented an overall process to identify and correct errors in the posting models to ensure that all accounting information is correctly recorded in appropriate general ledger accounts. Many posting models have been inaccurate for several years and USAID has not been able to readily address the deficiencies. It is imperative that USAID Washington correct the posting model errors so that financial activities can be correctly recorded and the general ledger and financial statements accurately populated.

USAID Office of Financial Management has increased its efforts to correct and resolve errors in the posting models when they are identified. However, the inaccurate posting and use of the correct accounting codes remain an issue at USAID. Use of the posting models is critical to USAID's financial statements because of the number of personnel around the world who input transactions into the Phoenix accounting system. Furthermore, the financial statements may be misstated depending on the total absolute value of all transactions that were incorrectly posted to the general ledger because of errors in the posting models. Therefore, we are making the following recommendation:

Recommendation No. 4: We recommend that the Chief Financial Officer develop and implement an overall plan to identify and correct the errors in the posting models and to maintain, update, and test posting models on a periodic basis.

Intragovernmental Transactions Remain Unreconciled
(Repeat Finding)

The U.S. Treasury reported a net difference of $3.3 billion in intragovernmental transactions between USAID and other Federal agencies at the end of FY 2008. Of this amount, $292 million represents differences requiring reconciliation in accordance with OMB Circular A-136 and the Department of Treasury's *Federal Intragovernmental Transactions Accounting Policies Guide, section 17.1*. The differences between USAID's records and those of its trading partners occurred because USAID was not able to consistently resolve material differences identified by the Department of Treasury in its quarterly Material Differences Report and other differences equal to or greater than $50 million identified in the Status of Disposition Certification Report. Additionally, USAID did not consistently reconcile other significant differences by reciprocal category with its Federal trading partners throughout FY 2008. Until intragovernmental transactions are reconciled, USAID's financial statements are subject to error.

USAID has increased its efforts to resolve unreconciled amounts, but significant differences still exist, including $292 million that should have been reconciled with two different Federal agencies. While some timing differences may ultimately be resolved, differences caused by accounting errors or different accounting methodologies require a special effort by USAID and its trading partners for timely resolution. The *Federal Intragovernmental Transactions Accounting Policies Guide* suggests that agencies work together to estimate accruals and to record corresponding entries in each set of records to ensure that they are in agreement and that long-term accounting policy differences can be identified. Until these differences are eliminated, USAID's financial statements are subject to error, to the extent of unreconciled intragovernmental activity.

Although $3.05 billion of the $3.3 billion of net differences reported between USAID and the U.S. Treasury general fund are not required to be reconciled, Treasury does suggest that Federal agencies confirm that these differences represent general fund activities. USAID did not consistently document these confirmations.

We identified similar conditions related to USAID's intragovernmental reconciliation process in a previous audit report[3] and recognize that this process requires continuing coordination with other Federal agencies. Therefore, we are not making a new recommendation, but we will continue to monitor USAID's progress in reducing intragovernmental balances in future audits.

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[3] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006*, p. 9, November 14, 2007, http://www.usaid.gov/oig/public/fy07rpts/0-000-08-001-c.pdf.

Other Matters

GAO/PCIE Financial Audit Manual requires the auditor to disclose whether material weaknesses identified during the audit were identified in management's FMFIA report. In performing our tests of internal controls as part of our financial statement audit, we noted and reported a material weakness pertaining to USAID's reconciliation of its Fund Balance with Treasury that is included in our Report on Internal Control. This condition was not identified by USAID in its FMFIA report.

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

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

USAID, Office of Inspector General
November 14, 2008

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the consolidated balance sheets of USAID as of September 30, 2008, and 2007. We have also audited the consolidated statements of changes in net position, consolidated statements of net cost, and combined statements of budgetary resources for the fiscal years ended September 30, 2008, and 2007, and have issued our report thereon. We conducted the audits in accordance with auditing standards generally accepted in the United States, Generally Accepted *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of USAID is responsible for complying with laws and regulations applicable to USAID. As part of obtaining reasonable assurance about whether USAID's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and with certain other laws and regulations specified in OMB Bulletin 07-04, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to USAID.

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

OMB Circular A-123

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

In 2006, USAID elected to complete its assessment in accordance with OMB Circular A-123, Appendix A, over the course of 3 years. In 2008, USAID accomplished this objective and key processes were substantially reviewed as reflected in USAID's fiscal year 2008 Statement of Assurance, in accordance with the approved plan. In 2009, USAID intends to monitor key processes as well as follow up on recommendations made in prior years.

Federal Financial Management Improvement Act of 1996

Under FFMIA, we are required to report on whether USAID's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements. We noted no instances of substantial noncompliance with Federal financial management systems requirements, Federal accounting standards, or USSGL accounting at the transaction level. In our Report on Internal Control, we identified the following areas for improvement over several financial system processes, not affecting substantial compliance:

- Reconciliation of Fund Balance with the U.S. Treasury
- Accounting for loans receivable
- Accounting for accounts payable and accrued expenses
- General ledger posting models weaknesses
- Reconciliation of intragovernmental transactions

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

USAID, Office of Inspector General
November 14, 2008

EVALUATION OF MANAGEMENT COMMENTS

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

USAID management agreed to implement recommendation no. 1 and commented that the Office of the Chief Financial Officer (CFO) will need additional resources to implement this recommendation. USAID management also commented that it will implement a process to identify and track all differences for USAID headquarters paying locations until the differences are resolved. USAID's CFO further commented that his office will implement the necessary collaboration and changes to its current procedures, where necessary, to resolve the differences. The tracking system used to resolve the differences at USAID headquarters paying locations will be implemented at overseas missions. The target completion date is September 30, 2009. We agree with the management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2009 GMRA audit.

USAID management agreed to implement recommendation no. 2 and intends to make significant progress in investigating and resolving loan receivable differences. The target completion date is September 30, 2009. We agree with the management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2009 GMRA audit.

USAID management agreed to implement recommendation no. 3 and commented that formal detailed procedures will be developed and disseminated throughout the Agency to provide clear guidance to cognizant technical officers showing the correct process to calculate and record accrued expenditures. The target completion date is September 30, 2009. We agree with the management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2009 GMRA audit.

USAID management agreed to implement recommendation no. 4. The CFO has resolved some of the errors identified during the audit and has implemented ongoing efforts to review its process to identify and correct errors in the posting model. USAID management also intends to expand its efforts to correct these errors. The target completion date is June 30, 2009. We agree with the management decision to this recommendation and will review USAID's implementation of this recommendation during our FY 2009 GMRA audit.

SCOPE AND METHODOLOGY

USAID management is responsible for (1) preparing the financial statements in accordance with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers Financial Integrity Act (FMFIA) are met; (3) ensuring that USAID's financial management systems substantially comply with FFMIA requirements; and (4) complying with other applicable laws and regulations.

The Office of Inspector General (OIG) is responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The OIG is also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether USAID's financial management systems substantially comply with FFMIA requirements, (3) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which Office of Management and Budget audit guidance requires testing, and (4) performing limited procedures with respect to certain other information appearing in the Agency Financial Report.

To fulfill these responsibilities, the OIG:

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations, (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal controls;
- considered the process for evaluating and reporting on internal control and financial management systems under FMFIA; and
- tested USAID's compliance with FFMIA requirements.

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

- Anti-deficiency Act
- Improper Payments Information Act
- Prompt Payment Act
- Debt Collection Improvement Act
- Federal Credit Reform Act
- OMB Circular A-136
- OMB Circular A-123

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may occur and may not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to USAID. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the financial statements for the fiscal years ended September 30, 2008, and 2007. We caution that noncompliance may occur and not be detected by these tests, and that such testing may not be sufficient for other purposes.

In forming our opinion, the OIG considered potential aggregate errors exceeding $278 million for any individual statement to be material to the presentation of the overall financial statements.

Federal Financial Management Improvement Act

We assessed whether USAID complied with the Federal financial management systems requirement under section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). To perform our review, we conducted assessments of USAID's Global Acquisition System (GLAAS) and Phoenix financial management system to determine whether the systems substantially complied with selected mandatory requirements contained in the Financial Systems Integration Office (FSIO), formerly known as the Joint Financial Management Improvement Program, A*cquisition/Financial Systems Interface Requirements* dated June 2002.

In conducting our review, we held discussions with GLAAS and Phoenix officials as well as contract and Agency systems personnel to obtain the necessary documentation to support our compliance assessment. The results of our review found that USAID met 46 of the 64 mandatory FSIO *Acquisition/Financial Systems Interface Requirements*. Even though we found that USAID was noncompliant with 18 of the 64 requirements, Agency officials indicated that 16 of the 18 noncompliant requirements do not relate to USAID's business processes. Therefore, a determination was made that those 16 noncompliant requirements (which included receipt and acceptance; general property, plant, and equipment; and performance-based payments) were not applicable to USAID's compliance with FFMIA. The remaining two noncompliant requirements were attributable to performance-based payments and fast pay within USAID.

Additionally, we requested and obtained a memorandum from the Office of the Chief Financial Officer certifying that no fiscal year 2008 upgrades or changes to the Phoenix accounting system result in USAID not being substantially compliant with FFMIA. Therefore, our review found no instances of substantial noncompliance with the Federal financial management systems requirement under section 803(a) of the FFMIA.

MANAGEMENT COMMENTS

November 10, 2008

MEMORANDUM

TO: AIG, Joseph Farinella

FROM: M/CFO, David D. Ostermeyer /s/

SUBJECT: Management's Comments to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2008 and 2007 (Report No. 0-000-09-001 -C)

Thank you for your draft audit report on the USAID FY 2008 and 2007 Financial Statements and for the professionalism and dedication exhibited by your staff throughout this entire process.

FY 2008 was another significant year for federal financial management at USAID. We are pleased that your draft report presents both our progress and our remaining challenges. We are gratified that the USAID Inspector General will issue unqualified opinions on all of USAID's four principal financial statements. The acknowledgments of the Agency's improvements in financial systems and processes throughout the report are greatly appreciated.

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

Material Weaknesses: USAID Does Not Reconcile its Fund Balance with the U.S. Treasury and Resolve Reconciling Items (Repeat Finding)

Recommendation No. I: We recommend that USAID's Chief Financial Officer implement a process in accordance with the Supplement to Treasury Financial Manual Volume 1, Part 2-5100, section V (A), Periodic Review and Evaluation, to perform and document monthly reconciliation of its Fund Balance with Treasury account with the U.S. Treasury and to identify, track and resolve all differences in a timely manner.

Management Decision: We accept the recommendation. The Chief Financial Officer (CFO) will need additional resources to implement this recommendation. We will implement a process that will document our reconciliations, and identify and track all differences for the headquarters paying location until they are resolved, and we will make significant progress in resolving differences. At the same time, we note that this will be a project that will require collaboration among several CFO functions, one for which our information resources may be limited, and one that may require several changes in our current procedures. After we complete the headquarters tracking system we will adapt it to the Missions and implement it there.

Target completion date: September 30, 2009

Significant Deficiency: USAID's Reconciliation of Loans Receivable was not Adequate and did not resolve Differences between USAID and its Loan Services Provider

Recommendation No. 2: We recommend that USAID's Office of the Chief Financial Officer implement procedures to reconcile loans receivable balances in Phoenix with the loans receivable balances in Midland's Enterprise Loan System and to investigate and resolve differences in a timely manner.

