OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2010 AND 2009

AUDIT REPORT NO. 0-000-11-001-C
November 12, 2010

WASHINGTON, DC

Office of Inspector General

November 12, 2010

MEMORANDUM

TO: David D. Ostermeyer, Chief Financial Officer

FROM: Joseph Farinella, AIG/A /s/

SUBJECT: Audit of USAID's Financial Statements for Fiscal Years 2010 and 2009

The Office of Inspector General (OIG) is transmitting its report on the *Audit of USAID's Financial Statements for Fiscal Years 2010 and 2009*. 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 the Treasury by November 15, 2010. In accordance with fiscal year 2010 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 2010 and 2009. With respect to internal control, we identified one deficiency that we consider to be a material weakness. The material weakness pertains to USAID's process to reconcile 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) process to reconcile loans receivables; (2) accounting for and reporting property, plant, and equipment; and (3) 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 three recommendations to improve USAID's internal control over financial reporting.

We have considered your response to the draft report and the recommendations included therein and have reached management decisions on the recommendations. Please forward all information to your Office of Audit, Planning and Coordination for final action. (*See Appendix II for USAID's Management Comments).*

We appreciate the cooperation and courtesies extended to us during the audit. The OIG is looking forward to working with you on our audit of the fiscal year 2011 financial statements.

CONTENTS

SUMMARY OF RESULTS

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, 2010, and 2009; and its net cost, net position, and budgetary resources for the years then ended, in conformity with generally accepted accounting principles.

This audit identified one deficiency in internal control that the audit team considered to be a material weakness, related to USAID's process to reconcile its Fund Balance with the U.S. Treasury. The audit also identified three deficiencies in internal control that the audit team considered to be significant deficiencies, related to the following aspects of USAID's financial management process to:

- Reconcile loans receivable
- Account for property, plant, and equipment
- Reconcile intragovernmental transactions

This audit identified 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 the tests required by Section 803(a) of the Federal Financial Management Improvement Act of 1996, Public Law 104-208.

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, 2010, USAID reported total budgetary resources of approximately $25 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 annually. Pursuant to this act, for fiscal year (FY) 2010, USAID has prepared the following:

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

AUDIT OBJECTIVE

The Office of Inspector General (OIG) performed these audits to answer the following question:

- 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 2010 and 2009?

In our opinion, the financial statements referred to above present fairly, in all material respects and in conformity with accounting principles generally accepted in the United States of America, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2010, and 2009, and for the years then ended.

In accordance with *Government Auditing Standards*, the OIG has also issued reports, dated November 12, 2010, on its consideration of USAID's internal control over financial reporting and on its 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 the independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON USAID'S FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of USAID as of September 30, 2010, and 2009, 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, 2010, and 2009. These financial statements are the responsibility of USAID's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 07-04 require that we plan and perform the audits 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 these 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 accounting principles generally accepted the United States of America, USAID's assets, liabilities, and net position; net costs; changes in net position; and budgetary resources as of September 30, 2010, and 2009, and for the years then ended.

Management's Discussion and Analysis and Required Supplementary Information sections are not required parts 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 12, 2010, 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.

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.

Office of Inspector General

USAID, Office of Inspector General
November 12, 2010

REPORT ON INTERNAL CONTROL

We have audited the consolidated balance sheets of USAID as of September 30, 2010, and 2009. 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, 2010, and 2009, and have issued our report thereon dated November 12, 2010. 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 Office of Management and Budget (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, 2010 and 2009, we considered USAID's internal control over financial reporting by obtaining an understanding of USAID's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on internal control. Accordingly, we do not express an opinion on 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 material weaknesses or significant deficiencies. 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 deficiency or a combination of deficiencies in internal control that presents a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We identified one deficiency in internal control that we consider to be a material weakness, as defined above, relating to USAID's reconciliation of its Fund Balance with the U.S. Treasury.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet is important enough to merit attention by those charged with governance. We consider the following deficiencies to be significant deficiencies in USAID's internal control:

- USAID's process to reconcile loans receivable is not effective and does not resolve differences in a timely manner.
- USAID's process to account for and accurately report property, plant, and

equipment is not effective.
- USAID's intragovernmental transactions remain unreconciled.

Management's Discussion and Analysis and Required Supplementary Information sections are not required parts 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's management in a separate letter dated November 15, 2010.

Material Weakness

USAID Does Not Reconcile Its Fund Balance with Treasury Account with the U.S. Treasury and Resolve Reconciling Items in a Timely Manner (*Repeat Finding*)

USAID continues to have large unreconciled differences between the Fund Balance with Treasury account recorded in its financial accounting system (Phoenix) and the Fund Balance reported by the U.S. Department of the Treasury (Treasury). As of September 30, 2010, these differences totaled approximately $64 million net ($894 million absolute value). USAID recorded adjustments of $64 million at the end of fiscal year (FY) 2010 to ensure that the Fund Balance with Treasury account agreed with the balance reported on Treasury's Form 2108, Year End Closing Statement. These differences persist because USAID and its missions did not consistently perform monthly reconciliations of its Fund Balance with Treasury account and research and resolve reconciling items in accordance with Treasury Financial Manual (TFM) Volume 1, Part 2-5100. In addition, Treasury frequently recorded payments made by the Department of Health and Human Services (HHS), on behalf of USAID, in appropriations that were different than the appropriations in which USAID recorded the identical payments. This occurred because USAID did not provide an updated appropriations crosswalk to HHS in a timely manner.

Additionally, our audit revealed that USAID recorded transactions that could not be readily identified in its suspense accounts, but did not research and resolve these items within the 60 days requirement established by Treasury. USAID acknowledged that it did not meet this requirement in its annual certification to Treasury for the period ending September 30, 2010, and committed to do so by the end of FY 2011. During FY 2010, USAID directed its efforts at improving its newly developed fund balance reconciliation tool[1] to ensure that the information uploaded to the reconciliation tool was accurate. Since the implementation of the reconciliation tool, USAID has made some progress to identify, track, and reconcile differences between Phoenix and Treasury and to research and properly record transactions that were previously recorded in its suspense accounts.

[1] The Cash Reconciliation Tool captures and compiles information on disbursements and collections as reflected in Phoenix, and as reported by Treasury. The tool offsets matched items against each other, suggests other items for matching, provides a window for free search and match, and produces consolidated monthly and cumulative cash reconciliation reports.

Treasury's reconciliation procedures state that an agency may not arbitrarily adjust its Fund Balance with Treasury account, and may do so only after clearly establishing the causes for any errors and properly correcting those errors. USAID Chief Financial Officer (CFO) Bulletin 06-1001, *Reconciliations with U.S. Treasury*, requires USAID to perform timely monthly reconciliations with Treasury and requires a certification that reconciliations have been performed in accordance with TFM Volume 1, Part 2-5100. TFM Volume I, Bulletin No. 2007-07, *Suspense "F" Account Discontinuance and Waiver Policy*, states that, effective February 28, 2009, all suspense accounts must have balances no more than 60 days old for agencies with approved waivers.

In our prior year's audit,[2] we recommended that USAID CFO intensify its efforts to reconcile monthly transactions with Treasury and identify, track, and resolve legacy differences recorded in the suspense accounts and in other appropriation accounts. We recognize that this will be an ongoing effort, and will continue to monitor USAID's progress during future audits. Therefore, we are making the following recommendation:

> *Recommendation No 1: We recommend that the Chief Financial Officer (a) provide changes in its crosswalk to the Department of Health and Human Services in a timely manner to ensure that the Department of Health and Human Services charges all third-party transactions to appropriate appropriations; and (b) research and resolve all suspense items within the time stipulated by Treasury.*

Significant Deficiencies

USAID's Process to Reconcile Loans Receivable Is Not Effective and Does Not Resolve Differences in a Timely Manner *(Repeat Finding)*

During our audit of the Loans Receivable account, we noted that USAID continues to have large unreconciled differences between amounts recorded in its general ledger (Phoenix) and amounts recorded in the financial accounting system of its loan services provider. USAID has contracted with Midland Loan Services, a subsidiary of PNC Financial Services Group, Inc., to service its loan portfolio and to maintain accurate loan balances. Midland processes USAID's loan transactions in its Enterprise Loan System (ELS) and generates a monthly report of loan transactions that is uploaded into Phoenix through an interface to ensure that the ELS information agrees with the Phoenix information. This interface is necessary to record accounting information in Phoenix for the loans that are recorded and maintained in Midland's ELS. Our audit identified approximately $44 million in USAID's loan transactions that were not accurately recorded in the Phoenix accounting system.

Although USAID has made improvements in investigating and resolving these differences, large unreconciled differences between the two systems still exist. These differences persist because USAID continues to rely on loan data from borrowers that have not been reconciled since Midland took over the loan servicing functions in 1999

[2] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008* (November 13, 2009), p. 9. http://www.usaid.gov/oig/public/fy10rpts/0-000-10-001-c.pdf.

and also, some transactions recorded in ELS are not captured by Phoenix during the interface process. In addition, differences result from posting errors due to timing differences in debt restructurings and inadequate documentation to identify the transactions that may require adjustments before they are recorded in Phoenix. USAID recorded an adjustment of $44 million to bring Phoenix into agreement with the ELS.

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 the accounting period. Statements of Federal Financial Accounting Standards, Technical Release Number 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*, requires that the Agency maintain an audit trail from individual transactions in the subsidiary ledger to the general ledger.

In our prior year's audit,[3] we recommended that USAID's CFO develop and implement procedures to conduct a thorough reconciliation of the outstanding loan balances maintained in its accounting system with those maintained by Midland and those reported by borrowers. USAID's CFO has developed and implemented procedures but has not yet completed a thorough reconciliation. Because USAID continues to have large unreconciled differences between its Phoenix accounting system and the Midland ELS, we are making the following recommendation:

Recommendation No. 2: We recommend that the Chief Financial Officer (a) intensify efforts to reconcile loan balances with Midland's ELS, (b) ensure that all transactions transmitted to Phoenix via the interface are properly posted to Phoenix, and (c) complete debt restructuring reconciliations within 90 days after Midland records debt restructurings in ELS.

USAID's Process to Account for and Accurately Report Property, Plant, and Equipment Is Not Effective

USAID does not maintain an accurate listing of Property, Plant, and Equipment (PP&E), nor adequate documentation to support PP&E recorded in its general ledger. During our audit of PP&E we found that USAID does not maintain accurate general ledger account balances for the PP&E reported in its financial statements. Specifically, our audit revealed that of 78 items that were tested to determine their value, 41 did not have adequate documentation to support the value recorded in the general ledger. In addition, of 73 items that were tested to determine their status, 40 did not have adequate documentation to demonstrate whether they were in use, disposed of, missing, or damaged. Also, some PP&E items were assigned to one geographic location but the records reflected another location while some items could not be located. Additionally, several items that were previously disposed of were included on USAID's current capitalized asset listing. For example, three assets valued at $166,200 were sold or destroyed but remained on USAID's PP&E records.