Management Decision: We agree to implement the recommendation. We will make significant progress in investigating and resolving differences.

Target completion date: September 30, 2009

Significant Deficiency: Controls to Estimate and Record Accrued Expenses and Accounts Payable are not Operating Effectively

Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that Cognizant Technical Officers review and validate the quarterly accounts payable and accrued expenses amounts generated by the Accrual Reporting System before that information is recorded in the general ledger.

Management Decision: We agree to implement the recommendation. Formal and detailed procedures will be developed and disseminated throughout the Agency to provide clear guidance, particularly to Cognizant Technical Officers, on the correct preparation and recording of quarterly accrued expenditures.

Target completion date: September 30, 2009

Significant Deficiency: The Posting Models that USAID uses to Record Financial Transactions and Populate the General Ledger Contain Errors

Recommendation No. 4: We recommend that the Chief Financial Officer develop and implement an overall plan to identify and correct the errors in the posting models and to maintain, update, and test posting models on a periodic basis.

Management Decision: We agree to implement the recommendation. CFO has resolved some of the errors identified during the audit. CFO has implemented an ongoing "tie point" review process to identify and correct errors in the posting models, and we will expand these efforts.

Target completion date: June 30, 2009

Significant Deficiency: Intragovernmental Transactions Remain Unreconciled (Repeat Finding)

There are no recommendations associated with this significant deficiency. The CFO implemented corrective actions related to two audit recommendations issued in the Fiscal Years 2007, 2006 and 2005 GMRA audit reports. USAID requires more cooperation from its trading partners if we are to eliminate differences altogether but we will keep trying to improve, consistent with other demands on our resources.

In closing, I would like to confirm USAID's commitment to continual improvement in financial management. I intend to ensure that all necessary steps are taken to institutionalize strong financial management performance throughout the Agency. We will continue the improvements made in the last few years as we work further to develop and implement long-term solutions to address the issues cited in your report.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

OMB Circular A-50 states that a management decision on audit recommendations shall be made within a maximum of 6 months after a final report is issued. Corrective action should proceed as rapidly as possible.

Status of 2007 Findings and Recommendations

Audit of USAID's Financial Statements for Fiscal Years 2007 and 2006, Audit Report No. 0-000-08-001-C, November 15, 2007

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

Status: The Department of State, being a material Federal child agency to USAID, will receive each allocation from the parent as a Treasury Department Non-expenditure Transfer Authorization. In addition, the Department of State will provide USAID with correct and timely financial information. Final action was completed on September 26, 2008.

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

Status: The clean-up of the transaction codes in the transaction translation table has been completed and all missing crosswalk entries have been corrected. The changes were tested and found to be successful. The Office of the Chief Financial Officer (CFO) has outlined the PNC-Midland process and configured a workflow to synchronize with Phoenix (see Status in the following recommendation no. 3). Moving forward, Midland and M/CFO/CAR will jointly update and validate the transaction translation table on an annual basis. Final action was completed on August 31, 2008.

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

Status: The Office of the CFO prepared a flow chart of the action and procedures related to loan subsidies and write-offs. The updated procedures include a control to ensure that the loan service provider makes entries in its system for transactions that are recorded in Phoenix in the same period, where possible. These procedures will apply proper timing to loan accounting transactions for subsidies. M/CFO/WFS has communicated these updated internal control procedures to PNC-MIDLAND. Final action was completed on May 30, 2008.

Status of 2006 Findings and Recommendations

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

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

Status: The Office of the CFO has confirmed that data received from another data call are consistent with the Foreign Currency Trust Fund recorded in Phoenix. Moving forward, M/CFO/CAR will rely on Phoenix for foreign currency information. Final action was completed on May 30, 2008.

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

Status: During FY 2008, USAID has improved its performance on the process for reconciling its Fund Balance with Treasury (FBWT). We have investigated and resolved many differences between transactions recorded at the U.S. Treasury and transactions recorded in the Phoenix accounting system. Unfortunately, we have not been able to resolve all of them. Additional time, people, and systems improvements are required before USAID can address the challenges of the process for reconciling its FBWT.

Improvements include:

- Correction of prior year DHHS differences well under way
- Warrant and transfer differences eliminated
- 2008 payroll differences reduced to one payroll (vs. four payrolls)
- 2008 Advice of Charge differences reduced
- Overall, USAID's FBWT difference has decreased

Challenges include:

- The number of unresolved differences for the USAID/Washington Agency Location Code is unacceptably high.
- Differences between missions' disbursements in Phoenix and the U.S. Treasury appear to be growing.

The target date for completion is September 30, 2009.

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

As of September 30, 2008 and 2007
(In Thousands)

	2008	2007
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 19,181,073	$ 19,131,357
Accounts Receivable (Note 3)	220	220
Other Assets (Note 4)	1,753	4,532
Total Intragovernmental	19,183,046	19,136,109
Cash and Other Monetary Assets (Note 5)	302,628	288,079
Accounts Receivable, Net (Note 3)	267,029	179,347
Loans Receivable, Net (Note 6)	3,988,662	4,410,638
Inventory and Related Property, Net (Note 7)	32,729	35,753
General Property, Plant, and Equipment, Net (Notes 8 and 9)	94,269	88,498
Advances (Note 4)	497,223	501,531
Total Assets	**$ 24,365,586**	**$ 24,639,955**
LIABILITIES (Note 16):		
Intragovernmental:		
Accounts Payable (Note 10)	$ 48,389	$ 62,101
Debt (Note 11)	477,372	498,506
Due to U.S. Treasury (Note 11)	3,737,917	4,045,375
Other Liabilities (Note 12)	159,437	216,005
Total Intragovernmental	4,423,115	4,821,987
Accounts Payable (Note 10)	1,869,874	2,367,957
Loan Guarantee Liability (Note 6)	1,606,876	1,823,332
Federal Employee and Veteran's Benefits (Note 13)	21,269	22,282
Other Liabilities (Notes 10, 12, and 13)	459,977	398,622
Total Liabilities	**8,381,111**	**9,434,180**
Commitments and Contingencies (Note 14)	–	2,940
NET POSITION:		
Unexpended Appropriations	14,982,084	14,787,230
Cumulative Results of Operations	1,002,391	415,605
Total Net Position	**$ 15,984,475**	**$ 15,202,835**
Total Liabilities and Net Position	**$ 24,365,586**	**$ 24,639,955**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2008 and 2007
(In Thousands)

OBJECTIVES	2008	2007
Peace and Security:		
Gross Costs	$ 846,976	$ 460,211
Less: Earned Revenue	(2,161)	(1,146)
Net Program Costs	844,815	459,065
Governing Justly and Democratically:		
Gross Costs	1,413,922	1,306,545
Less: Earned Revenue	(3,800)	(3,498)
Net Program Costs	1,410,122	1,303,047
Investing in People:		
Gross Costs	3,941,083	3,513,749
Less: Earned Revenue	(278,465)	(484,068)
Net Program Costs	3,662,618	3,029,681
Economic Growth:		
Gross Costs	2,497,065	3,103,511
Less: Earned Revenue	(133,679)	(102,616)
Net Program Costs	2,363,386	3,000,895
Humanitarian Assistance:		
Gross Costs	594,418	1,389,641
Less: Earned Revenue	(12,397)	(3,587)
Net Program Costs	582,021	1,386,054
Operating Unit Management:		
Gross Costs	58,507	117,362
Less: Earned Revenue	(162)	(210)
Net Program Costs	58,345	117,152
Net Costs of Operations (Notes 15 and 16)	**$ 8,921,307**	**$ 9,295,894**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2008 and 2007
(In Thousands)

	2008 Consolidated Total	2007 Consolidated Total
Cumulative Results of Operations:		
Beginning Balances	$ 415,605	$ 1,362,566
Adjustments-Changes in Accounting Principles	–	(1,026,284)
Beginning Balances, as Adjusted	415,605	336,282
Budgetary Financing Sources:		
Appropriations Used	9,397,644	9,235,818
Donations and Forfeitures of Cash and Cash Equivalents	87,774	117,541
Transfers-in/out without Reimbursement	165	–
Other Financing Sources (Non-Exchange):		
Imputed Financing	22,509	21,858
Total Financing Sources	9,508,092	9,375,217
Net Cost of Operations	(8,921,307)	(9,295,894)
Net Change	586,785	79,323
Cumulative Results of Operations:	1,002,391	415,605
Unexpended Appropriations:		
Beginning Balance	14,787,230	14,334,819
Adjustments-Changes in Accounting Principles	–	(896,460)
Beginning Balance, as Adjusted	14,787,230	13,438,359
Budgetary Financing Sources:		
Appropriations Received	9,389,158	10,853,865
Appropriations Transferred in/out	370,567	(64,272)
Other Adjustments	(167,227)	(204,904)
Appropriations Used	(9,397,644)	(9,235,818)
Total Budgetary Financing Sources	194,854	1,348,871
Total Unexpended Appropriations	14,982,084	14,787,230
Net Position	**$ 15,984,475**	**$ 15,202,835**

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2008 and 2007
(In Thousands)

	2008		2007	
	Budgetary	**Non-Budgetary Credit Reform**	**Budgetary**	**Non-Budgetary Credit Reform**
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 3,271,812	$ 1,582,317	$ 3,904,527	$ 1,422,605
Recoveries of Prior Year Unpaid Obligations	211,228	2	199,240	23
Budget Authority:				
Appropriations	9,478,641	–	10,920,445	–
Borrowing Authority (Note 11)	–	3,313	–	–
Spending Authority from Offsetting Collections:				
Earned:				
Collected	1,163,545	197,609	978,655	227,843
Change in Receivables from Federal Sources	–	–	(3,435)	–
Change in Unfilled Customer Orders:				
Without Advance from Federal Sources	(52,966)	–	58,516	–
Subtotal	10,589,220	200,922	11,954,181	227,843
Nonexpenditure Transfers, Net, Anticipated and Actual	354,552	–	78,398	–
Permanently Not Available	(893,394)	–	(980,038)	–
Total Budgetary Resources	**$13,533,418**	**$ 1,783,241**	**$15,156,308**	**$ 1,650,471**
Status of Budgetary Resources:				
Obligations Incurred: (Note 17)				
Direct	$ 9,302,741	$ 166,533	$ 11,523,609	$ 68,154
Reimbursable	328,612	18	371,418	–
Subtotal	9,631,353	166,551	11,895,027	68,154
Unobligated Balance:				
Apportioned (Note 2)	2,400,824	7,599	2,703,044	3,663
Subtotal	2,400,824	7,599	2,703,044	3,663
Unobligated Balance Not Available (Note 2)	1,501,241	1,609,091	558,237	1,578,654
Total Status of Budgetary Resources (Note 17)	**$13,533,418**	**$ 1,783,241**	**$15,156,308**	**$ 1,650,471**

(continued on next page)

COMBINED STATEMENT OF BUDGETARY RESOURCES *(continued)*

For the Years Ended September 30, 2008 and 2007
(In Thousands)

	2008		2007	
	Budgetary	**Non-Budgetary Credit Reform**	**Budgetary**	**Non-Budgetary Credit Reform**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$ 14,292,483	$ 28,669	$ 11,666,588	$ 3,772
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(75,010)	–	(19,930)	–
Total Unpaid Obligated Balance, Net (Note 17)	14,217,473	28,669	11,646,658	3,772
Obligations Incurred Net (+/-)	9,631,353	166,551	11,895,027	68,155
Less: Gross Outlays	(9,987,029)	(195,914)	(8,969,011)	(43,235)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(211,228)	(2)	(199,239)	(23)
Change in Uncollected Customer Payments from Federal Sources (+/-)	52,966	–	(55,081)	–
Obligated Balance, Net, End of Period				
Unpaid Obligations	13,725,579	(695)	14,393,364	28,669
Less: Uncollected Customer Payments from Federal Sources	(22,044)	–	(75,010)	–
Total, Unpaid Obligated Balance, Net, End of Period	13,703,535	(695)	14,318,354	28,669
Net Outlays:				
Gross Outlays	9,987,028	195,914	8,969,011	43,235
Less: Offsetting Receipts (Note 17)	(1,163,545)	(197,609)	(978,655)	(227,843)
Less: Distributed Offsetting Receipts	(179,387)	–	(25,925)	–
Net Outlays	**$ 8,644,096**	**$ (1,695)**	**$ 7,964,431**	**$ (184,608)**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying principal financial statements (statements) report USAID's financial position and results of operations. They have been prepared using USAID's books and records in accordance with Agency accounting policies, the most significant of which are summarized in this note. The statements are presented in accordance with the guidance and requirements of the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements.*

In accordance with OMB Circular A-136, changes have been made to the 2008 accounting reporting procedures. The 2008 statement of financing is presented as a footnote instead of a principal financial statement to comply with new requirements. In addition, as specified by Note 1 Section U, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances.