Our audit of USAID's PP&E account balances also disclosed that the general ledger account balances were not periodically analyzed and agreed to the PP&E listing. We

[3] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008*, p. 9, November 13, 2009, http://www.usaid.gov/oig/public/fy10rpts/0-000-10-001-c.pdf.

also found that USAID lacked procedures to perform and document its annual reconciliation of the PP&E account balances recorded by its Financial Management Division with those reported by its Overseas Management Division. These conditions occurred because USAID does not (1) follow its established policies and procedures to ensure that complete supporting documentation is maintained for PP&E items recorded in its general ledger, (2) reconcile its PP&E account balances on an annual basis to ensure that the related assets accounted for by its Financial Management Division corresponds to the asset information maintained by its Overseas Management Division, and (3) review its PP&E listing to ensure that all additions and dispositions are accounted for accurately and in a timely manner.

OMB Circular A-123, *Management's Responsibility for Internal Controls*, dated December 31, 2004 states that the reliability of financial reporting requires management to provide the assertion that documentation exist for all transactions and other significant events and is readily available for examination. Additionally, OMB A-136, *Financial Reporting Requirements*, dated September 29, 2010, states that periodic analyses, reconciliations, or comparisons of data should be included as a part of the regular duties of financial management offices. Because of the internal control deficiencies noted above, we are making the following recommendation:

> *Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that (a) adequate supporting documentation is maintained for all purchases, transfers, and dispositions of property, plant, and equipment; (b) communication between USAID's Overseas Management Division and Financial Management Division is maintained to ensure that all the equipment are reconciled annually; and (c) disposed property and equipment are removed from its financial records in a timely manner.*

Intragovernmental Transactions Remain Unreconciled
(Repeat Finding)

USAID continues to have a large number of intragovernmental transactions that have not been reconciled. As of September 30, 2009, the U.S. Treasury (Treasury) reported a net difference of $2.9 billion in intragovernmental transactions between USAID and other Federal agencies. Of this amount, USAID was required to reconcile $124 million in accordance with OMB Circular A-136, *Financial Reporting Requirements*, and Treasury's *Federal Intragovernmental Transactions Accounting Policies Guide, section 17.1*. These differences, which are reported by Treasury each quarter in the Material Differences/Status of Disposition Certification Report,[4] represent differences identified by Treasury between USAID's records and those of its Federal trading partners that exceed $50 million or the assurance threshold that is determined by Treasury. In its third and fourth quarter material difference reports, Treasury reported some differences greater than $50 million totaling approximately $124 million. Although USAID has increased its efforts to resolve unreconciled amounts, significant differences still exist, including the $124 million that should have been reconciled with four different Federal agencies. These differences occurred because USAID's trading partners recorded the transactions in different accounting periods or used different accounting methodologies.

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[4] The Material Differences/Status Disposition Certification Report allows agencies to identify differences with trading partners by reciprocal categories that are greater than or equal to a respective reconciliation assurance level.

USAID is continuously researching intragovernmental activity and developing new tools to improve USAID's reconciliation process and eliminate the differences. Although 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.

Although approximately $2.8 billion of the $2.9 billion of net differences reported between USAID and the Treasury general fund are not required to be reconciled, Treasury does suggest that Federal agencies confirm that these differences represent general fund activities. USAID is making an effort to confirm the general fund activity and plans to continue its efforts to collaborate with Treasury to research and reconcile these differences.

We identified similar conditions related to USAID's reconciliation of intragovernmental transactions in a previous audit report[5] 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 differences in future audits.

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.

Office of Inspector General

USAID, Office of Inspector General
November 12, 2010

[5] *Report on the Audit of USAID's Financial Statements for Fiscal Years 2009 and 2008* (November 13, 2009), p. 9. http://www.usaid.gov/oig/public/fy09rpts/0-000-10-001-c.pdf.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the consolidated balance sheets of USAID as of September 30, 2010, and 2009. 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, 2010, and 2009, 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 Office of Management and Budget (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 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 Federal Managers' Financial Integrity Act (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 support a separate assertion on the effectiveness of the internal controls over financial reporting, as a subset of the overall FMFIA report.

In 2010, USAID monitored key business processes and followed up on recommendations made in prior years. For FY 2010, USAID, in its Management Assurance Report to the President and Congress, identified and reported one material weakness concerning a large fund balance difference with the U.S. Department of Treasury, as well as the following significant deficiencies:

- Loans receivable reconciliation
- Advance and pre-payments
- Unliquidated obligations

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. During our tests, nothing came to our attention to cause us to believe that USAID did not substantially comply with the 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
- Reconciliation of loans receivable
- Accounting for property, plant, and equipment
- 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.

Office of Inspector General

USAID, Office of Inspector General
November 12, 2010

EVALUATION OF MANAGEMENT COMMENTS

We have received USAID's management comments on the findings and recommendations included in the draft report. We have evaluated USAID's 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 Chief Financial Officer's (CFO) office accepts the finding and noted that the auditors acknowledged that progress has been made in reconciliation of current transactions with the implementation of the fund balance reconciliation tool. USAID management also commented that the CFO will focus in fiscal year (FY) 2011 on eliminating legacy differences, correcting the Department of Health and Human Services crosswalk, and resolving all items recorded in the suspense accounts within 60 days. The target completion date is September 30, 2011. We have reached a management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2011 Government Management Reform Act (GMRA) audit.

USAID management agreed to implement recommendation no. 2 and promised to continue to work with the service provider to investigate and resolve loan balance differences. USAID management also commented that the CFO will complete new debt restructuring reconciliations within the recommended 90-day timeframe by training additional personnel. USAID management further commented that it will take an estimated 2 years to complete past debt restructuring reconciliations. The target completion date is June 30, 2013. We have reached a management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2011 GMRA audit.

USAID management agreed to implement recommendation no. 3 and commented that it will institute processes to improve the internal control procedures regarding property, plant, and equipment. The target completion date is June 30, 2011. We have reached a management decision on this recommendation and will review USAID's implementation of this recommendation during our FY 2011 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 the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA); 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's (OMB) 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 FMFIA, 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, 2010, and 2009. 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, we considered potential aggregate errors exceeding $330 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 was substantially compliant with section 803(a) of the FFMIA, which requires agencies to report whether their financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. To perform our review, we conducted assessments, with contractor support, of USAID's Phoenix financial management systems updates, its posting models effectiveness, and its budget module postings to the general ledger to determine whether the systems substantially complied with selected mandatory requirements contained in the Financial Systems Integration Office, formerly known as the Joint Financial Management Improvement Program, A*cquisition/Financial Systems Interface Requirements* dated June 2002.

Our review disclosed that USAID implemented a systems upgrade in June 2010 However, this upgrade did not affect USAID's compliance with FFMIA. In addition, we requested and obtained a memorandum from the Office of the Chief Financial Officer certifying that FY 2010 upgrades or changes to the Phoenix accounting system did not result in USAID being substantially noncompliant with FFMIA.

We also evaluated USAID's financial transactions that were recorded in Phoenix to determine if they were compatible with Federal accounting standards and the USSGL at the transaction level, and we did not observe any exceptions. Therefore, we concluded that our review found no instances of substantial noncompliance with any of the three FFMIA section 803(a) requirements.

MANAGEMENT COMMENTS

November 12, 2010

MEMORANDUM

TO: AIG, Joseph Farinella

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

SUBJECT: Management Response to Draft Independent Auditor's Report on USAID's Financial Statements for Fiscal Years 2010 and 2009 (Report No. 0-000-11-001-C)

Thank you for your draft report on the *Audit of USAID's Financial Statements for Fiscal Years 2010 and 2009* and for the professionalism and dedication exhibited by your staff throughout this entire process.

Fiscal Year (FY) 2010 was another significant year for federal financial management at USAID. We are gratified that the USAID Inspector General will issue unqualified opinions on all 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 Weakness: USAID Does Not Reconcile its Fund Balance with Treasury Account with the U.S. Treasury and Resolve Reconciling Items in a Timely Manner (Repeat Finding)

Recommendation No 1: We recommend that the Chief Financial Officer (a) provide changes in its crosswalk to the Department of Health and Human Services in a timely manner to ensure that the Department of Health and Human Services charges all third-party transactions to appropriate appropriations; and (b) research and resolve all suspense items within the time stipulated by Treasury.

Management Decision: We accept the finding and note the auditor's acknowledgement that progress has been made in the reconciliation of current transactions with the implementation of the fund balance reconciliation tool. The CFO will focus on eliminating legacy differences, correcting the HHS crosswalk, and clearing items from the suspense accounts within 60 days.

Target completion date: September 30, 2011

Significant Deficiency: USAID's Process to Reconcile Loans Receivable Is Not Effective and Does Not Resolve Differences in a Timely Manner *(Repeat Finding)*

Recommendation: No. 2: We recommend that the Chief Financial Officer (a) intensify efforts to reconcile loan balances with Midland's ELS; (b) ensure that all transactions transmitted to Phoenix via the interface are properly posted to Phoenix; and (c) complete debt restructuring reconciliations within 90 days after Midland records debt restructurings in ELS.

Management Decision: We agree to implement the recommendation and will continue to work with the service provider to investigate and resolve differences. We will complete new debt restructuring reconciliations within the timeframe described above by training additional personnel, but it will take an estimated two and a half more years to complete past debt restructuring reconciliations.
Target completion date: June 30, 2013

Significant Deficiency: USAID's Process to Account for and Accurately Report Property, Plant, and Equipment Is Not Effective

Recommendation No. 3: We recommend that the Chief Financial Officer develop and implement procedures to ensure that: (a) adequate supporting documentation is maintained for all purchases, transfers, and disposals of property, plant and equipment; (b) communication between USAID's Overseas Management Division and Financial Management Division is maintained to ensure that all the equipment are reconciled annually; and (c) disposed property and equipment is removed from its financial records in a timely manner.

Management Decision: We agree to implement the recommendation. We will institute processes to improve the internal control procedures regarding property, plant and equipment.

Target completion date: June 30, 2011

Significant Deficiency: Intragovernmental Transactions Remain Unreconciled (Repeat Finding)

There are no recommendations associated with this significant deficiency. The CFO has implemented corrective actions related to audit recommendations issued under the GMRA audit reports for FYs 2005-2009. 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 hard to develop and implement long-term solutions to address the issues cited in your report.

STATUS OF PRIOR YEARS 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 2009 Findings and Recommendations

Recommendation No. 1: We recommend that USAID's Chief Financial Officer intensify efforts to reconcile current monthly transactions with Treasury and identify, track, and resolve legacy differences recorded in the suspense accounts and in other appropriation accounts.

Status: The Chief Financial Officer (CFO) noted that USAID will focus in FY 2010 on eliminating legacy differences caused by transactions made by third-party payment service providers on USAID's behalf. Target completion date: September 30, 2011.

Recommendation No. 2: We recommend that USAID Chief Financial Officer develop and implement procedures to conduct a thorough reconciliation of the outstanding loan balances maintained in its accounting system with those maintained by Midland and those reported by the borrowers.

Status: The Chief Financial Officer noted that USAID will make significant progress in investigating and resolving differences. Target completion date of September 30, 2010 has been achieved.

Recommendation No. 3: We recommend that the Chief Financial Officer rectify the flaw in the financial accounting system script to ensure that payments made for amounts accrued are applied to the related contract or task order accruals before quarterly accruals are recorded against the original contract obligation in the accounting system.

Status: The Chief Financial Officer noted that its contractor for Phoenix, CGI, has begun to develop a modification to the payment adjustment script that will eliminate this weakness. He noted that the current plan is to have the enhanced script included with the Momentum 6.3.1 release in June 2010. Therefore, the FY 2010 Q3 accruals will be adjusted completely and accurately for all payments made during the accrual cycle. Target completion was achieved on August 12, 2010.

Status of 2008 Findings and Recommendations

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.

Status: The Chief Financial Officer (CFO) noted that USAID will need additional resources to implement this recommendation. USAID implemented a process that documents its reconciliations, and identifies and tracks all differences for the headquarters paying location until they are resolved. USAID has made progress in this area but large differences still remain. USAID has established the Cash Reconciliation Team to strengthen USAID's reconciliation process and the Data Integrity Team to investigate and resolve the cash balance differences that have arisen from past transactions. Target completion date of September 30, 2010, has been achieved.

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.

Status: USAID has made progress in investigating and resolving differences but large differences remain. Target completion date of September 30, 2009, has been achieved.

Status of 2005 Findings and Recommendations

In FY 2005 audit report, the OIG recommended that USAID's Chief Financial Officer directs the Financial Management Office to conduct quarterly intragovernmental reconciliations of activity and balances with its trading partners in accordance with the requirements of the Federal Intragovernmental Transactions Accounting Policies Guide, issued by the Department of Treasury's Financial Management Service.

Status: USAID has implemented this recommendation but significant differences still remain. However, USAID is continuously researching intragovernmental activity and developing new tools in order to improve its reconciliation process and eliminate the differences.

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

As of September 30, 2010 and 2009 (In Thousands)

	2010	2009
ASSETS:		
Intragovernmental:		
Fund Balance with Treasury (Notes 2 and 15)	$ 27,221,485	$ 21,437,709
Accounts Receivable (Note 3)	220	220
Other Assets (Note 4)	67,653	12,014
Total Intragovernmental	27,289,358	21,449,943
Cash and Other Monetary Assets (Note 5)	265,375	322,851
Accounts Receivable, Net (Note 3)	121,101	84,654
Direct Loans and Loan Guarantees, Net (Note 6)	3,472,065	3,762,680
Inventory and Related Property, Net (Note 7)	16,394	22,711
General Property, Plant, and Equipment, Net (Notes 8 and 9)	117,056	117,794
Advances (Note 4)	789,121	377,803
Total Assets	**$ 32,070,470**	**$ 26,138,436**
LIABILITIES:		
Intragovernmental:		
Accounts Payable (Notes 10 and 15)	$ 37,773	$ 2,552
Debt (Note 11)	478,280	477,381
Liability for Capital Transfers to the General Fund of the Treasury (Note 11)	3,202,384	3,468,201
Other Liabilities (Note 12)	667,713	67,735
Total Intragovernmental	4,386,150	4,015,869
Accounts Payable (Note 10)	2,075,047	1,834,079
Loan Guarantee Liability (Note 6)	2,265,591	2,283,273
Federal Employee and Veteran's Benefits (Note 13)	26,035	26,885
Other Liabilities (Notes 10, 12, and 13)	435,789	507,155
Total Liabilities	**9,188,612**	**8,667,261**
Commitments and Contingencies (Note 14)	–	1,310
NET POSITION:		
Unexpended Appropriations	21,108,712	16,464,124
Cumulative Results of Operations	1,773,146	1,005,741
Total Net Position (Note 15)	**$ 22,881,858**	**$ 17,469,865**
Total Liabilities and Net Position	**$ 32,070,470**	**$ 26,138,436**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2010 and 2009
(In Thousands)

OBJECTIVES	2010	2009
Peace and Security:		
Gross Costs	$ 1,079,389	$ 983,269
Less: Earned Revenue	(6,895)	(3,631)
Net Program Costs	1,072,494	979,638
Governing Justly and Democratically:		
Gross Costs	1,792,493	1,759,735
Less: Earned Revenue	(24,286)	(5,969)
Net Program Costs	1,768,207	1,753,766
Investing in People:		
Gross Costs	3,162,339	3,466,346
Less: Earned Revenue	(313,925)	(408,333)
Net Program Costs	2,848,414	3,058,013
Economic Growth:		
Gross Costs	2,913,573	4,418,757
Less: Earned Revenue	(203,394)	(794,252)
Net Program Costs	2,710,179	3,624,505
Humanitarian Assistance:		
Gross Costs	1,637,038	1,460,372
Less: Earned Revenue	(7,951)	(4,718)
Net Program Costs	1,629,087	1,455,654
Operating Unit Management:		
Gross Costs	381,361	145,198
Less: Earned Revenue	(3,446)	(1,023)
Net Program Costs	377,915	144,175
Net Cost of Operations (Notes 16 and 17)	**$ 10,406,296**	**$ 11,015,751**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2010 and 2009
(In Thousands)

	2010 Consolidated Total	2009 Consolidated Total
Cumulative Results of Operations:		
Beginning Balances	$ 1,005,741	$ 1,002,391
Beginning Balances, as Adjusted	1,005,741	1,002,391
Budgetary Financing Sources:		
Appropriations Used	11,080,790	10,796,496
Donations and Forfeitures of Cash and Cash Equivalents	83,066	76,897
Transfers-in/out without Reimbursement	10	132,445
Other Financing Sources (Non-Exchange):		
Imputed Financing	9,835	13,263
Total Financing Sources	11,173,701	11,019,101
Net Cost of Operations	(10,406,296)	(11,015,751)
Net Change	767,405	3,350
Cumulative Results of Operations:	1,773,146	1,005,741
Unexpended Appropriations:		
Beginning Balance	16,464,124	14,982,084
Beginning Balance, as Adjusted	16,464,124	14,982,084
Budgetary Financing Sources:		
Appropriations Received	15,786,352	12,187,744
Appropriations Transferred in/out	94,900	121,792
Other Adjustments	(155,874)	(31,000)
Appropriations Used	(11,080,790)	(10,796,496)
Total Budgetary Financing Sources	4,644,588	1,482,040
Total Unexpended Appropriations	21,108,712	16,464,124
Net Position	**$ 22,881,858**	**$ 17,469,865**

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2010 and 2009
(In Thousands)

	2010		2009	
	Budgetary	Non-Budgetary Credit Reform	Budgetary	Non-Budgetary Credit Reform
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 5,360,402	$ 1,643,447	$ 3,908,007	$ 1,616,689
Recoveries of Prior Year Unpaid Obligations	676,857	–	391,919	28
Budget Authority:				
Appropriations	15,855,309	–	12,263,857	1
Borrowing Authority (Note 11)	–	900	–	13
Spending Authority from Offsetting Collections:				
Earned:				
Collected	706,108	800,209	1,020,840	216,823
Change in Receivables from Federal Sources	(174)	–	(2,703)	–
Change in Unfilled Customer Orders:				
Advance Received	460,853	–	–	–
Without Advance from Federal Sources	(2,633)	–	8,373	(35)
Subtotal	17,019,463	801,109	13,290,367	216,802
Nonexpenditure Transfers, Net, Anticipated and Actual	(109,472)	(54)	154,587	–
Permanently Not Available	(434,727)	–	(616,512)	–
Total Budgetary Resources	**$ 22,512,523**	**$ 2,444,502**	**$ 17,128,368**	**$ 1,833,519**
Status of Budgetary Resources:				
Obligations Incurred (Note 18):				
Direct	$ 15,431,921	$ 59,921	$ 11,323,163	$ 190,089
Reimbursable	183,041	–	444,804	(18)
Subtotal	15,614,962	59,921	11,767,967	190,071
Unobligated Balance:				
Apportioned (Note 2)	6,013,474	30,939	4,148,492	3,514
Subtotal	6,013,474	30,939	4,148,492	3,514
Unobligated Balance Not Available (Note 2)	884,087	2,353,642	1,211,909	1,639,934
Total Status of Budgetary Resources (Note 18)	**$ 22,512,523**	**$ 2,444,502**	**$ 17,128,368**	**$ 1,833,519**

(continued on next page)

COMBINED STATEMENT OF BUDGETARY RESOURCES *(continued)*

For the Years Ended September 30, 2010 and 2009
(In Thousands)

	2010		2009	
	Budgetary	**Non-Budgetary Credit Reform**	**Budgetary**	**Non-Budgetary Credit Reform**
Change in Obligated Balance:				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$ 14,422,096	$ (640)	$ 13,725,579	$ (695)
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(27,714)	35	(22,044)	–
Total Unpaid Obligated Balance, Net (Note 18)	14,394,382	(605)	13,703,535	(695)
Obligations Incurred Net (+/-)	15,614,962	59,921	11,767,967	190,071
Less: Gross Outlays	(11,435,590)	(62,033)	(10,679,531)	(189,988)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(676,857)	–	(391,919)	(28)
Change in Uncollected Customer Payments from Federal Sources (+/-)	2,806	–	(5,670)	35
Obligated Balance, Net, End of Period				
Unpaid Obligations	17,924,611	(2,751)	14,422,096	(640)
Less: Uncollected Customer Payments from Federal Sources	(24,908)	34	(27,714)	35
Total, Unpaid Obligated Balance, Net, End of Period	$ 17,899,703	$ (2,717)	14,394,382	(605)
Net Outlays:				
Gross Outlays	11,435,590	62,033	10,679,531	189,988
Less: Offsetting Receipts	(1,166,959)	(800,209)	(1,020,840)	(216,823)
Less: Distributed Offsetting Receipts (Note 18)	71,742	–	(182,729)	–
Net Outlays	**$10,340,373**	**$ (738,176)**	**$ 9,475,962**	**$ (26,835)**

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 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*.