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

B. REPORTING ENTITY

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

Programs

The statements present the financial activity of various programs and accounts managed by USAID. The programs include the Iraq Relief and Reconstruction Fund, Economic Support Fund, Development Assistance, Assistance for the New Independent States of the Former Soviet Union, Special Assistance Initiatives, International Disaster Assistance, Child Survival and Disease, Transition Initiatives, and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Iraq Relief and Reconstruction Fund

This fund supports necessary expenses related to providing humanitarian assistance in and around Iraq and to carrying out the purposes of the Foreign Assistance Act of 1961 for rehabilitation and reconstruction in Iraq. These include costs of (1) water/sanitation infrastructure,(2) feeding and food distribution, (3) supporting relief efforts related to refugees, internally displaced persons, and vulnerable individuals, including assistance for families of innocent Iraqi civilians who suffer losses as a result of military operations, (4) electricity, (5) healthcare, (6) telecommunications, (7) economic and financial policy, (8) education, (9) transportation, (10) rule of law and governance, (11) humanitarian de-mining, and (12) agriculture.

Economic Support Fund

Programs funded through this account provide economic assistance to select countries in support of efforts to promote stability and U.S. security interests in strategic regions of the world.

Development Assistance

This program provides economic resources to developing countries with the aim of bringing the benefits of development to the poor. The program promotes broad-based, self-sustaining economic growth and supports initiatives intended to stabilize population growth, protect the environment and foster increased democratic participation in developing countries. The program is concentrated in those areas in which the United States has special expertise and which promise the greatest opportunity for the poor to better their lives.

Assistance for the New Independent States of the Former Soviet Union

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

Special Assistance Initiatives

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

International Disaster Assistance

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

Child Survival and Disease

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

Transition Initiatives

This account funds humanitarian programs that provide post-conflict assistance to victims of natural and man-made disasters. Until FY 2001, this type of assistance was funded under the International Disaster Assistance account.

Direct and Guaranteed Loans:

- ***Direct Loan Program***

  These loans are authorized under Foreign Assistance Acts, various predecessor agency programs, and other foreign assistance legislation. Direct Loans are issued in both U.S. dollars and the currency of the borrower. Foreign currency loans made "with maintenance of value" place the risk of currency devaluation on the borrower, and are recorded in equivalent U.S. dollars. Loans made "without maintenance of value" place the risk of devaluation on the U.S. Government, and are recorded in the foreign currency of the borrower.

- ***Urban and Environmental Program***

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

- ***Micro and Small Enterprise Development Program***

  The Micro and Small Enterprise Development (MSED) Program supports private sector activities in developing countries by providing direct loans and loan guarantees to support local micro and small enterprises. Although the MSED program is still active, the bulk of USAID's new loan guarantee activity is handled through the Development Credit Authority (DCA) program.

- ***Israeli Loan Guarantee Program***

  Congress enacted the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act of 1961 to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources, to be borrowed in $2 billion annual increments. Borrowing was completed under the program during Fiscal Year 1999, with approximately $9.2 billion being guaranteed. Guarantees are made by USAID on behalf of the U.S. Government, with funding responsibility and basic administrative functions guarantees for Israel, not to exceed $9 billion and $1.3 billion in guarantees were resting with USAID. In FY 2003, Congress authorized a second portfolio of loan issued under this portfolio during FY 2003.

- ***Ukraine Guarantee Program***

  The Ukraine Export Credit Insurance Program was established with the support of the Export-Import Bank of the U.S. to assist Ukrainian importers of American goods. The program commenced operations in FY 1996 and expired in FY 1999. The Ukraine Financing Account was closed out in FY 2002.

- ***Development Credit Authority***

  The first obligations for USAID's new Development Credit Authority (DCA) were made in FY 1999. DCA allows missions and other offices to use loans and loan guarantees to achieve their development objectives when it can be shown that (1) the project generates enough revenue to cover the debt service including USAID fees, (2) there is at least 50% risk-sharing with a private-sector institution, and (3) the DCA guarantee addresses a financial market failure in-country and does not "crowd-out" private sector lending. DCA can be used in any sector and by any USAID operating unit whose project meets the DCA criteria. DCA projects are approved by the Agency Credit Review Board and the Chief Financial Officer.

- ***Loan Guarantees to Egypt Program***

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

Fund Types

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

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

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

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

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

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

C. BASIS OF ACCOUNTING

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints on, and controls of, the use of federal funds. The accompanying Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position have been prepared on an accrual basis. The Statement of Budgetary Resources has been prepared in accordance with budgetary accounting rules.

D. BUDGETS AND BUDGETARY ACCOUNTING

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

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

Division A, Title VII, Section 611 found on page 474 of H. R. 2764, known as the "Consolidated Appropriations Act, 2008" and signed into law as P.L.110-161, provides to USAID extended authority to obligate funds. USAID's appropriations acts for years have consistently provided essentially similar authority. It is commonly known as "511/517" authority, a name that is based on references to the sections of the previous appropriations acts. Under this authority funds shall remain available for obligation for an extended period if such funds are obligated within their initial period of availability.

E. REVENUES AND OTHER FINANCING SOURCES

USAID receives the majority of its funding through congressional appropriations --annual, multi-year, and no-year appropriations -- that may be used within statutory limits. Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are not recognized as expenses. In addition to funds warranted directly to USAID, the agency also receives allocation transfers from the U.S. Department of Agriculture (USDA) Commodity Credit Corporation, the Executive Office of the President, the Department of State, and Millennium Challenge Corporation.

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

Revenues are recognized as financing sources to the extent that they were payable to USAID from other agencies, other governments and the public in exchange for goods and services rendered to others. Imputed revenues are reported in the financial statements to offset the imputed costs

F. FUND BALANCE WITH THE U.S. TREASURY

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

G. FOREIGN CURRENCY

The Direct Loan Program has foreign currency funds, which are used to disburse loans in certain countries. Those balances are reported at the U.S. dollar equivalents using the exchange rates prescribed by the U.S. Treasury. A gain or loss on translation is recognized for the change in valuation of foreign currencies at year-end. Additionally, some USAID host countries contribute funds for the overhead operation of the host mission and the execution of USAID programs. These funds are held in trust and reported in U.S. dollar equivalents on the balance sheet and statement of net costs.

H. ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts due mainly from foreign governments but also from other Federal agencies and private organizations. USAID regards amounts due from other Federal agencies as 100 percent collectible. The Agency establishes an allowance for uncollectible accounts receivable for non-loan or revenue generating sources that have not been collected for a period of over one year.

I. LOANS RECEIVABLE

Loans are accounted for as receivables after funds have been disbursed. For loans obligated before October 1, 1991 (the pre-Credit Reform period), loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on a net present value method prescribed by OMB that takes into account country risk and projected cash flows.

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the net present value of the cost to the Government of making the loan. This cost, known as "subsidy", takes into account all cash inflows and outflows associated with the loan, including the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, and offsets from fees and other estimated cash flows. This allowance is re-estimated when necessary and changes reflected in the operating statement.

Loans have been made in both U.S. dollars and foreign currencies. Loans extended in foreign currencies can be with or without "Maintenance of Value" (MOV). Those with MOV place the currency exchange risk upon the borrowing government; those without MOV place the risk on USAID. Foreign currency exchange gain or loss is recognized on those loans extended without MOV, and reflected in the net credit programs receivable balance.

Credit program receivables also include origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivables (subrogated and rescheduled) are due from foreign governments as a result of defaults for pre-1992 guaranteed loans. Receivables are stated net of an allowance for uncollectible accounts, determined using an OMB approved net present value default methodology.

While estimates of uncollectible loans and interest are made using methods prescribed by OMB, the final determination as to whether a loan is collectible is also affected by actions of other U.S. Government agencies.

J. ADVANCES

Funds disbursed in advance of incurred expenditures are recorded as advances. Most advances consist of funds disbursed under letters of credit to contractors and grantees. The advances are liquidated and recorded as expenses upon receipt of expenditure reports from the recipients.

K. INVENTORY AND RELATED PROPERTY

USAID's inventory and related property is comprised of operating materials and supplies. Some operating materials and supplies are held for use and consist mainly of computer paper and other expendable office supplies not in the hands of the user. USAID also has materials and supplies in reserve for foreign disaster assistance stored at strategic sites around the world. These consist of tents, vehicles, and water purification units. The Agency also has birth control supplies stored at several sites.

USAID's office supplies are deemed items held for use because they are tangible personal property to be consumed in normal operations. Agency supplies held in reserve for future use are not readily available in the market, or there is more than a remote chance that the supplies will be needed, but not in the normal course of operations. Their valuation is based on cost and they are not considered "held for sale." USAID has no supplies categorizable as excess, obsolete, or unserviceable operating materials and supplies.

L. PROPERTY, PLANT AND EQUIPMENT

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

M. LIABILITIES

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

N. LIABILITIES FOR LOAN GUARANTEES

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

For USAID's loan guarantee programs, when guarantee commitments are made, an obligation for subsidy cost is recorded in the program account. This cost is based on the net present value of the estimated net cash outflows to be paid by the Program as a result of the loan guarantees, except for administrative costs, less the net present value of all cash inflows to be generated from those guarantees.
When the loans are disbursed, the subsidy cost is disbursed from the program account to a financing account.

For loan guarantees made before the CRA (pre-1992), the liability for loan guarantees represents an unfunded liability. Note 6, Direct Loan and Loan Guarantees, presents the unfunded amounts separate from the post-1991 liabilities. The amount of unfunded liabilities also represents a future funding requirement for USAID. The liability is calculated using a reserve methodology that is similar to OMB prescribed method for post-1991 loan guarantees.