USAID accounting policies follow generally accepted accounting principles (GAAP) 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 setting authority 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.

American Recovery and Reinvestment Act

Recovery Act funds are for immediate information technology security and upgrades to support mission-critical operations. Due to Agency IT priorities and to maximize job creation with the Recovery Act funds, USAID determined that the funding should be dedicated to the Global Acquisition and Assistance System (GLAAS) project.

Programs

The statements present the financial activity of various programs and accounts managed by USAID. The programs include Assistance for Europe, Eurasia, and Central Asia; Civilian Stabilization Initiative; Capital Investment Fund; Economic Support Fund; Development Assistance; International Disaster Assistance; Global Health and Child Survival; Complex Crisis Fund; Transition Initiatives; and Direct and Guaranteed Loan Programs. This classification is consistent with the Budget of the United States.

Assistance for Europe, Eurasia, and Central Asia

Funds appropriated under this heading are considered to be economic assistance under the Foreign Assistance Act of 1961. These funds are available for the Southern Caucasus region and may be used for confidence-building measures and other activities in furtherance of the peaceful resolution of conflicts, to include conflicts in Nagorno-Karabagh.

This account provides funds for a program of assistance to the independent states that emerged from the former Soviet Union. These funds support the 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. Funds appropriated in prior years under the headings "Independent States of the Former Soviet Union" and "Assistance for Eastern Europe and the Baltic States" have been made available under the heading of Assistance for Europe, Eurasia, and Central Asia since FY 2009.

Civilian Stabilization Initiative

This fund provides support for the necessary expenses needed to establish, support, maintain, mobilize, and deploy a civilian response corps in coordination with the USAID. This fund is also used for related reconstruction and stabilization assistance to prevent or respond to conflict or civil strife in foreign countries or regions, or to enable transition from such strife.

Capital Investment Fund

This fund provides for the necessary expenses for overseas construction and related costs, and for the procurement and enhancement of information technology and related capital investments. Specifically, this fund provides assistance in supporting the GLAAS system.

Economic Support Fund

The Economic Support Fund (ESF) supports U. S. foreign policy objectives by providing economic assistance to allies and countries in transition to democracy. Programs funded through this account 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, opportunity, 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.

International Disaster Assistance

Funds for the International Disaster Assistance Program provide relief, rehabilitation, and reconstruction assistance to foreign countries struck by disasters such as famine, floods, hurricanes and earthquakes. The program also provides assistance in disaster preparedness, and prevention and mitigation; providing emergency commodities and services for immediate healthcare and nutrition. Additionally, this fund supports the capability to provide timely emergency response to disasters worldwide.

Global Health and Child Survival

This fund 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.

Complex Crisis Fund

This fund provides for necessary expenses to carry out the provisions of the Foreign Assistance Act of 1961 to enable USAID to support programs and activities to prevent or respond to emerging or unforeseen complex crises overseas.

Transition Initiatives

This fund provides for humanitarian programs that provide post-conflict assistance to victims of both natural and man-made disasters. This program supports U.S. foreign policy objectives by helping local partners advance peace and democracy in priority countries in crisis. Seizing critical windows of opportunity, the Office of Transition Initiatives (OTI) works on the ground to provide fast, flexible, short-term assistance targeted at key political transition and stabilization needs.

Direct and Guaranteed Loans

- ***Direct Loan Program***

  These loans are authorized under the Foreign Assistance Act, 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 authorized the Israeli Loan Guarantee Program in Section 226 of the Foreign Assistance Act to support the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. Under this program, the U.S. Government guaranteed the repayment of up to $10 billion in loans from commercial sources. Borrowing was completed under the program during FY 1999, with approximately $9.2 billion being guaranteed, of which $7.8 billion is currently outstanding. Guarantees were made by USAID on behalf of the U.S Government.

In FY 2003, Congress authorized a second Israeli Loan Guarantee Program of up to $9.0 billion to support Israel's comprehensive economic program to overcome economic difficulties and create conditions for higher and sustainable growth. $4.1 billion has been borrowed under this program, of which the entire $4.1 billion is currently outstanding.

- ***Development Credit Authority***

  The first obligations for USAID's Development Credit Authority (DCA) were made in FY 1999. The 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. The 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 of 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 a special fund, revolving funds, trust funds, deposit funds, a 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) amounts 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 for 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.

The "Consolidated Appropriations Act, 2010" signed into law as P.L. 111-117 provides to USAID extended authority to obligate funds. USAID's appropriations have consistently provided essentially similar authority. It is commonly known as "511/517" authority, a name that is based on references to the previous appropriations acts. Under this authority funds shall remain available for obligation for an extended period if such funds are initially 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 (CCC), the Executive Office of the President, the Department of State, and Millennium Challenge Corporation (MCC).

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 are 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 based on a historical analysis of collectability.

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 United States 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 $25,000 or greater and a useful life of two years or more. Acquisitions that do not meet these criteria are recorded as operating expenses. Assets are capitalized at historical cost, depending on when the asset was put into production and depreciated using the straight-line method (mid-year and mid-quarter). 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 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. Footnote 6 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 (i) expenses and losses and (ii) 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, 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 Credit Reform 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. Per OMB guidance, child transfer activities are to be included and parent transfer activities are to be excluded in trial balances. 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, 2010 and 2009 consisted of the following:

FUND BALANCE WITH TREASURY

(In Thousands)

Fund Balance	2010	2009
Trust Funds	$ 83,825	$ 50,238
Revolving Funds	5,245,751	4,328,092
Appropriated Funds	21,936,849	16,927,098
Other Funds	(44,940)	132,281
Total	$ 27,221,485	$ 21,437,709

Status of Fund Balance with Treasury	2010	2009
Unobligated Balance		
Available	$ 6,044,413	$ 4,152,006
Unavailable	3,237,729	2,851,843
Obligated and Other Balances Not Yet Disbursed (Net)	17,939,343	14,433,860
Total	$ 27,221,485	$ 21,437,709

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 Combined Statement of Budgetary Resources. The total available unobligated balance includes expired funds which are available for upward adjustments, however they are not available to incur new obligations. In the Combined Statement of Budgetary Resources the expired fund balance is included in Unobligated Balances Not Available.

The FY 2010 Fund Balance with Treasury in the "Other" category is reported as $44.9M abnormal (credit balance). This abnormal balance is due to transactions posted into Suspense accounts that were not applied to the applicable appropriations as of the end of the accounting period. Once all transactions are cleared from the Suspense accounts, this category will have a net zero balance.

NOTE 3. ACCOUNTS RECEIVABLE, NET

The primary components of USAID's accounts receivable as of September 30, 2010 and 2009 are as follows:

ACCOUNTS RECEIVABLE, NET *(In Thousands)*	Receivable Gross	Allowance Accounts	Receivable Net 2010	Receivable Net 2009
Intragovernmental				
Appropriation Reimbursements from Federal Agencies	$ 587	$ N/A	$ 587	$ 761
Accounts Receivable from Federal Agencies	73,489	N/A	73,489	616,309
Less Intra-Agency Receivables	(73,856)	N/A	(73,856)	(616,850)
Total Intragovernmental Account Receivables	220	N/A	220	220
Accounts Receivable to the Public	136,882	(15,781)	121,101	84,654
Total Receivables	$ 137,102	$ (15,781)	$ 121,321	$ 84,874

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 overdue advances, unrecovered advances, and audit findings. The allowance for these receivables is calculated based on a historical analysis of collectability. 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, 2010 and 2009 consisted of the following:

ADVANCES *(In Thousands)*	2010	2009
Intragovernmental		
Advances to Federal Agencies	$ 67,653	$ 12,014
Total Intragovernmental	67,653	12,014
Advances to Contractors/Grantees	555,135	310,343
Advances to Host Country Governments and Institutions	231,411	59,136
Advances, Other	2,575	8,324
Total with the Public	789,121	377,803
Total Other Assets	$ 856,774	$ 389,817

FY 2010 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. Advances to Contractors/Grantees are amounts that USAID pays to them to cover their immediate cash needs related to program implementation until they submit expense reports to USAID and USAID records those expenses.

NOTE 5. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets as of September 30, 2010 and 2009 are as follows:

CASH AND OTHER MONETARY ASSETS (In Thousands)		
Cash and Other Monetary Assets	**2010**	**2009**
Imprest Fund-Headquarters	$ 5	$ 5
UE and Micro and Small Enterprise Fund Cash w/Fiscal Agent	50	50
Foreign Currencies	265,320	322,796
Total Cash and Other Monetary Assets	$ 265,375	$ 322,851

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 by the Department of State was $5 thousand in FY 2010 and FY 2009. These imprest funds are not included in USAID's Consolidated Balance Sheet.

Foreign Currencies are related to Foreign Currency Trust Funds and this totaled $265.3 million in FY 2010 and $322.8 million in FY 2009. USAID does not have any non-entity cash or other monetary assets.

NOTE 6. DIRECT LOAN AND LOAN GUARANTEES, NET

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 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)		
	2010	**2009**
Net Direct Loans Obligated Prior to 1992 (Allowance for Loss Method)	$ 3,007,169	$ 3,314,440
Net Direct Loans Obligated After 1991 (Present Value Method)	255,287	288,912
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method)	209,609	159,328
Total Loans Receivable, Net as reported on the Balance Sheet	$ 3,472,065	$ 3,762,680

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, 2010:				
Direct Loans	$ 3,654,136	$ 321,079	$ (968,046)	$ 3,007,169
MSED	29	32	(61)	–
Total	$ 3,654,165	$ 321,111	$ (968,107)	$ 3,007,169
Direct Loans Obligated Prior to 1992 (Allowance for Loss Method) as of September 30, 2009:				
Direct Loans	$ 3,962,336	$ 260,642	$ (908,538)	$ 3,314,440
MSED	29	–	(29)	–
Total	$ 3,962,365	$ 260,642	$ (908,567)	$ 3,314,440

Loan Programs	**Loans Receivables Gross**	**Interest Receivable**	**Allowance for Subsidy Cost (Present Value)**	**Value of Assets Related to Direct Loans, Net**
Direct Loans Obligated After 1991 as of September 30, 2010:				
Direct Loans	$ 985,163	$ 13,518	$ (798,927)	$ 199,754
UE - Subrogated Claims	38,580	5,124	12,012	55,716
MSED	150	(150)	(183)	(183)
Total	$ 1,023,893	$ 18,492	$ (787,098)	$ 255,287
Direct Loans Obligated After 1991 as of September 30, 2009:				
Direct Loans	$ 1,027,918	$ 12,732	$ (800,470)	$ 240,179
UE - Subrogated Claims	40,974	2,461	5,480	48,915
MSED	150	–	(333)	(183)
Total	$ 1,069,042	$ 15,193	$ (795,323)	$ 288,911