O. ANNUAL, SICK, AND OTHER LEAVE

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

P. RETIREMENT PLANS AND POST EMPLOYMENT BENEFITS

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

USAID recognizes a current-period expense for the future cost of post retirement health benefits and life insurance for its employees while they are still working. USAID accounts for and reports this expense in its financial statements in a manner similar to that used for pensions, with the exception that employees and USAID do not make contributions to fund these future benefits.

Federal employee benefit costs paid by OPM and imputed by USAID are reported on the Statement of Net Cost.

Q. COMMITMENTS AND CONTINGENCIES

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to USAID. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable. For other litigations, a contingent liability is recognized when similar events occur except that the future outflow or other sacrifice of resources is more likely than not. Footnote 14 identifies commitments and contingency liabilities.

R. NET POSITION

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

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

S. NON-ENTITY ASSETS

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

T. AGENCY COSTS

USAID costs of operations are comprised of program and operating expenses. USAID/Washington program expenses by objective are obtained directly from Phoenix, the Agency general ledger. Mission related program expenses by objective are obtained from Phoenix. A cost allocation model is used to distribute operating expenses, including Management Bureau, Global Development Alliance, Trust Funds and Support Offices costs to specific goals. Expenses related to Federal Credit Reform Act and Revolving Funds are directly applied to specific agency goals based on their objectives.

U. PARENT/CHILD REPORTING

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

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

USAID receives allocation transfers as the child from:

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

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury as of September 30, 2008 and 2007 consisted of the following:

FUND BALANCE WITH TREASURY
(In Thousands)

Fund Balance	**2008**	**2007**
Trust Funds	$ 49,614	$ 40,421
Revolving Funds	3,689,191	3,018,774
Appropriated Funds	15,458,588	16,024,157
Other Funds	(16,320)	48,005
Total	$ 19,181,073	$ 19,131,357
Status of Fund Balance with Treasury	**2008**	**2007**
Unobligated Balance		
Available	$ 2,408,423	$ 2,706,707
Unavailable	3,110,332	2,136,891
Obligated and Other Balances Not Yet Disbursed (Net)	13,662,318	14,287,759
Total	$ 19,181,073	$ 19,131,357

The Fund Balance with Treasury are available to pay accrued liabilities and finance authorized commitments relative to goods, services, and employee benefits. Other Funds balance includes $39.3 million in unapplied Suspense accounts disbursements at FY 2008 year end.

Unobligated balances become available when apportioned by the OMB for obligation in the current fiscal year. Obligated and other balances not yet disbursed (net) include balances for non-budgetary funds and unfilled customer orders without advances. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2008 and 2007 are as follows:

ACCOUNTS RECEIVABLE, NET

(In Thousands)

	Receivable Gross	Allowance Accounts	Receivable Net 2008	Receivable Net 2007
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 761	$ N/A	$ 761	$ 761
Accounts Receivable from Federal Agencies	52,001	N/A	52,001	255,538
Less Intra-Agency Receivables	(52,542)	N/A	(55,542)	(256,079)
Total Intragovernmental	220	N/A	220	220
Accounts Receivable	275,242	(8,213)	267,029	179,347
Total Receivables	$ 275,462	$ (8,213)	$ 267,249	$ 179,567

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

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

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

NOTE 4. OTHER ASSETS

Advances as of September 30, 2008 and 2007 consisted of the following:

ADVANCES

(In Thousands)

	2008	2007
Intragovernmental		
Advances to Federal Agencies	$ 1,753	$ 4,532
Total Intragovernmental	1,753	4,532
Advances to Contractors/Grantees	376,804	400,622
Advances to Host Country Governments and Institutions	114,122	94,898
Advances, Other	6,297	6,011
Total with the Public	497,223	501,531
Total Other Assets	$ 498,976	$ 506,063

FY 2008 advances to Host Country Governments and Institutions represent amounts advanced by USAID missions to host country governments and other in-country organizations, such as educational institutions and voluntary organizations. Advances, Other consist primarily of amounts advanced for living quarters, travel, and home service.

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2008 and 2007 are as follows:

CASH AND OTHER MONETARY ASSETS (In Thousands)		
Cash and Other Monetary Assets	**2008**	**2007**
Imprest Fund-Headquarters	$ 5	$ 4
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	302,573	288,025
Total Cash and Other Monetary Assets	$ 302,628	$ 288,079

USAID has imprest funds in various overseas locations. These funds are provided by the Department of State overseas U.S. Disbursing Officers to which USAID is liable for any shortages. The cumulative balance of imprest funds provided to USAID's by the Department of State was $1.5 million in FY 2008 and $1.6 million in FY 2007. These imprest funds are not included in USAID's Consolidated Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this totaled to $302.6 million in FY 2008 and $288.0 million in FY 2007. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

USAID operates the following loan and/or loan guarantee programs:

- Direct Loan Program (Direct Loan)
- Urban and Environmental Program (UE)
- Micro and Small Enterprise Development Program (MSED)
- Israel Loan Guarantee Program (Israel Loan)
- Development Credit Authority Program (DCA)
- Egypt Loan Guarantee Program

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

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

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

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

SUMMARY OF LOANS RECEIVABLES, NET *(In Thousands)*	2008	2007
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	$ 3,489,183	$ 3,824,147
Net Direct Loans Obligated After 1991 (Present Value Method)	282,738	308,427
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	216,741	278,064
Total Loans Receivable, Net as reported on the Balance Sheet	$ 3,988,662	$ 4,410,638

DIRECT LOANS

DIRECT LOANS

(In Thousands)

Loan Programs	Loans Receivables Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2008:				
Direct Loans	$ 4,429,500	$ 346,969	$ 1,287,285	$ 3,489,183
MSED	29	32	61	—
Total	$ 4,429,529	$ 347,001	$ 1,287,346	$ 3,489,183
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2007:				
Direct Loans	$ 4,900,067	$ 329,209	$ 1,405,129	$ 3,824,147
MSED	29	32	61	–
Total	$ 4,900,096	$ 329,241	$ 1,405,190	$ 3,824,147
Direct Loans Obligated After 1991 as of September 30, 2008:				
Direct Loans	$ 1,165,515	$ 5,138	$ 887,732	$ 282,921
MSED	150	24	357	(183)
Total	$ 1,165,665	$ 5,162	$ 888,089	$ 282,738
Direct Loans Obligated After 1991 as of September 30, 2007:				
Direct Loans	$ 1,045,654	$ 4,330	$ 741,374	$ 308,610
MSED	150	24	357	(183)
Total	$ 1,045,804	$ 4,354	$ 741,731	$ 308,427

TOTAL AMOUNT OF DIRECT LOANS DISBURSED

(In Thousands)

Direct Loan Programs	2008	2007
Direct Loans	$ 5,595,015	$ 5,945,721
MSED	179	179
Total	$ 5,595,194	$ 5,945,900

SCHEDULE FOR RECONCILING SUBSIDY COST ALLOWANCE BALANCES (POST-1991 DIRECT LOANS)

(In Thousands)

	2008			2007		
	Direct Loan	MSED	Total	Direct Loan	MSED	Total
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Subsidy Cost Allowance	$ 741,374	$ 357	$ 741,731	$ 745,777	$ (10)	$ 745,767
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:						
(A) Interest Rate Differential Costs	—	—	—	–	–	–
(B) Default Costs (Net of Recoveries)	—	—	—	–	–	–
(C) Fees and Other Collections	—	—	—	–	–	–
(D) Other Subsidy Costs	—	—	—	–	–	–
Total of the Above Subsidy Expense Components	—	—	—	–	–	–
Adjustments:						
(A) Loan Modifications	26,648	—	26,648	16,133	–	16,133
(B) Fees Received	—	—	—	–	–	–
(C) Foreclosed Property Acquired	—	—	—	–	–	–
(D) Loans Written Off	—	—	—	(39,020)	–	(39,020)
(E) Subsidy Allowance Amortization	6,784	—	6,784	18,485	367	18,852
(F) Other	86,278	—	86,278	–	–	–
Ending Balance of the Subsidy Cost Allowance Before Reestimates	861,084	357	861,444	741,374	357	741,731
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	—	—	—	–	–	–
(B) Technical/Default Reestimate	—	—	—	–	–	–
Total of the Above Reestimate Components	—	—	—	–	–	–
Ending Balance of the Subsidy Cost Allowance	$ 861,084	$ 357	$ 861,444	$ 741,374	$ 357	$ 741,731

DEFAULTED GUARANTEED LOANS

(In Thousands)

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2008				
UE	$ 272,727	$ 66,632	$ 122,618	$ 216,741
Total	$ 272,727	$ 66,632	$ 122,618	$ 216,741
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2007				
UE	$ 387,894	$ 59,143	$ 168,973	$ 278,064
Total	$ 387,894	$ 59,143	$ 168,973	$ 278,064

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

In 2008, the UE Program had $3.6 million in defaults on payments.

In 2007, the UE Program had $3.6 million in defaults on payments.

GUARANTEED LOANS OUTSTANDING:

GUARANTEED LOANS OUTSTANDING
(In Thousands)

Loan Guarantee Programs	Outstanding Principal, Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Guaranteed Loans Outstanding (2008):		
UE	$ 1,220,669	$ 1,220,669
MSED	17,010	8,505
Israel	12,493,872	12,493,872
DCA	264,480	104,625
Egypt	1,250,000	1,250,000
Total	$ 15,246,031	$ 15,077,671
Guaranteed Loans Outstanding (2007):		
UE	$ 1,330,189	$ 1,330,189
MSED	17,010	8,505
Israel	12,700,332	12,700,332
DCA	1,282,332	498,517
Egypt	1,250,000	1,250,000
Total	$ 16,579,863	$ 15,787,543
New Guaranteed Loans Disbursed (2008):		
DCA	$ 75,831	$ 30,333
Total	$ 75,831	$ 30,333
New Guaranteed Loans Disbursed (2007):		
DCA	$ 129,455	$ 51,782
Total	$ 129,455	$ 51,782

LIABILITY FOR LOAN GUARANTEES (In Thousands)			
Loan Guarantee Programs	**Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims**	**Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value**	**Total Liabilities for Loan Guarantees**
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2008:			
UE	$ 97,745	$ 138,058	$ 235,803
MSED	—	412	412
Israel	—	1,160,452	1,160,452
DCA	—	25,972	25,972
Egypt	—	184,237	184,237
Total	$ 97,745	$ 1,509,131	$ 1,606,876
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2007:			
UE	$ 124,794	$ 138,203	$ 262,997
MSED	–	(3,884)	(3,884)
Israel	–	1,386,173	1,386,173
DCA	–	14,617	14,617
Egypt	–	163,429	163,429
Total	$ 124,794	$ 1,698,538	$ 1,823,332

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT (In Thousands)					
Loan Guarantee Programs	**Interest Supplements**	**Defaults**	**Fees and Other Collections**	**Other**	**Total**
Subsidy Expense for New Loan Guarantees (2008):					
DCA	$ –	$ 1,575	$ –	$ –	$ 1,575
Total	$ –	$ 1,575	$ –	$ –	$ 1,575
Subsidy Expense for New Loan Guarantees (2007):					
DCA	$ –	$ 6,935	$ –	$ –	$ 6,935
Total	$ –	$ 6,935	$ –	$ –	$ 6,935

SUBSIDY EXPENSE FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT (CONTINUED)