TOTAL AMOUNT OF DIRECT LOANS DISBURSED (In Thousands)		
Direct Loan Programs	**2010**	**2009**
Direct Loans	$ 4,639,299	$ 4,991,805
UE - Subrogated Claims	38,580	42,000
MSED	179	179
Total	$ 4,678,058	$ 5,033,984

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

(In Thousands)

	2010				2009			
	Direct Loan	UE - Sub. Claims	MSED	Total	Direct Loan	UE - Sub. Claims	MSED	Total
Beginning Balance, Changes, and Ending Balance								
Beginning Balance of the Subsidy Cost Allowance	$ 800,470	$ (5,480)	$ 333	$ 795,323	$ 861,084	$ –	$ 357	$ 861,441
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	–	–	–	–	–	–	–	–
(B) Fees Received	–	–	–	–	–	–	–	–
(C) Foreclosed Property Acquired	–	–	–	–	–	–	–	–
(D) Loans Written Off	–	–	–	–	–	–	–	–
(E) Subsidy Allowance Amortization	(21,896)	–	–	(21,896)	(169,266)	–	–	(169,266)
(F) Other	20,353	(6,532)	(150)	13,671	108,652	(5,480)	(24)	103,148
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ 798,927	$(12,012)	$ 183	$ 787,098	$ 800,470	$ (5,480)	$ 333	$ 795,323
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	$ 798,927	$(12,012)	$ 183	$ 787,098	$ 800,470	$ (5,480)	$ 333	$ 795,323

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): 2010				
UE	$ 235,268	$ 84,719	$ (110,378)	$ 209,609
Total	$ 235,268	$ 84,719	$ (110,378)	$ 209,609
Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method): 2009				
UE	$ 234,772	$ 57,300	$ (132,744)	$ 159,328
Total	$ 234,772	$ 57,300	$ (132,744)	$ 159,328

DEFAULTED GUARANTEED LOANS FROM POST-1991 GUARANTEES

In 2010, the UE Program experienced $3.8 million in defaults on payments.

In 2009, the UE Program experienced $3.7 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 (2010):		
UE	$ 909,509	$ 909,509
MSED	14,760	7,380
Israel	11,928,719	11,928,719
DCA	243,313	102,399
Egypt	1,250,000	1,250,000
Total	$ 14,346,301	$ 14,198,007
Guaranteed Loans Outstanding (2009):		
UE	$ 1,048,525	$ 1,048,525
MSED	16,996	8,498
Israel	12,220,958	12,220,958
DCA	234,065	96,382
Egypt	1,250,000	1,250,000
Total	$ 14,770,544	$ 14,624,363
New Guaranteed Loans Disbursed (2010):		
DCA	$ 37,676	$ 18,838
Total	$ 37,676	$ 18,838
New Guaranteed Loans Disbursed (2009):		
DCA	$ 40,006	$ 18,730
Total	$ 40,006	$ 18,730

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, 2010:			
UE	$ 64,869	$ 137,074	$ 201,943
MSED	–	(649)	(649)
Israel	–	1,856,214	1,856,214
DCA	–	15,035	15,035
Egypt	–	193,048	193,048
Total	$ 64,869	$ 2,200,722	$ 2,265,591
Liability for Loan Guarantees (Estimated Future Default Claims for pre-1992 guarantees) as of September 30, 2009:			
UE	$ 90,793	$ 154,795	$ 245,588
MSED	–	693	693
Israel	–	1,824,893	1,824,893
DCA	–	34,071	34,071
Egypt	–	178,028	178,028
Total	$ 90,793	$ 2,192,480	$ 2,283,273

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 (2010):					
DCA	$ –	$ 1,728	$ –	$ –	$ 1,728
Total	$ –	$ 1,728	$ –	$ –	$ 1,728
Subsidy Expense for New Loan Guarantees (2009):					
DCA	$ –	$ 3,571	$ –	$ –	$ 3,571
Total	$ –	$ 3,571	$ –	$ –	$ 3,571

(continued on next page)

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 (2010):				
UE	$ –	$ –	$ –	$ –
Israel	–	–	32,812	32,812
Egypt	–	–	5,737	5,737
Total	$ –	$ –	$ 38,549	$ 38,549
Modifications and Reestimates (2009):				
UE	$ –	$ –	$ 5,256	$ 5,256
Israel	–	–	282,969	282,969
Egypt	–	–	–	–
Total	$ –	$ –	$ 288,225	$ 288,225

TOTAL LOAN GUARANTEE SUBSIDY EXPENSE

(In Thousands)

Loan Guarantee Programs	2010	2009
DCA	$ 1,728	$ 626
UE	–	5,256
MSED	–	–
Israel	32,812	282,969
Egypt	5,737	–
Total	$ 40,277	$ 288,851

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	–	4.76%	–	–	4.76%

SCHEDULE FOR RECONCILING LOAN GUARANTEE LIABILITY BALANCES

(In Thousands)

(Post-1991 Loan Guarantees)	DCA	MSED	UE	Israel	Egypt	Total
2010						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	$ 34,071	$ 693	$ 154,794	$ 1,824,892	$ 178,029	$2,192,479
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	1,728	–	–	–	–	1,728
Total of the Above Subsidy Expense Components	1,728	–	–	–	–	1,728
Adjustments:						–
(A) Loan Guarantee Modifications	–	–	–	–	–	–
(B) Fees Received	1,618	3	1,379	–	–	3,000
(C) Interest Supplements Paid	–	–	–	–	–	–
(D) Foreclosed Property and Loans Acquired	–	–	–	–	–	–
(E) Claim Payments to Lenders	–	–	(2,169)	–	–	(2,169)
(F) Interest Accumulation on the Liability Balance	–	–	6,124	115,791	7,637	129,552
(G) Other	(13,884)	(1,345)	(12,460)	–	–	(27,689)
Ending Balance of the Loan Guarantee Liability Before Reestimates	23,533	(649)	147,668	1,940,683	185,666	2,296,901
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	–	–	–	–	–	–
(B) Technical/Default Reestimate	(8,498)	–	(10,594)	(84,469)	7,382	(96,179)
Total of the Above Reestimate Components	(8,498)	–	(10,594)	(84,469)	7,382	(96,179)
Ending Balance of the Loan Guarantee Liability	$ 15,035	$ (649)	$ 137,074	$ 1,856,214	$ 193,048	$2,200,722
2009						
Beginning Balance, Changes, and Ending Balance						
Beginning Balance of the Loan Guarantee Liability	$ 25,972	$ 412	$ 138,058	$ 1,160,451	$ 184,237	$1,509,130
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	3,571	–	–	–	–	3,571
Total of the Above Subsidy Expense Components	3,571	–	–	–	–	3,571
Adjustments:						
(A) Loan Guarantee Modifications	–	–	–	–	–	–
(B) Fees Received	1,424	7	1,926	–	–	3,357
(C) Interest Supplements Paid	–	–	–	–	–	–
(D) Foreclosed Property and Loans Acquired	–	–	–	–	–	–
(E) Claim Payments to Lenders	(637)	–	(3,719)	–	–	(4,356)
(F) Interest Accumulation on the Liability Balance	–	–	6,303	72,412	7,904	86,619
(G) Other	3,741	274	18,589	–	–	22,604
Ending Balance of the Loan Guarantee Liability Before Reestimates	34,071	693	161,157	1,232,863	192,141	1,620,925
Add or Subtract Subsidy Reestimates by Component:						
(A) Interest Rate Reestimate	–	–	–	–	–	–
(B) Technical/Default Reestimate	–	–	(6,363)	592,029	(14,112)	571,554
Total of the Above Reestimate Components	–	–	(6,363)	592,029	(14,112)	571,554
Ending Balance of the Loan Guarantee Liability	$ 34,071	$ 693	$ 154,794	$ 1,824,892	$ 178,029	$2,192,479

ADMINISTRATIVE EXPENSE *(In Thousands)*		
Loan Programs	**2010**	**2009**
DCA	$ 10,519	$ 10,632
Total	$ 10,519	$ 10,632

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. Nine countries are in violation of Section 620q of the Foreign Assistance Act (FAA), owing $17.4 million that is more than six months delinquent. Seven countries are in violation of the Brooke-Alexander Amendment to the Foreign Operations Export Financing and Related Programs Appropriations Act, owing $403.7 million that is more than one year delinquent. Outstanding direct loans receivable for countries in violation of Section 620q totaled $15.3 million. Outstanding direct loans receivable for countries in violation of the Brooke Amendment totaled $375.1 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.

3. Reestimate amounts are subject to approval by the Office of Management and Budget (OMB), and any adjustments, if necessary, will be made in Fiscal Year 2011.

NOTE 7. INVENTORY AND RELATED PROPERTY, NET

USAID's Inventory and Related Property, Net is comprised of Operating Materials and Supplies. Operating Materials and Supplies as of September 30, 2010 and 2009 are as follows:

INVENTORY AND RELATED PROPERTY *(In Thousands)*		
	2010	**2009**
Items Held for Use		
Office Supplies	$ 5,117	$ 4,565
Items Held in Reserve for Future Use		
Disaster Assistance Materials and Supplies	3,300	11,473
Birth Control Supplies	7,977	6,673
Total Inventory and Related Property	$ 16,394	$ 22,711

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 $25,000. There are no items obsolete or unserviceable, and no restrictions on their use. Inventory costing less than $25,000 is expensed as incurred.

NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

The components of Property, Plant & Equipment (PP&E) as of September 30, 2010 and 2009 are as follows:

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

	Useful Life	Cost	Accumulated Depreciation	Net Book Value 2010	Net Book Value 2009
The components of PP&E as of September 30, 2010 are as follows:					
Classes of Fixed Assets					
Equipment	3 to 5 years	$ 95,172	$ (83,600)	$ 11,572	$ 16,759
Buildings, Improvements, and Renovations	20 years	103,112	(49,756)	53,356	48,465
Land and Land Rights	N/A	9,178	N/A	9,178	8,800
Assets Under Capital Lease (Note 9)		13,442	(9,665)	3,777	4,473
Construction in Progress	N/A	–	–	–	–
Internal Use Software	3 to 5 years	98,597	(59,424)	39,173	39,296
Total PP&E		$ 319,501	$ (202,445)	$ 117,056	$ 117,794

The threshold for capitalizing or amortizing assets is $25,000. 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.

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 buildings.

NOTE 9. LEASES

As of September 30, 2010 Leases consisted of the following:

LEASES
(In Thousands)

Entity as Lessee		
Capital Leases:	**2010**	**2009**
Summary of Assets Under Capital Lease:		
Buildings	$ 13,442	$ 13,442
Accumulated Depreciation	(9,665)	(8,969)
Net Assest under Capital Leases	$ 3,777	$ 4,473

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:	**2010**	**2009**
Fiscal Year	**Future Costs**	**Future Costs**
2010	$ –	$ 3,015
2011	390	390
2012	–	–
2013	2,375	2,375
2014	2,375	2,375
2015	1,170	1,170
After 5 Years	–	–
Net Capital Lease Liability (Note 12)	$ 6,310	$ 9,325
Lease Liabilities Covered by Budgetary Resources	$ 6,310	$ 9,325

Operating Leases:

Future Payments Due:	**2010**	**2009**
Fiscal Year	**Future Costs**	**Future Costs**
2010	$ –	$ 66,972
2011	82,567	61,840
2012	78,876	56,527
2013	67,254	54,887
2014	63,146	60,132
2015	67,823	–
After 5 Years	167,993	194,632
Total Future Lease Payments	$ 527,659	$ 494,991

Operating lease payments total $528 million in future lease payments, $258 million is for the USAID headquarters in Washington, D.C. The current lease agreements are for approximately 802,417 sq. feet and with expiration dates of FY 2013, FY 2015, and FY 2020. The lessor, General Services Administartion (GSA), charges commercial rates for USAID's occupancy. Lease payments for FY 2010 and FY 2009 amounted to $48.2 million and $44 million, respectively.

NOTE 12. OTHER LIABILITIES

As of September 30, 2010 and 2009 Other Liabilities consisted of the following:

OTHER LIABILITIES
(In Thousands)

	2010	2009
Intragovernmental		
IPAC Suspense	$ (10,050)	$ (2,411)
Unfunded FECA Liability	10,005	9,871
Credit Program	178,302	35,476
Custodial Liability	7,424	10,252
Other	482,032	14,548
Total Intragovernmental	$ 667,713	$ 67,735
Accrued Funded Payroll and Leave (Note 13)	41,615	23,240
Unfunded Leave (Note 10)	44,666	80,049
Advances From Others	2,485	1,690
Deferred Credits	19,071	16,160
Foreign Currency Trust Fund	266,465	323,942
Capital Lease Liability (Note 9)	6,310	9,325
Custodial Liability	–	–
Other Liabilities	55,177	52,749
Total Liabilities With the Public	$ 435,789	$ 507,155
Total Other Liabilities	$ 1,103,502	$ 574,890

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.

NOTE 13. FEDERAL EMPLOYEES AND VETERAN'S BENEFITS

The provisions for workers' compensation benefits payable, as of September 30, 2010 and 2009 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.

ACCRUED UNFUNDED WORKERS' COMPENSATION BENEFITS
(In Thousands)

	2010	2009
Liabilities Not Covered by Budgetary Resources		
Future Workers' Compensation Benefits	$ 26,035	$ 26,885
Accrued Funded Payroll and Leave (Note 12)	41,615	23,240
Total Accrued Unfunded Workers' Compensation Benefits	$ 67,650	$ 50,125

For FY 2010, USAID's total FECA liability was $67.6 million, comprised of unpaid FECA billings for $26.0 million and estimated future FECA costs of $41.6 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 assumptions 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.

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, 2010 a total of nine cases were pending.

Six cases have been designated as reasonably possible, a total of $19.5 million:

- The first case is a basis claim that USAID has willfully violated the Fair Labor Standards Act by failing to compensate employees for overtime worked. The estimated loss is $7 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 involves a contractor who entered into a fixed price contract for the construction of a road but contends that it was not told of differing site conditions, in particular, swampy areas, and therefore, the Agency owes it an equitable adjustment. The estimated loss is $2.0 million.
- The fifth case is a claim for damages suffered allegedly as a result of USAID-caused delay in relation to the delivery and off-loading of grain at the Port of Djibouti. Filings to date with the Board of Contract Appeals have not quantified damages; however, in pre-litigation correspondence with the Agency the contractor identified $1.5 million in damages.
- USAID has been notified of a sixth case with a potential loss of $5.0 million. Further case details are not currently available.

The three remaining cases have a remote likelihood of an unfavorable outcome.

During FY 2010 there were two settlements.

- The first case was settled in the second quarter and was originally identified as a probable loss of $1.3 million. This case involves a contractor who seeks costs that were incurred by one of its subcontractors; however USAID disputes those costs as unsubstantiated. The settlement was for $51,000.
- The second case was settled in the second quarter and was originally identified as a reasonably possible

loss of $1.6 million. The case was an appeal of the government's decision to disallow cost which had allegedly been incurred by the appellant. The appellant requested that the Board enter a judgment that the Government is not entitled to disallow and demand repayment of the costs at issue. The settlement was for $0.

USAID's normal course of business involves the execution of project agreements with foreign governments that are a type of treaty. All of these agreements give rise to obligations that are fully reported on USAID's financial statements, none of which are contingent. It is not USAID's normal business practice to enter into other types of agreements or treaties with foreign governments that create contingent liabilities.

NOTE 15. RECOVERY ACT FUNDS

RECOVERY ACT ASSETS, LIABILITIES AND NET POSITION

(In Thousands)

	Recovery Act Assets, Liabilities and Net Position	
	2010	**2009**
Fund Balance With Treasury	$ 15,862	$ 34,379
Total Assets	**15,862**	**34,379**
Accounts Payable	5,624	2,908
Total Liabilities	**5,624**	**2,908**
Unexpended Appropriations	10,238	31,471
Cumulative Results of Operations	–	–
Total Net Position	**10,238**	**31,471**
Total Liabilities and Net Position	**$ 15,862**	**$ 34,379**
	Status of Recovery Act Funds	
Total Budgetary Resources	**$ 17,948**	**$ 38,000**
Obligated Balance	17,948	20,060
Unobligated Balance	–	17,940
Total Status of Budgetary Resources	**$ 17,948**	**$ 38,000**
Total, Unpaid Obligated Balance, Net, End of Period	15,854	16,439
Net Outlays	**$ 18,517**	**$ 3,621**

In February, 2009, Congress passed the American Recovery and Reinvestment Act of 2009 (Recovery Act) with the goal to create jobs, spur economic activity and invest in long term economic growth. This $787 billion Recovery plan includes federal tax cuts and incentives, an expansion of unemployment benefits, and other spending on social entitlement programs. In addition, federal agencies are using Recovery Act funds to award contracts, grants, and loans around the country.

USAID has received $38 million for immediate information technology security and upgrades to support mission-critical operations. Due to Agency IT priorities and toward maximizing job creation with the Recovery Act funds, USAID determined that the funding should be dedicated to the Global Acquisition and Assistance System (GLAAS) project. There is one fund in association with the Recovery Act Funds.

The balances for each line item in this footnote are included in the cumulative balances presented in their respective financial statements.

NOTE 16. 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, 2010. These objectives are consistent with the State/USAID's Strategic Planning Framework.

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

Note 16 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 17.

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, 2010 and 2009
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	2010 Total	2009 Total
Peace and Security										
Intragovernmental Costs	$ 2,882	$ 11,312	$ 4,109	$ 1,663	$ 6,912	$ –	$ 7,543	$ 1,712	$ 36,133	$ 27,748
Public Costs	53,178	457,809	144,329	9,397	130,451	–	182,499	65,593	1,043,256	955,521
Total Program Costs	56,060	469,121	148,438	11,060	137,363	–	190,042	67,305	1,079,389	983,269
Intragovernmental Earned Revenue	(417)	(1,873)	(687)	(146)	(1,224)	–	(1,136)	(297)	(5,780)	(2,605)
Public Earned Revenue	(80)	(362)	(133)	(28)	(236)	–	(219)	(57)	(1,115)	(1,026)
Total Earned Revenue	(497)	(2,235)	(820)	(174)	(1,460)	–	(1,355)	(354)	(6,895)	(3,631)
Net Program Costs	**55,563**	**466,886**	**147,618**	**10,886**	**135,903**	**–**	**188,687**	**66,951**	**1,072,494**	**979,638**
Governing Justly and Democratically										
Intragovernmental Costs	11,856	16,790	3,870	843	8,741	–	6,538	11,042	59,680	41,105
Public Costs	249,070	623,282	93,219	2,856	175,930	–	144,833	443,623	1,732,813	1,718,630
Total Program Costs	260,926	640,072	97,089	3,699	184,671	–	151,371	454,665	1,792,493	1,759,735
Intragovernmental Earned Revenue	(1,755)	(2,935)	(629)	(57)	(1,384)	–	(13,982)	(1,703)	(22,445)	(4,283)
Public Earned Revenue	(339)	(567)	(122)	(11)	(267)	–	(206)	(329)	(1,841)	(1,686)
Total Earned Revenue	(2,094)	(3,502)	(751)	(68)	(1,651)	–	(14,188)	(2,032)	(24,286)	(5,969)
Net Program Costs	**258,832**	**636,570**	**96,338**	**3,631**	**183,020**	**–**	**137,183**	**452,633**	**1,768,207**	**1,753,766**
Investing in People										
Intragovernmental Costs	118,685	31,852	3,131	1,988	6,167	12,676	13,598	13,098	201,195	147,075
Public Costs	797,088	911,396	71,522	135,785	69,707	312,702	157,939	505,005	2,961,144	3,319,271
Total Program Costs	915,773	943,248	74,653	137,773	75,874	325,378	171,537	518,103	3,162,339	3,466,346
Intragovernmental Earned Revenue	(20,268)	(4,649)	(476)	(57,511)	(577)	(123,033)	(1,920)	(1,940)	(210,374)	(387,120)
Public Earned Revenue	(3,915)	(898)	(92)	(97,296)	(111)	(493)	(371)	(375)	(103,551)	(21,213)
Total Earned Revenue	(24,183)	(5,547)	(568)	(154,807)	(688)	(123,526)	(2,291)	(2,315)	(313,925)	(408,333)
Net Program Costs	**891,590**	**937,701**	**74,085**	**(17,034)**	**75,186**	**201,852**	**169,246**	**515,788**	**2,848,414**	**3,058,013**

(continued on next page)