(In Thousands)

Loan Guarantee Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Modifications and Reestimates (2008):				
UE	$ –	$ –	$ 8,351	$ 8,351
Israel	–	–	2,227	2,227
Egypt	–	–	11,663	11,663
Total	$ –	$ –	$ 22,241	$ 22,241
Modifications and Reestimates (2007):				
UE	$ –	$ –	$ –	$ –
MSED	–	–	1,408	1,408
DCA	–	–	–	–
Israel	–	–	9,035	9,035
Egypt	–	–	–	–
Total	$ –	$ –	$ 10,443	$ 10,443

TOTAL LOAN GUARANTEE SUBSIDY EXPENSE

(In Thousands)

Loan Guarantee Programs	2008	2007
DCA	$ 1,575	$ 6,935
UE	8,351	–
MSED	–	1,408
Israel	2,227	9,035
Egypt	11,663	–
Total	$ 23,816	$ 17,378

SUBSIDY RATES FOR LOAN GUARANTEES BY PROGRAM AND COMPONENT:

BUDGET SUBSIDY RATES FOR LOAN GUARANTEES FOR THE CURRENT YEAR S COHORTS (PERCENT)

Loan Guarantee Programs	Interest Supplements (%)	Defaults (%)	Fees and Other Collections (%)	Other (%)	Total (%)
DCA	–	3.30%	–	–	3.30%

SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

(In Thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
2008						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	$ 14,617	$ (3,884)	$ 138,202	$1,386,173	$ 163,430	$1,698,538
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	—	—	—	—	—	—
(B) Default Costs (Net of Recoveries)	—	—	—	—	—	—
(C) Fees and Other Collections	—	—	—	—	—	—
(D) Other Subsidy Costs	1,575	—	—	—	—	1,575
Total of the Above Subsidy Expense Components	16,192	(3,884)	138,202	1,386,173	163,430	1,700,113
Adjustments:						
(A) Loan Guarantee Modifications	—	—	—	—	—	—
(B) Fees Received	962	14	1,911	—	—	2,887
(C) Interest Supplements Paid	—	—	—	—	—	—
(D) Foreclosed Property and Loans Acquired	—	—	—	—	—	—
(E) Claim Payments to Lenders	2,156	—	3,589	—	—	5,745
(F) Interest Accumulation on the Liability Balance	—	—	4,782	75,859	7,010	87,651
(G) Other	6,662	4,282	(29,015)	(178,206)	—	(196,277)
Ending Balance of the Loan Guarantee Liability Before Reestimates	25,972	412	119,469	1,283,826	170,440	1,600,119
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	—	—	—	—	—	—
(B) Technical/Default Reestimate	—	—	18,589	(123,374)	13,797	(90,988)
Total of the Above Reestimate Components	—	—	—	—	—	—
Ending Balance of the Loan Guarantee Liability	$ 25,972	$ 412	$ 138,058	$1,160,452	$ 184,237	$1,509,131
2007						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	$ 10,812	$ (2,152)	$ 155,428	$1,169,364	$ 170,191	$1,503,643
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:						
(A) Interest Supplement Costs	–	–	–	–	–	–
(B) Default Costs (Net of Recoveries)	–	–	–	–	–	–
(C) Fees and Other Collections	–	–	–	–	–	–
(D) Other Subsidy Costs	6,935	–	–	–	–	6,935
Total of the Above Subsidy Expense Components	6,935	–	–	–	–	6,935
Adjustments:						
(A) Loan Guarantee Modifications	–	–	–	–	–	–
(B) Fees Received	1,043	45	2,069	–	–	3,157
(C) Interest Supplements Paid	–	–	–	–	–	–
(D) Foreclosed Property and Loans Acquired	–	–	–	–	–	–
(E) Claim Payments to Lenders	(1,442)	(420)	(3,590)	–	–	(5,452)
(F) Interest Accumulation on the Liability Balance	3,088	460	6,116	73,504	7,301	90,469
(G) Other	(5,819)	(3,740)	13,901	–	–	4,342
Ending Balance of the Loan Guarantee Liability Before Reestimates	14,617	(5,807)	173,924	1,242,868	177,492	1,603,094
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	–	–	–	–	–	–
(B) Technical/Default Reestimate	–	1,923	(35,722)	143,305	(14,062)	95,444
Total of the Above Reestimate Components	–	1,923	(35,722)	143,305	(14,062)	95,444
Ending Balance of the Loan Guarantee Liability	$ 14,617	$ (3,884)	$ 138,202	$1,386,173	$ 163,430	$1,698,538

ADMINISTRATIVE EXPENSE *(In Thousands)*		
Loan Programs	**2008**	**2007**
DCA	$ 9,774	$ 12,244
Total	$ 9,774	$ 12,244

OTHER INFORMATION

1. Allowance for Loss for Liquidating account (pre-Credit Reform Act) receivables have been calculated in accordance with OMB guidance using a present value method which assigns risk ratings to receivables based upon the country of debtor. Eight countries are in violation of Section 620q of the Foreign Assistance Act, owing $23.1 million that is more than six months delinquent. Eight countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $372.6 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $16.8 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $320.7 million.

2. The MSED Liquidating Account general ledger has a loan receivable balance of $29 thousand. This includes a loan pending closure. This loan is being carried at 100% bad debt allowance.

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

USAID's Inventory and Related Property is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2008 and 2007 are as follows:

INVENTORY AND RELATED PROPERTY *(In Thousands)*		
	2008	**2007**
Items Held for Use		
Office Supplies	$ 9,858	$ 12,783
Items Held in Reserve for Future Use		
Disaster Assistance Materials and Supplies	5,591	7,599
Birth Control Supplies	17,280	15,371
Total	$ 32,729	$ 35,753

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

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of Property, Plant & Equipment (PP&E) as of September 30, 2008 and 2007 are as follows:

GENERAL PROPERTY, PLANT AND EQUIPMENT, NET
(In Thousands)

	Useful Life	Cost	Accumulated Depreciation	Net Book Value 2008	Net Book Value 2007
The components of PP&E as of September 30, 2008 are as follows:					
Classes of Fixed Assets					
Equipment	3 to 5 years	$ 82,876	$ (62,243)	$ 20,633	$ 31,571
Buildings, Improvements, and Renovations	20 years	76,383	(39,782)	36,601	38,314
Land and Land Rights	N/A	2,456	N/A	2,456	2,456
Assets Under Capital Lease (Note 9)		6,002	(1,505)	4,497	5,537
Construction in Progress	N/A	–	–	–	570
Internal Use Software	3 to 5 years	67,676	(37,594)	30,082	10,050
Total		$ 235,393	$ (141,124)	$ 94,269	$ 88,498

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

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

Equipment consists primarily of electric generators, Automatic Data Processing (ADP) hardware, vehicles and copiers located at the overseas field missions. Note 9 discusses USAID leases.

Line items Buildings, Improvements, and Renovations in addition to Land and Land Rights include USAID owned office buildings and residences at foreign missions, including the land on which these structures reside. These structures are used and maintained by the field missions. USAID does not separately report the cost of the building and the land on which the building resides.

Land consists of property owned by USAID in foreign countries. Land is generally procured with the intent of constructing of buildings.

NOTE 9. LEASES

As of September 30, 2008 and 2007 Leases consisted of the following:

LEASES (In Thousands)		
Entity as Lessee		
Capital Leases:	**2008**	**2007**
Summary of Assets Under Capital Lease:		
Buildings	$ 6,002	$ 8,190
Accumulated Depreciation	(1,505)	(2,653)
Net Assest under Capital Leases	$ 4,497	$ 5,537

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

Future Payments Due:	**2008**	**2007**
Fiscal Year	**Future Costs**	**Future Costs**
2008	$ –	$ 297
2009	297	297
2010	297	297
2011	231	232
2011	52	52
2013	972	–
After 5 Years	768	77
Net Capital Lease Liability (Note 12)	2,617	1,252
Lease Liabilities Covered by Budgetary Resources	$ 2,617	$ 1,252

Operating Leases:		
Future Payments Due:	**2008**	**2007**
Fiscal Year	**Future Costs**	**Future Costs**
2008	$ –	$ 33,668
2009	62,162	35,003
2010	58,012	36,391
2011	55,226	37,769
2012	52,630	39,090
2013	41,332	–
After 5 Years	19,642	40,677
Total Future Lease Payments	$ 289,004	$ 222,598

Operating lease payments total $289 million in future lease payment, $255 million is for the USAID headquarters in Washington, D.C. The current lease agreement is for approximately 550,000 sq. feet and will expire in FY 2010. The lessor, General Services Administartion (GSA), charges commercial rates for USAID's occupancy. Lease payments for FY 2008 and FY 2007 amounted to $40.7 million and $40.6 million, respectively.

NOTE 10. LIABILITIES COVERED AND NOT COVERED BY BUDGETARY REOURCES

USAID records liabilities for amounts that are likely to be paid as the direct result of events that have already occurred. USAID considers the Intragovernmental accounts payable as the liabilities covered. These accounts payables are those payable to other federal agencies and consist mainly of unliquidated obligation balances related to interagency agreements between USAID and other federal agencies. The accounts payable with the public represent liabilities to other non-federal entities.

Liabilities not covered by budgetary resources include accrued unfunded annual leave and seperation pay. Although future appropriations to fund these liabilities are probable and anticipated, Congressional action is needed before budgetary resources can be provided. Accrued unfunded annual leave, workmen compensation benefits, and separation pay represent future liabilities not currently funded by budgetary resources, but will be funded as it becomes due with future resources. The Contingent Liabilities for Loan Guarantees is in the pre-Credit Reform Urban and Environmental (UE) Housing Loan Guarantee liquidating fund. As such, it represents the estimated liability to lenders for future loan guarantee defaults in that program.

As of September 30, 2008 and 2007, liabilities covered and not covered by budgetary resources were as follows:

LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

(In Thousands)

	2008	2007
Intragovernmental		
Accounts Payable	$ 48,375	$ 62,099
Disbursements in Transit	14	2
Total Intragovernmental	48,389	62,101
Accounts Payable	1,856,887	2,341,025
Disbursements in Transit	12,987	26,932
Total with the Public	1,869,874	2,367,957
Total Other	6,265,740	6,817,577
Total Liabilities Covered by Budgetary Resources	$ 8,184,003	$ 9,247,635
Liabilities Not Covered by Budgetary Resources		
Accrued Annual Leave	$ 59,972	$ 24,563
FSN Separation Pay Liability	4,543	852
Total Accrued Unfunded Annual Leave and Separation Pay	64,515	25,415
Accrued Unfunded Workers Compensation Benefits (Note 13)	34,848	36,337
Debt - Contingent Liabilities for Loan Guarantees	97,745	124,793
Total Liabilities Not Covered by Budgetary Resources	197,108	186,545
Total Liabilities	$ 8,381,111	$ 9,434,180

NOTE 11. DEBT

USAID Intragovernmental Debt as of September 30, 2008 and 2007 consisted of the following borrowings from Treasury for post-1991 loan programs, which is classified as other debt:

INTRAGOVERNMENTAL DEBT
(In Thousands)

Debt Due to Treasury	2007 Beginning Balance	Net Borrowing	2007 Ending Balance	Net Borrowing	Accrued Interest Paid	2008 Ending Balance
Direct Loan	$ 474,055	$ 24,451	$ 498,506	$ 3,241	$ (24,447)	$ 477,300
DCA	–	–	–	72	–	72
Total Treasury Debt	$ 474,055	$ 24,451	$ 498,506	$ 3,313	$ (24,447)	$ 477,372

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

In FY 2007, $24.5 million in accrued interest was included in the Direct Loan balance, which was $24.5 million in accrued interest paid for FY 2008. The FY 2007 ending Direct Loan balance above has been adjusted to reflect the payment. The ending FY 2008 DCA loan balance has accrued $4 thousand in interest payable to Treasury. The above disclosed debt is principal payable to Treasury, which represents financing account borrowings from Treasury under the Federal Credit Reform Act and net liquidating account equity in the amount of $3.7 billion, which under the Act is required to be recorded as Due to Treasury. All debt shown is intragovernmental debt.

NOTE 12. OTHER LIABILITIES

As of September 30, 2008 and 2007 Other Liabilities consisted of the following:

OTHER LIABILITIES
(In Thousands)

	2008	2007
Intragovernmental		
IPAC Suspense	$ –	$ 51,481
Unfunded FECA Liability	5,648	6,469
Credit Program	126,228	149,431
Custodial Liability	14,451	–
Other	13,110	8,624
Total Intragovernmental	$ 159,437	$ 216,005
Accrued Funded Payroll and Leave (Note 13)	13,579	14,055
Unfunded Leave (Note 10)	64,515	25,415
Advances From Others	1,114	986
Deferred Credits	12,893	10,095
Foreign Currency Trust Fund	302,708	288,171
Capital Lease Liability (Note 9)	2,617	1,252
Custodial Liability	–	2,617
Other Liabilities	62,551	56,031
Total Liabilities With the Public	$ 459,977	$ 398,622
Total Other Liabilities	$ 619,414	$ 614,627

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

Unfunded leave components are shown in note 10.

For FY 2007, the IPAC balance was recorded as a net account receivable to USAID for a total of $5.5 million.

NOTE 13. FEDERAL EMPLOYEES AND VETERAN'S BENEFITS

The provision for workers' compensation benefits payable, as of September 30, 2008 and 2007 are indicated in the table below. These liabilities are included in the Intragovernmental Other Liabilities line item on the Consolidated Balance Sheet and are not covered by budgetary resources.

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

For FY 2008, USAID's total FECA liability was $34.8 million and comprised of unpaid FECA billings for $21.3 million and estimated future FECA costs of $13.5 million.

For FY 2007, USAID's total FECA liability was $36.3 million and comprised of unpaid FECA billings for $22.3 million and estimated future FECA costs of $14.0 million.

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

ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS

(In Thousands)

	2008	2007
Liabilities Not Covered by Budgetary Resources		
Future Workers' Compensation Benefits	$ 21,269	$ 22,282
Accrued Funded Payroll and Leave (Note 12)	13,579	14,055
Total Accrued Unfunded Workers' Compensation Benefits	$ 34,848	$ 36,337

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

As of September 30, 2008 a total of nine cases were pending.

Five cases have been designated as reasonably possible, a total of $11.2 million:

- The first case is a contract claim arising out of a contractor's contract to repair and operate an Iraqi port. The estimated loss is $4.4 million.
- The second case is a contract claim that USAID wrongfully withheld payment for invoices submitted under "Hurricane Mitch" host-country, contract in Honduras. The estimated loss is $2.2 million.
- The third case is a companion case. A contractor seeks compensation for efforts and expenses it claims to have incurred under a terminated host country contract with the Honduran government. The estimated loss is $1.8 million.
- The fourth case is an appeal of the Contracting Officer's disallowance of the costs of supplemental Accidental Death and Dismemberment and Business Travel Insurance for contractor employees related to initial deployment to Iraq. The estimated loss is over $1 million.
- The fifth case is a case where a contractor seeks costs that were incurred by one of its subcontractors; however USAID disputes those costs as unsubstantiated. The estimated loss is $1.8 million.

Four of the remaining cases have a remote likelihood of unfavorable outcome. During the fourth quarter in FY 2008 one federal case was resolved. This is a case where USAID disallowed costs already paid to a contractor for incubators that were installed in Egyptian hospitals but which quickly proved unsafe and was removed from the hospitals. The estimated loss was $1 million, and USAID settled the case for $325,000 by mutual agreement. The settled amount was paid by Treasury on behalf of USAID in the fourth quarter of 2008.

NOTE 15. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

The Consolidated Statement of Net Cost reports the Agency's gross costs less earned revenues to arrive at net cost of operations by Objective and Program Area, as of September 30, 2008. These objectives are consistent with the new State-USAID's Strategic Planning Framework.

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

Note 15 replaced Note 17 which shows the value of exchange transactions between USAID and other Federal entities as well as non-Federal entities. These are also categorized by Objectives, Program Areas and Responsibility Segments. Responsibility Segments are defined in Note 16.

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

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2008 and 2007
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	2008 Total	2007 Total
Peace and Security									
Intragovernmental Costs	$ 1,236	$ 8,298	$ 2,570	$ 213	$ 2,402	$ —	$ 4,704	$ 19,423	$ 12,294
Public Costs	43,492	571,224	50,214	1,965	69,133	—	91,525	827,553	447,917
Total Program Costs	44,728	579,522	52,784	2,178	71,535	—	96,229	846,976	460,211
Intragovernmental Earned Revenue	(94)	(769)	(106)	(14)	(254)	—	(500)	(1,737)	(751)
Public Earned Revenue	(23)	(188)	(26)	(3)	(62)	—	(122)	(424)	(395)
Total Earned Revenue	(117)	(957)	(132)	(17)	(316)	—	(622)	(2,161)	(1,146)
Net Program Costs	**44,611**	**578,565**	**52,652**	**2,161**	**71,219**	**—**	**95,607**	**844,815**	**459,065**
Governing Justly and Democratically									
Intragovernmental Costs	5,685	11,651	2,351	409	9,205	—	3,204	32,505	39,204
Public Costs	168,959	885,368	67,471	3,310	158,431	—	97,878	1,381,417	1,267,341
Total Program Costs	174,644	897,019	69,822	3,719	167,636	—	101,082	1,413,922	1,306,545
Intragovernmental Earned Revenue	(463)	(1,257)	(144)	(24)	(871)	—	(294)	(3,053)	(2,225)
Public Earned Revenue	(113)	(308)	(35)	(6)	(213)	—	(72)	(747)	(1,273)
Total Earned Revenue	(576)	(1,565)	(179)	(30)	(1,084)	—	(366)	(3,800)	(3,498)
Net Program Costs	**174,068**	**895,454**	**69,643**	**3,689**	**166,552**	**—**	**100,716**	**1,410,122**	**1,303,047**
Investing in People									
Intragovernmental Costs	49,153	16,511	1,197	4,254	4,668	52,160	9,088	137,031	266,292
Public Costs	893,846	991,121	50,188	71,713	53,338	1,517,118	226,728	3,804,052	3,247,457
Total Program Costs	942,999	1,007,632	51,385	75,967	58,006	1,569,278	235,816	3,941,083	3,513,749
Intragovernmental Earned Revenue	(3,860)	(1,014)	(90)	(5,912)	(774)	(235,452)	(613)	(247,715)	(346,333)
Public Earned Revenue	(945)	(360)	(23)	(28,529)	(78)	(665)	(150)	(30,750)	(137,735)
Total Earned Revenue	(4,805)	(1,374)	(113)	(34,441)	(852)	(236,117)	(763)	(278,465)	(484,068)
Net Program Costs	**938,194**	**1,006,258**	**51,272**	**41,526**	**57,154**	**1,333,161**	**235,053**	**3,662,618**	**3,029,681**

(continued on next page)

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2008 and 2007
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	2008 Total	2007 Total
Economic Growth									
Intragovernmental Costs	8,588	29,547	181	94,787	4,127	—	4,186	141,416	178,937
Public Costs	366,575	1,484,963	5,765	237,426	83,044	—	177,876	2,355,649	2,924,574
Total Program Costs	375,163	1,514,510	5,946	332,213	87,171	—	182,062	2,497,065	3,103,511
Intragovernmental Earned Revenue	(952)	(2,615)	(13)	(229,668)	111	—	(439)	(233,576)	(6,018)
Public Earned Revenue	(233)	(830)	(3)	101,134	(63)	—	(108)	99,897	(96,598)
Total Earned Revenue	(1,185)	(3,445)	(16)	(128,534)	48	—	(547)	(133,679)	(102,616)
Net Program Costs	**373,978**	**1,511,065**	**5,930**	**203,679**	**87,219**	**—**	**181,515**	**2,363,386**	**3,000,895**
Humanitarian Assistance									
Intragovernmental Costs	160	13,750	36,061	—	174	—	561	50,706	57,438
Public Costs	1,527	188,709	527,971	(181,080)	2,857	—	3,728	543,712	1,332,203
Total Program Costs	1,687	202,459	564,032	(181,080)	3,031	—	4,289	594,418	1,389,641
Intragovernmental Earned Revenue	(3)	(315)	(11,691)	—	(17)	—	(16)	(12,042)	(2,865)
Public Earned Revenue	(1)	(77)	(269)	—	(4)	—	(4)	(355)	(722)
Total Earned Revenue	(4)	(392)	(11,960)	—	(21)	—	(20)	(12,397)	(3,587)
Net Program Costs	**1,683**	**202,067**	**552,072**	**(181,080)**	**3,010**	**—**	**4,269**	**582,021**	**1,386,054**
Operating Unit Management									
Intragovernmental Costs	2,921	356	1,738	1,583	—	—	146	6,744	17,873
Public Costs	15,067	14,621	8,701	2,349	8,606	—	2,418	51,763	99,489
Total Program Costs	17,988	14,977	10,439	3,932	8,606	—	2,564	58,507	117,362
Intragovernmental Earned Revenue	(49)	(87)	(17)	(24)	(27)	—	(10)	(109)	(133)
Public Earned Revenue	(12)	(21)	(4)	(6)	98	—	(2)	(53)	(77)
Total Earned Revenue	(61)	(108)	(21)	(30)	71	—	(12)	(162)	(210)
Net Program Costs	**17,927**	**14,869**	**10,418**	**3,902**	**8,677**	**—**	**2,552**	**58,345**	**117,152**
Net Costs of Operations	**$1,550,461**	**$4,208,278**	**$ 741,987**	**$ 73,877**	**$393,831**	**$ 1,333,161**	**$ 619,712**	**$ 8,921,307**	**$ 9,295,894**

NOTE 16. SCHEDULE OF COST BY RESPONSIBILITY SEGMENTS

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

A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to top management. The geographic and technical bureaus of USAID (below) meet the criteria of a responsibility segment. These bureaus directly support the Agency goals while the remaining bureaus and offices support the operations of these bureaus. To report the full cost of program outputs, the cost of support bureaus and offices are allocated to the outputs of the geographic and technical bureaus. Intra-agency eliminations are allocated to Program Areas to reflect total costs. The FY 2008 Statement of Net Cost major responsibility segments are (i) the Geographic Bureaus and (ii) the Technical Bureaus. The Geographic Bureaus includes:

Africa; Asia and Middle East, Latin America and the Caribbean and Europe and Eurasia. Effective in FY 2008 Asia and Near East bureau has been reorganized as Asia and Middle East. The Technical Bureaus are the Democracy, Conflict, and Humanitarian Assistance (DCHA); Economic Growth, Agriculture, and Trade (EGAT) and Global Health.