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE BY RESPONSIBILITY SEGMENT

For the Years Ended September 30, 2010 and 2009
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	2010 Total	2009 Total
Economic Growth										
Intragovernmental Costs	26,006	32,660	9	46,982	6,419	–	25,393	18,476	155,945	164,184
Public Costs	455,190	975,322	140	278,265	175,155	–	216,930	656,626	2,757,628	4,254,573
Total Program Costs	481,196	1,007,982	149	325,247	181,574	–	242,323	675,102	2,913,573	4,418,757
Intragovernmental Earned Revenue	(3,314)	(3,896)	(2)	(96,175)	(1,131)	–	(1,383)	(3,028)	(108,929)	(156,160)
Public Earned Revenue	(640)	(752)	–	(93,278)	(219)	–	996	(572)	(94,465)	(638,092)
Total Earned Revenue	(3,954)	(4,648)	(2)	(189,453)	(1,350)	–	(387)	(3,600)	(203,394)	(794,252)
Net Program Costs	**477,242**	**1,003,334**	**147**	**135,794**	**180,224**	**–**	**241,936**	**671,502**	**2,710,179**	**3,624,505**
Humanitarian Assistance										
Intragovernmental Costs	784	4,616	105,160	–	212	–	1,943	7,700	120,415	52,551
Public Costs	2,119	217,034	994,272	191,802	4,985	–	49,392	57,019	1,516,623	1,407,821
Total Program Costs	2,903	221,650	1,099,432	191,802	5,197	–	51,335	64,719	1,637,038	1,460,372
Intragovernmental Earned Revenue	(18)	(827)	(5,197)	–	(37)	–	(349)	(236)	(6,664)	(3,384)
Public Earned Revenue	(3)	(160)	(1,004)	–	(7)	–	(67)	(46)	(1,287)	(1,334)
Total Earned Revenue	(21)	(987)	(6,201)	–	(44)	–	(416)	(282)	(7,951)	(4,718)
Net Program Costs	**2,882**	**220,663**	**1,093,231**	**191,802**	**5,153**	**–**	**50,919**	**64,437**	**1,629,087**	**1,455,654**
Operating Unit Management										
Intragovernmental Costs	18,837	27,618	21,200	20,473	10,230	–	6,407	1,919	106,684	26,444
Public Costs	49,794	49,189	65,049	38,129	32,381	–	25,995	14,140	274,677	118,754
Total Program Costs	68,631	76,807	86,249	58,602	42,611	–	32,402	16,059	381,361	145,198
Intragovernmental Earned Revenue	(544)	(281)	(448)	(1,122)	(257)	–	(196)	(40)	(2,888)	(868)
Public Earned Revenue	(105)	(54)	(87)	(216)	(50)	–	(38)	(8)	(558)	(155)
Total Earned Revenue	(649)	(335)	(535)	(1,338)	(307)	–	(234)	(48)	(3,446)	(1,023)
Net Program Costs	**67,982**	**76,472**	**85,714**	**57,264**	**42,304**	**–**	**32,168**	**16,011**	**377,915**	**144,175**
Net Cost of Operations	**$1,754,091**	**$3,341,626**	**$1,497,133**	**$382,343**	**$621,790**	**$ 201,852**	**$ 820,139**	**$ 1,787,322**	**$10,406,296**	**$11,015,751**

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

The Suborganization Program Costs/Program Costs by 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's 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 2010 Consolidated Statement of Net Cost major responsiblitiy segments are (i) the Geographic Bureaus and (ii) the Technical Bureaus. The Geographic Bureaus include: Africa; Asia; Middle East; Latin America and the Caribbean; and Europe and Eurasia. Technical Bureaus are referred to as Democracy, Conflict, and Humanitarian Assistance (DCHA); Economic Growth, Agriculture,and Trade (EGAT) and Global Health (GH).

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT
For the Year Ended September 30, 2010
(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
Peace and Security									
Counter-Terrorism									
Gross Costs	$ 12,508	$ 332	$ 12	$ –	$ –	$ –	$ –	$ 4,393	$ 17,245
Less: Exchange Revenues	(118)	(1)	–	–	–	–	–	(24)	(143)
Net Program Costs	12,390	331	12	–	–	–	–	4,369	17,102
Combating Weapons of Mass Destruction (WMD)									
Gross Costs	–	–	12	–	65,720	–	–	–	65,732
Less: Exchange Revenues	–	–	–	–	(725)	–	–	–	(725)
Net Program Costs	–	–	12	–	64,995	–	–	–	65,007
Stabilization Operations and Security Sector Reform									
Gross Costs	9,487	1,774	532	–	1,123	–	35,268	3,379	51,563
Less: Exchange Revenues	(88)	(10)	(4)	–	(9)	–	(211)	(27)	(349)
Net Program Costs	9,399	1,764	528	–	1,114	–	35,057	3,352	51,214
Counter-Narcotics									
Gross Costs	24	279,550	12	–	97	–	146,021	2	425,706
Less: Exchange Revenues	–	(1,384)	–	–	(1)	–	(1,105)	–	(2,490)
Net Program Costs	24	278,166	12	–	96	–	144,916	2	423,216
Transnational Crime									
Gross Costs	150	7,919	12	1,592	3,927	–	1,361	3,052	18,013
Less: Exchange Revenues	–	(39)	–	(35)	(30)	–	(10)	(14)	(128)
Net Program Costs	150	7,880	12	1,557	3,897	–	1,351	3,038	17,885
Conflict Mitigation and Reconciliation									
Gross Costs	33,891	179,546	147,858	9,468	66,496	–	7,392	56,479	501,130
Less: Exchange Revenues	(291)	(801)	(816)	(139)	(695)	–	(29)	(289)	(3,060)
Net Program Costs	33,600	178,745	147,042	9,329	65,801	–	7,363	56,190	498,070
Total Peace & Security	**55,563**	**466,886**	**147,618**	**10,886**	**135,903**	**–**	**188,687**	**66,951**	**1,072,494**
Governing Justly and Democratically									
Rule of Law and Human Rights									
Gross Costs	19,055	35,361	3,944	2,276	34,079	–	68,976	31,808	195,499
Less: Exchange Revenues	(188)	(166)	(54)	(45)	(289)	–	(13,389)	(146)	(14,277)
Net Program Costs	18,867	35,195	3,890	2,231	33,790	–	55,587	31,662	181,222

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*

For the Year Ended September 30, 2010

(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
Good Governance									
Gross Costs	97,640	414,102	66,012	908	47,112	–	51,387	263,113	940,274
Less: Exchange Revenues	(811)	(2,531)	(447)	(13)	(448)	–	(556)	(1,130)	(5,936)
Net Program Costs	96,829	411,571	65,565	895	46,664	–	50,831	261,983	934,338
Political Competition and Consensus-Building									
Gross Costs	112,747	136,976	9,907	–	29,699	–	13,237	13,900	316,466
Less: Exchange Revenues	(864)	(534)	(112)	–	(258)	–	(95)	(161)	(2,024)
Net Program Costs	111,883	136,442	9,795	–	29,441	–	13,142	13,739	314,442
Civil Society									
Gross Costs	31,484	53,633	17,226	515	73,781	–	17,771	145,844	340,254
Less: Exchange Revenues	(231)	(271)	(138)	(10)	(656)	–	(148)	(595)	(2,049)
Net Program Costs	31,253	53,362	17,088	505	73,125	–	17,623	145,249	338,205
Total Governing Justly and Democratically	**258,832**	**636,570**	**96,338**	**3,631**	**183,020**	**–**	**137,183**	**452,633**	**1,768,207**
Investing in People									
Health									
Gross Costs	576,352	203,756	26,172	11,876	50,213	325,378	44,780	182,785	1,421,312
Less: Exchange Revenues	(21,360)	(2,380)	(167)	(274)	(497)	(123,526)	(1,325)	(729)	(150,258)
Net Program Costs	554,992	201,376	26,005	11,602	49,716	201,852	43,455	182,056	1,271,054
Education									
Gross Costs	283,783	357,240	20,325	19,638	18,724	–	62,483	114,461	876,654
Less: Exchange Revenues	(2,412)	(1,440)	(151)	(288)	(142)	–	(440)	(460)	(5,333)
Net Program Costs	281,371	355,800	20,174	19,350	18,582	–	62,043	114,001	871,321
Social and Economic Services and Protection for Vulnerable Populations									
Gross Costs	55,638	382,252	28,156	106,259	6,937	–	64,274	220,857	864,373
Less: Exchange Revenues	(411)	(1,727)	(250)	(154,245)	(49)	–	(526)	(1,126)	(158,334)
Net Program Costs	55,227	380,525	27,906	(47,986)	6,888	–	63,748	219,731	706,039
Total Investing in People	**891,590**	**937,701**	**74,085**	**(17,034)**	**75,186**	**201,852**	**169,246**	**515,788**	**2,848,414**
Economic Growth									
Macroeconomic Foundation for Growth									
Gross Costs	4,029	31,680	23	72,119	36,189	–	15,212	216,144	375,396
Less: Exchange Revenues	(5)	(160)	(2)	(105,905)	(202)	–	(90)	(1,646)	(108,010)
Net Program Costs	4,024	31,520	21	(33,786)	35,987	–	15,122	214,498	267,386
Trade and Investment									
Gross Costs	36,719	39,567	18	3,270	4,477	–	32,049	35,894	151,994
Less: Exchange Revenues	(340)	(172)	–	(51)	(34)	–	(244)	(136)	(977)
Net Program Costs	36,379	39,395	18	3,219	4,443	–	31,805	35,758	151,017
Financial Sector									
Gross Costs	12,700	19,894	18	35,647	15,059	–	951	104,418	188,687
Less: Exchange Revenues	(107)	(75)	–	(78,619)	(119)	–	(9)	(320)	(79,249)
Net Program Costs	12,593	19,819	18	(42,972)	14,940	–	942	104,098	109,438
Infrastructure									
Gross Costs	86,273	476,982	18	8,719	30,858	–	9,489	89,794	702,133
Less: Exchange Revenues	(575)	(2,189)	–	(198)	(254)	–	(81)	(332)	(3,629)
Net Program Costs	85,698	474,793	18	8,521	30,604	–	9,408	89,462	698,504
Agriculture									
Gross Costs	225,238	179,976	18	127,711	19,927	–	40,397	69,452	662,719
Less: Exchange Revenues	(1,913)	(827)	–	(2,986)	(165)	–	(253)	(325)	(6,469)
Net Program Costs	223,325	179,149	18	124,725	19,762	–	40,144	69,127	656,250

(continued on next page)

SCHEDULE OF COSTS BY RESPONSIBILITY SEGMENT *(continued)*

For the Year Ended September 30, 2010

(In Thousands)