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT

For the Year Ended September 30, 2008
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Consolidated Total
Peace and Security								
Counter-Terrorism								
Gross Costs	$ 5,007	$ 2,644	$ 996	$ –	$ –	$ –	$ –	$ 8,647
Less: Exchange Revenues	(9)	(1)	(3)	–	–	–	–	(13)
Net Program Costs	4,998	2,643	993	–	–	–	–	8,634
Combating Weapons of Mass Destruction (WMD)								
Gross Costs	–	3	996	–	–	–	–	999
Less: Exchange Revenues	–	–	(3)	–	–	–	–	(3)
Net Program Costs	–	3	993	–	–	–	–	996
Stabilization Operations and Security Sector Reform								
Gross Costs	13,855	256,789	4,629	–	1,444	–	9,793	286,510
Less: Exchange Revenues	(40)	(314)	(14)	–	(8)	–	(108)	(484)
Net Program Costs	13,815	256,475	4,615	–	1,436	–	9,685	286,026
Counter-Narcotics								
Gross Costs	155	198,558	996	–	393	–	41,089	241,191
Less: Exchange Revenues	(1)	(422)	(3)	–	(2)	–	(359)	(787)
Net Program Costs	154	198,136	993	–	391	–	40,730	240,404
Transnational Crime								
Gross Costs	1,596	14,679	996	1,468	2,200	–	2,440	23,379
Less: Exchange Revenues	(4)	(55)	(3)	(11)	67	–	(6)	(12)
Net Program Costs	1,592	14,624	993	1,457	2,267	–	2,434	23,367
Conflict Mitigation and Reconciliation								
Gross Costs	24,116	106,848	44,174	710	67,498	–	42,906	286,252
Less: Exchange Revenues	(64)	(164)	(109)	(6)	(373)	–	(148)	(864)
Net Program Costs	24,052	106,684	44,065	704	67,125	–	42,758	285,388
Total Peace & Security	**$ 44,611**	**$ 578,565**	**$ 52,652**	**$ 2,161**	**$ 71,219**	**$ –**	**$ 95,607**	**$ 844,815**

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT

For the Year Ended September 30, 2008
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Consolidated Total
Governing Justly and Democratically								
Rule of Law and Human Rights								
Gross Costs	9,801	87,851	3,977	2,542	8,052	—	31,150	143,373
Less: Exchange Revenues	(27)	(210)	(9)	(21)	21	—	(127)	(373)
Net Program Costs	9,774	87,641	3,968	2,521	8,073	—	31,023	143,000
Good Governance								
Gross Costs	78,799	551,606	17,655	813	70,288	—	37,445	756,606
Less: Exchange Revenues	(285)	(945)	(47)	(7)	(545)	—	(133)	(1,962)
Net Program Costs	78,514	550,661	17,608	806	69,743	—	37,312	754,644
Political Competition and Consensus-Building								
Gross Costs	41,460	76,408	15,444	—	21,687	—	12,998	167,997
Less: Exchange Revenues	(131)	(154)	(29)	—	(164)	—	(42)	(520)
Net Program Costs	41,329	76,254	15,415	—	21,523	—	12,956	167,477
Civil Society								
Gross Costs	44,584	181,155	32,745	364	67,609	—	19,489	345,946
Less: Exchange Revenues	(133)	(257)	(93)	(2)	(396)	—	(64)	(945)
Net Program Costs	44,451	180,898	32,652	362	67,213	—	19,425	345,001
Total Governing Justly and Democratically	**174,068**	**895,454**	**69,643**	**3,689**	**166,552**	**—**	**100,716**	**1,410,122**
Investing in People								
Health								
Gross Costs	740,110	554,856	7,163	1,621	12,685	1,569,277	154,769	3,040,481
Less: Exchange Revenues	(4,174)	(552)	(11)	(11)	(569)	(236,116)	(508)	(241,941)
Net Program Costs	735,936	554,304	7,152	1,610	12,116	1,333,161	154,261	2,798,540
Education								
Gross Costs	179,773	280,730	19,927	38,518	22,910	—	66,011	607,869
Less: Exchange Revenues	(573)	(530)	(47)	(285)	(148)	—	(145)	(1,728)
Net Program Costs	179,200	280,200	19,880	38,233	22,762	—	65,866	606,141
Social and Economic Services and Protection for Vulnerable Populations								
Gross Costs	23,116	172,047	24,297	35,826	22,411	—	15,036	292,733
Less: Exchange Revenues	(58)	(293)	(57)	(34,143)	(135)	—	(110)	(34,796)
Net Program Costs	23,058	171,754	24,240	1,683	22,276	—	14,926	257,937
Total Investing in People	**938,194**	**1,006,258**	**51,272**	**41,526**	**57,154**	**1,333,161**	**235,053**	**3,662,618**
Economic Growth								
Macroeconomic Foundation for Growth								
Gross Costs	360	372,988	132	70,584	(5,601)	—	8,366	446,829
Less: Exchange Revenues	(29)	(910)	—	(1,595)	(29)	—	(37)	(2,600)
Net Program Costs	331	372,078	132	68,989	(5,630)	—	8,329	444,229
Trade and Investment								
Gross Costs	49,016	108,265	670	7,812	11,601	—	37,494	214,858
Less: Exchange Revenues	(201)	(202)	(2)	(61)	(76)	—	(140)	(682)
Net Program Costs	48,815	108,063	668	7,751	11,525	—	37,354	214,176

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT

For the Year Ended September 30, 2008
(In Thousands)

Objective	Africa	Asia & Middle East	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Consolidated Total
Financial Sector								
Gross Costs	8,654	39,215	576	(39,207)	2,424	—	5,914	17,576
Less: Exchange Revenues	(26)	35	(2)	4,939	208	—	(15)	5,139
Net Program Costs	8,628	39,250	574	(34,268)	2,632	—	5,899	22,715
Infrastructure								
Gross Costs	56,325	366,135	563	23,054	14,208	—	3,813	464,098
Less: Exchange Revenues	(137)	(1,049)	(2)	(162)	(40)	—	(13)	(1,403)
Net Program Costs	56,188	365,086	561	22,892	14,168	—	3,800	462,695
Agriculture								
Gross Costs	150,462	139,362	987	128,357	6,847	—	24,549	450,564
Less: Exchange Revenues	(477)	(323)	(3)	(1,102)	(54)	—	(65)	(2,024)
Net Program Costs	149,985	139,039	984	127,255	6,793	—	24,484	448,540
Private Sector Competitiveness								
Gross Costs	27,656	314,618	1,721	7,412	48,608	—	19,050	419,065
Less: Exchange Revenues	(68)	(428)	(4)	(58)	(244)	—	(48)	(850)
Net Program Costs	27,588	314,190	1,717	7,354	48,364	—	19,002	418,215
Economic Opportunity								
Gross Costs	15,814	127,812	1,210	47,833	2,625	—	19,828	215,122
Less: Exchange Revenues	(46)	(334)	(4)	(332)	(23)	—	(61)	(800)
Net Program Costs	15,768	127,478	1,206	47,501	2,602	—	19,767	214,322
Environment								
Gross Costs	66,875	46,115	88	86,367	6,460	—	63,048	268,953
Less: Exchange Revenues	(200)	(234)	—	(130,162)	305	—	(168)	(130,459)
Net Program Costs	66,675	45,881	88	(43,795)	6,765	—	62,880	138,494
Total Economic Growth	**373,978**	**1,511,065**	**5,930**	**203,679**	**87,219**	**—**	**181,515**	**2,363,386**
Humanitarian Assistance								
Protection, Assistance and Solutions								
Gross Costs	349	198,836	507,223	—	1,127	—	2,434	709,969
Less: Exchange Revenues	1	(376)	(11,812)	—	(9)	—	(14)	(12,210)
Net Program Costs	350	198,460	495,411	—	1,118	—	2,420	697,759
Disaster Readiness								
Gross Costs	1,338	3,623	56,721	(181,080)	1,788	—	1,855	(115,755)
Less: Exchange Revenues	(5)	(16)	(148)	—	(12)	—	(6)	(187)
Net Program Costs	1,333	3,607	56,573	(181,080)	1,776	—	1,849	(115,942)
Migration Management								
Gross Costs	—	—	88	—	117	—	—	205
Less: Exchange Revenues	—	—	—	—	(1)	—	—	(1)
Net Program Costs	—	—	88	—	116	—	—	204
Total Humanitarian Assistance	**1,683**	**202,067**	**552,072**	**(181,080)**	**3,010**	**—**	**4,269**	**582,021**
Operating Unit Management								
Cross-cutting Management and Staffing								
Gross Costs	17,988	14,977	10,440	3,932	8,605	—	2,564	58,507
Less: Exchange Revenues	(61)	(108)	(22)	(30)	71	—	(12)	(162)
Net Program Costs	17,927	14,869	10,418	3,902	8,676	—	2,552	58,345
Net Cost of Operations	**$1,550,461**	**$4,208,278**	**$ 741,987**	**$ 73,877**	**$ 393,830**	**$1,333,161**	**$ 619,712**	**$8,921,307**

NOTE 17. STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents information about total budgetary resources available to USAID and the status of those resources, as of September 30, 2008 and 2007. USAID's total budgetary resources were $15.3 billion and $16.8 billion for the years ended September 30, 2008 and 2007.

A. Apportionment Categories of Obligations Incurred:

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED *(In Thousands)*	2008	2007
Category A, Direct	$ 769,447	$ **745,601**
Category B, Direct	8,699,827	10,846,162
Category A, Reimbursable	11,793	11,992
Category B, Reimbursable	316,837	359,426
Total	$ 9,797,904	$ 11,963,181

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

USAID FY 2008 borrowing authority was $3.3 million for credit financing activities, the Agency did not have any credit financing activities for FY 2007. Borrowing Authority is indefinite and authorized under the Federal Credit Reform Act of 1990 (Title XIII, Subtitle B, P.L. 101-508), and is used to finance obligations during the current year, as needed.

C. Adjustments to Obligated Balance brought foward of Budgetary Resources:

The FY 2008 Statement of Budgetary Resources, Obligated Balance Brought Foward, has been adjusted by $100.9 million due to a prior period error. This prior period error consisted of recording undelivered orders unpaid instead of undelivered orders prepaid. The affects of that posting error is displayed below.

ADJUSTMENTS TO OBLIGATED BALANCE BROUGHT FOWARD OF BUDGETARY RESOURCES: *(In Thousands)*	TOTAL
2007 Unpaid Obligated Balance, Net, End of Period	$ (14,422,033)
Prior Period Adjustment - Movement Unpaid to Paid	100,881
Adjusted 2008 Obligated Balance, Net: Unpaid Obligations, Brought Forward, October 1	$ (14,321,152)

D. Permanent Indefinite Appropriations:

USAID has permanent indefinite appropriations relating to specific Federal Credit Reform Program and Liquidating appropriations. USAID is authorized permanent indefinite authority for Federal Credit Reform Program appropriations for subsidy reestimates and Federal Credit Reform Act of 1990. At year-end FY 08, there is $1,616,689 billion in availability related to Federal Credit Reform Program and Liquidating appropriations.

E. Legal Arrangements Affecting the Use of Unobligated Balances:

Division A, Title VII, Section 611 found on page 474 of H. R. 2764, known as the "Consolidated Appropriations Act, 2008" and signed into law as P.L.110-161, provides to USAID extended authority to obligate funds. USAID's appropriations acts for years have consistently provided essentially similar authority. It is commonly known as "511/517" authority, a name that is based on references to the sections of the previous appropriations acts. Under this authority funds shall remain available for obligation for an extended period if such funds are obligated within their initial period of availability. Any subsequent recoveries (deobligations) of these funds become unobligated balances that are available for reporogramming by USAID (subject to OMB approval through the apportionment process).

F. Undelivered Orders:

Undelivered Orders for the periods ended September 30, 2008 and 2007 were $12.1 and $12.1 billion.

G. Difference between the Statement of Budgetary Resources and the Budget of the U.S. Government:

There are no material differences between the Statement of Budgetary Resouces for FY 2007 and the President's Budget submission for FY 2009. The President's Budget with actual numbers for 2010 has not yet been published. USAID expects no material difference between the President's Budget "actual" column and the FY 2008 reported results when the budget becomes available in February 2009.

DIFFERENCE BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

(In Thousands)

FY2008	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 15,316,659	$ 9,797,904	$ 1,361,154	$ 10,182,942
Difference #1: Funds Reported by Other Federal Entities	6,168,870	5,720,949	2	3,204,410
Difference #2: Adjustments to Unliquidated Obligations	(9,800)	(23,988)	–	–
Difference #3: Adjustments to Obligations	(2,286)	–	–	–
Difference #4: Credit Financing and Suspense	(302,187)	(63,019)	(95,631)	84,319
Rounding Differences**				
Budget of the U.S. Government	$ 21,171,256	$ 15,431,846	$ 1,265,525	$ 13,471,671

NOTE 18. RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

USAID presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources. The Federal Financial Accounting Standard No. 7 requires "a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

RECONCILIATION OF OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

For the Years Ended September 30, 2008 and 2007
(In Thousands)

	2008	2007
Resources Used to Finance Actvities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 9,797,904	$ 11,963,181
Spending authority from offsetting collections	(1,361,154)	(1,203,063)
Change in Unfilled Customer Orders	52,966	(58,516)
Downward Adjustments of Obligations	(211,230)	(199,264)
Offsetting Receipts	179,387	25,925
Net Obligations	8,457,873	10,528,263
Other resources used to finance activities	19,431	21,857
Resources Used to Finance Activities	8,477,304	10,550,120
Resources Used to Finance items not part of net cost of operations	367,369	(1,389,933)
Total Resources Used to Finance Net Cost of Operations	8,844,673	9,160,187
Components of the Net Cost of Operations:		
Components of Net Cost of Operations that will require or generate resources in future periods	37,211	47,009
Components of Net Cost of Operations that will not require or generate resources	39,423	88,698
Net Cost of Operations	$ 8,921,307	$ 9,295,894

STATEMENT OF BUDGETARY RESOURCES

REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES

For the period ended September 30, 2008

(In Thousands)

	Operating	Program						Credit-Financing	Other	Parent Fund	Consolidated Total
	1000	1010	1021	1035	1037	1093	1095				
Budgetary Resources:											
Unobligated Balance, Brought Forward, October 1	$ 67,428	$262,107	$ 305,004	$128,558	$1,552,330	$148,358	$131,693	$1,582,317	$535,656	$140,678	$4,854,129
Recoveries of Prior Year Unpaid Obligations	22,955	4,467	19,505	6,896	56,994	5,214	16,171	2	21,943	57,083	211,230
Budget Authority:											
Appropriation	806,300	295,950	1,636,881	672,350	5,382,324	399,735	-	-	285,101	-	9,478,641
Borrowing Authority	-	-	-	-	-	-	-	3,313	-	-	3,313
Spending Authority from Offsetting Collections:											
Earned:											
Collected	7,034	9	527	146	7,993	-	4,419	197,609	1,141,770	1,647	1,361,154
Change in Unfilled Customer Orders:											
Without Advance from Federal Sources	2,268	-	2,065	(67)	-	-	-	-	(57,232)	-	(52,966)
Subtotal	815,602	295,959	1,639,473	672,429	5,390,317	399,735	4,419	200,922	1,369,639	1,647	10,790,142
Nonexpenditure Transfers, Net, Anticipated and Actual	10,944	(64,352)	(13,514)	1,251	(776,164)	21,919	-	-	404,333	770,135	354,552
Permanently Not Available	(6,006)	(4,715)	(14,226)	(4,844)	(157,664)	(9,157)	-	-	(696,651)	(131)	(893,394)
Total Budgetary Resources	$910,923	$493,466	$1,936,242	$804,290	$6,065,813	$566,069	$152,283	$1,783,241	$1,634,920	$969,412	$15,316,659
Status of Budgetary Resources:											
Obligations Incurred:											
Direct	736,202	306,035	1,598,065	589,045	4,275,973	307,911	116,377	166,533	647,252	725,881	9,469,274
Reimbursible	9,303	9	2,591	79	7,993	-	4,419	18	304,018	200	328,630
Subtotal	745,505	306,044	1,600,656	589,124	4,283,966	307,911	120,796	166,551	951,270	726,081	9,797,904
Unobligated Balance:											
Apportioned	63,854	85,706	351,006	152,188	1,328,672	202,807	-	7,599	112,966	222,926	2,527,724
Subtotal	63,854	85,706	351,006	152,188	1,328,672	202,807	-	7,599	112,966	222,926	2,527,724
Unobligated Balance Not Available	101,564	101,716	(15,420)	62,978	453,175	55,351	31,487	1,609,091	570,684	20,405	2,991,031
Total, Status of Budgetary Resources	$910,923	$493,466	$1,936,242	$804,290	$6,065,813	$566,069	$152,283	$1,783,241	$1,634,920	$969,412	$15,316,659

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REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF BUDGETARY RESOURCES *(continued)*

For the period ended September 30, 2008

(In Thousands)

	Operating	Program						Credit-Financing	Other	Parent Fund	Consolidated Total
	1000	1010	1021	1035	1037	1093	1095				
Change in Obligated Balance:											
Obligated Balance, Net											
Unpaid Obligations, Brought Forward, October 1	$230,425	$275,883	$2,575,674	$559,100	$5,373,288	$427,618	$2,705,983	$28,669	$749,204	$1,395,308	$14,321,152
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(275)	-	(107)	(244)	-	-	(994)	-	(72,854)	(536)	(75,010)
Total Unpaid Obligated Balance, Net	230,150	275,883	2,575,567	558,856	5,373,288	427,618	2,704,989	28,669	676,350	1,394,772	14,246,142
Obligations Incurred Net (+/-)	745,505	306,044	1,600,655	589,124	4,283,966	307,910	120,796	166,552	951,270	726,082	9,797,904
Less: Gross Outlays	(688,719)	(243,405)	(1,367,487)	(459,223)	(3,282,189)	(353,503)	(1,702,112)	(195,914)	(967,328)	(923,063)	(10,182,943)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(22,956)	(4,467)	(19,505)	(6,896)	(56,994)	(5,214)	(16,171)	(2)	(21,942)	(57,083)	(211,230)
Change in Uncollected Customer Payments from Federal Sources (+/-)	(2,268)	-	(2,065)	67	-	-	-	-	57,232	-	52,966
Obligated Balance, Net, End of Period											
Unpaid Obligations	264,255	334,055	2,789,337	682,106	6,318,071	376,811	1,108,496	(695)	711,204	1,141,244	13,724,884
Less: Uncollected Customer Payments from Federal Sources	(2,543)	-	(2,172)	(178)	-	-	(994)	-	(15,622)	(536)	(22,044)
Total, Unpaid Obligated Balance, Net, End of Period	261,712	334,055	2,787,165	681,928	6,318,071	376,811	1,107,502	(695)	695,582	1,140,708	13,702,840
Net Outlays:											
Gross Outlays	688,719	243,405	1,367,487	459,223	3,282,189	353,503	1,702,111	195,914	967,328	923,063	10,182,942
Less: Offsetting Receipts	(7,034)	(9)	(527)	(146)	(7,993)	-	(4,419)	(197,609)	(1,141,770)	(1,647)	(1,361,154)
Less: Distributed Offsetting Receipts	-	-	-	-	-	-	-	-	(179,387)	-	(179,387)
Net Outlays	$681,685	$243,396	$1,366,960	$459,077	$3,274,196	$353,503	$1,697,692	$(1,695)	$(353,829)	$922,863	$8,642,401

MAJOR FUNDS

Operating Funds

1000 Operating Expenses of USAID

Program Funds

1010 Special Assistance Initiatives
1021 Development Assistance
1035 International Disaster Assistance
1037 Economic Support Fund
1093 Assistance for the N.I.S. of the Former Soviet Union
1095 Child Survival and Disease Programs Funds

CREDIT FINANCING FUNDS

4119 Israel Guarantee Financing Fund
4137 Direct Loan Financing Fund
4266 DCA Financing Fund
4342 MSED Direct Loan Financing Fund
4343 MSED Guarantee Financing Fund
4344 UE Financing Fund
4345 Ukraine Financing Fund
4491 Egypt Guarantee Financial Fund

OTHER FUNDS

Operating Funds

0300 Capital Investment Fund (CIF)
1007 Operating Expenses of USAID Inspector General
1036 Foreign Service Retirement and Disability Fund

Program Funds

1012 Sahel Development Program
1014 Africa Development Assistance
1023 Food and Nutrition Development Assistance
1024 Population and Planning & Health Dev. Asst.
1025 Education and Human Resources, Dev. Asst.
1027 Transition Initiatives
1028 Global Fund to Fight HIV / AIDS
1029 Tsunami Relief and Reconstruction Fund
1038 Central American Reconciliation Assistance
1040 Sub-Saharan Africa Disaster Assistance
1096 Latin American/Caribbean Disaster Recovery
1500 Demobilization and Transition Fund

Trust Funds

8342 Foreign Natl. Employees Separation Liability Fund
8502 Tech. Assist. - U.S. Dollars Advance from Foreign
8824 Gifts and Donations

Credit Program Funds

0400 MSED Program Fund
0401 UE Program Fund
0402 Ukraine Program Fund
1264 DCA Program Fund
4103 Economic Assistance Loans - Liquidating Fund
4340 UE Guarantee Liquidating Fund
4341 MSED Direct Loan Liquidating Fund
5318 Israel Admin Expense Fund

Revolving Funds

4175 Property Management Fund
4513 Working Capital Fund
4590 Acquisition of Property, Revolving Fund

ALLOCATIONS TO OTHER AGENCIES

1000 Operating Expenses of USAID
1010 Special Assistance Initiatives
1014 Africa Development Assistance
1021 Development Assistance
1027 Transition Initiatives
1030 New Global Initiatives Fund – 2007 Appropriations Carry Over
1031 New Global Initiatives Fund – Current Funding
1032 Peacekeeping Operations
1035 International Disaster Assistance
1037 Economic Support Fund
1093 Assistance for the N.I.S. of the Former Soviet Union
1095 Child Survival and Disease Programs Funds
1096 International Organizations and Programs
1500 Demobilization and Transition Fund