Objective	Africa	Asia	DCHA	EGAT	Europe & Eurasia	Global Health	Latin America & Caribbean	Middle East	Consolidated Total
Private Sector Competitiveness									
Gross Costs	30,647	151,906	18	9,392	68,018	–	41,974	50,971	352,926
Less: Exchange Revenues	(276)	(710)	–	(193)	(512)	–	(293)	(256)	(2,240)
Net Program Costs	30,371	151,196	18	9,199	67,506	–	41,681	50,715	350,686
Economic Opportunity									
Gross Costs	15,337	53,268	18	27,752	6,428	–	9,208	68,706	180,717
Less: Exchange Revenues	(149)	(260)	–	(626)	(59)	–	1,209	(379)	(264)
Net Program Costs	15,188	53,008	18	27,126	6,369	–	10,417	68,327	180,453
Environment									
Gross Costs	70,253	54,709	18	40,637	618	–	93,043	39,723	299,001
Less: Exchange Revenues	(589)	(255)	–	(875)	(5)	–	(626)	(206)	(2,556)
Net Program Costs	69,664	54,454	18	39,762	613	–	92,417	39,517	296,445
Total Economic Growth	**477,242**	**1,003,334**	**147**	**135,794**	**180,224**	**–**	**241,936**	**671,502**	**2,710,179**
Humanitarian Assistance									
Protection, Assistance and Solutions									
Gross Costs	80	194,306	1,047,512	–	4,318	–	14,775	64,717	1,325,708
Less: Exchange Revenues	(1)	(830)	(5,820)	–	(36)	–	(118)	(282)	(7,087)
Net Program Costs	79	193,476	1,041,692	–	4,282	–	14,657	64,435	1,318,621
Disaster Readiness									
Gross Costs	2,823	1,318	51,902	191,802	260	–	36,560	2	284,667
Less: Exchange Revenues	(20)	(6)	(381)	–	(2)	–	(298)	–	(707)
Net Program Costs	2,803	1,312	51,521	191,802	258	–	36,262	2	283,960
Migration Management									
Gross Costs	–	26,026	18	–	619	–	–	–	26,663
Less: Exchange Revenues	–	(151)	–	–	(6)	–	–	–	(157)
Net Program Costs	–	25,875	18	–	613	–	–	–	26,506
Total Humanitarian Assistance	**2,882**	**220,663**	**1,093,231**	**191,802**	**5,153**	**–**	**50,919**	**64,437**	**1,629,087**
Operating Unit Management									
Cross-cutting Management and Staffing									
Gross Costs	12,237	19,970	3,488	573	10,180	–	1,137	2,852	50,437
Less: Exchange Revenues	(147)	(117)	(27)	(11)	(89)	–	(9)	4	(396)
Net Program Costs	12,090	19,853	3,461	562	10,091	–	1,128	2,856	50,041
Program Design and Learning									
Gross Costs	11,905	7,173	2,837	15,854	3,396	–	2,578	6,326	50,069
Less: Exchange Revenues	(89)	(42)	(18)	(355)	(23)	–	(18)	(24)	(569)
Net Program Costs	11,816	7,131	2,819	15,499	3,373	–	2,560	6,302	49,500
Administration and Oversight									
Gross Costs	44,489	49,664	79,924	42,175	29,035	–	28,687	6,881	280,855
Less: Exchange Revenues	(413)	(176)	(490)	(972)	(195)	–	(207)	(28)	(2,481)
Net Program Costs	44,076	49,488	79,434	41,203	28,840	–	28,480	6,853	278,374
Total Operating Unit Management	**67,982**	**76,472**	**85,714**	**57,264**	**42,304**	**–**	**32,168**	**16,011**	**377,915**
Net Cost of Operations	**$1,754,091**	**$3,341,626**	**$1,497,133**	**$ 382,343**	**$ 621,790**	**$ 201,852**	**$ 820,139**	**$1,787,322**	**$10,406,296**

NOTE 18. STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources presents information about total budgetary resources available to USAID and the status of those resources, as of September 30, 2010 and 2009.

USAID's total budgetary resources were $24.9 and $19.0 billion for the years ended September 30, 2010 and 2009, respectively.

A. Apportionment Categories of Obligations Incurred:

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED
(In Thousands)

	2010	2009
Category A, Direct	$ 1,335,392	$ 1,048,679
Category B, Direct	14,156,447	10,464,573
Category A, Reimbursable	56,747	16,911
Category B, Reimbursable	126,297	427,875
Total	$ 15,674,883	$ 11,958,038

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

The Agency had $900 thousand in borrowing authority in FY 2010. The Agency did not have borrowing authority in FY 2009. 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. 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 2010, there is $2.59 billion in availablity related to Federal Credit Reform Program and Liquidating appropriations.

D. Legal Arrangements Affecting the Use of Unobligated Balances:

The "Consolidated Appropriations Act, 2010" signed into law as P.L. 111-117 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 reprogramming by USAID (subject to OMB approval through the apportionment process).

E. Unpaid Obligations:

Unpaid Obligations for the periods ended September 30, 2010 and 2009 were $17.9 and $14.4 billion.

F. 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 Resources for FY 2010 and the President's Budget submission for FY 2010. 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 2010 reported results when the budget becomes available in February 2011.

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

(In Thousands)

FY 2010	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 24,957,025	$ 15,674,883	$ 71,742	$ 9,530,455
Difference #1: Funds Reported by Other Federal Entities	6,968,746	6,369,549	–	4,252,304
Difference #2: Child Activity Reported by USAID	–	–	–	–
Difference #3: Reported in the SBR but excluded from SF-133s	(118,409)	(152,916)	–	(86,834)
Difference #4: Parent/Chid Reporting Differences	13,468	13,792	–	(44,921)
Difference #5: Reporting Difference between the SBR and SF-133s	(36,601)	(18,244)	–	24,679
Difference #6: Credit Financing and Suspense	(329,818)	–	–	–
Budget of the U.S. Government	$ 31,454,411	$ 21,887,064	$ 71,742	$ 13,675,683

NOTE 19. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

USAID presents the Consolidated 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 Combined 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, 2010 and 2009
(In Thousands)

	2010	2009
Resources Used to Finance Actvities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 15,674,883	$ 11,958,038
Spending authority from offsetting collections	(1,506,317)	(1,237,663)
Change in Unfilled Customer Orders	(458,220)	(8,338)
Downward Adjustments of Obligations	(676,857)	(391,947)
Offsetting Receipts	(71,742)	182,729
Net Obligations	12,961,747	10,502,819
Other resources used to finance activities	9,835	13,263
Resources Used to Finance Activities	12,971,582	10,516,082
Resources Used to Finance items not part of net cost of operations	(3,194,175)	99,154
Total Resources Used to Finance Net Cost of Operations	9,777,407	10,615,236
Components of the Net Cost of Operations:		
Components of Net Cost of Operations that will require or generate resources in future periods	515,508	313,001
Components of Net Cost of Operations that will not require or generate resources	113,381	87,514
Net Cost of Operations	$ 10,406,296	$ 11,015,751

STATEMENT OF BUDGETARY RESOURCES

REQUIRED SUPPLEMENTARY INFORMATION: COMBINING SCHEDULE OF BUDGETARY RESOURCES

For the period ended September 30, 2010

(In Thousands)

	Recovery Act	Operating	Program							Credit-Financing	Other	Parent Fund	Combined Total
	302	1000	305	1010	1021	1035	1037	1093	1095				
Budgetary Resources:													
Unobligated Balance, Brought Forward, October 1	$ 17,940	$ 285,923	$ 30,000	$ 20,386	$ 546,392	$ 310,344	$ 2,445,976	$ 107,963	$ 76,136	$1,643,447	$1,353,548	$ 165,794	$ 7,003,849
Recoveries of Prior Year Unpaid Obligations	8	35,434	–	17,281	93,226	66,183	174,434	27,380	91,619	–	37,877	133,415	676,857
Budget Authority:													–
Appropriation	–	1,388,800	30,000	–	2,520,000	1,305,000	8,844,000	–	–	–	1,767,509	–	15,855,309
Borrowing Authority	–	–	–	–	–	–	–	–	–	900	–	–	900
Spending Authority from Offsetting Collections:													–
Earned:													–
Collected	–	47,379	–	–	5,135	192	114,865	–	–	800,209	536,836	1,701	1,506,317
Change in Receivables from Federal Sources	–	–	–	–	–	–	–	–	–	–	–	(174)	(174)
Change in Unfilled Customer Orders:													
Advance Received	–	–	–	–	–	–	–	–	–	–	460,853	–	460,853
Without Advance from Federal Sources	–	4,311	–	–	119	–	2,445	–	–	–	(9,508)	–	(2,633)
Subtotal	–	1,440,490	30,000	–	2,525,254	1,305,192	8,961,310	–	–	801,109	2,755,690	1,527	17,820,572
Nonexpenditure Transfers, Net, Anticipated and Actual	–	2,376	–	856	(59,951)	2,531	(953,231)	(621)	6	(54)	(29,753)	928,315	(109,526)
Permanently Not Available	–	(5)	(30,000)	558	3,196	1,934	93,878	8,534	(15,059)	–	(497,763)	–	(434,727)
Total Budgetary Resources	$ 17,948	$1,764,218	$ 30,000	$ 39,081	$ 3,108,117	$1,686,184	$10,722,367	$ 143,256	$ 152,702	$2,444,502	$3,619,599	$1,229,051	$ 24,957,025
Status of Budgetary Resources:													
Obligations Incurred:													
Direct	$ 17,940	$1,270,292	$ 21,465	$ 14,160	$ 2,424,970	$1,278,877	$ 6,767,020	$ 120,593	$ 132,390	$ 59,921	$2,705,143	$ 679,071	$ 15,491,842
Reimbursible	–	51,688	–	–	5,255	192	117,311	–	–	–	8,595	–	183,041
Subtotal	17,940	1,321,980	21,465	14,160	2,430,225	1,279,069	6,884,331	120,593	132,390	59,921	2,713,738	679,071	15,674,883
Unobligated Balance:													–
Apportioned	–	132,505	8,535	22,348	612,910	193,748	3,838,140	20,456	10,782	30,939	783,990	390,060	6,044,413
Subtotal	–	132,505	8,535	22,348	612,910	193,748	3,838,140	20,456	10,782	30,939	783,990	390,060	6,044,413
Unobligated Balance Not Available	8	309,733	–	2,573	64,982	213,367	(104)	2,207	9,530	2,353,642	121,871	159,920	3,237,729
Total, Status of Budgetary Resources	$ 17,948	$1,764,218	$ 30,000	$ 39,081	$ 3,108,117	$1,686,184	$10,722,367	$ 143,256	$ 152,702	$2,444,502	$3,619,599	$1,229,051	$ 24,957,025

(continued on next page)

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

For the period ended September 30, 2010

(In Thousands)

	Recovery Act	Operating	Program							Credit-Financing	Other	Parent Fund	Combined Total
	302	1000	305	1010	1021	1035	1037	1093	1095				
Change in Obligated Balance:													
Obligated Balance, Net													
Unpaid Obligations, Brought Forward, October 1	$ 16,439	$ 395,890	$ –	$ 139,905	$ 3,095,591	$ 770,840	$ 7,809,204	$ 246,211	$ 347,363	$ (639)	$ 853,928	$ 746,724	$ 14,421,456
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	–	(6,074)	–	(35)	(2,271)	(205)	(1,871)	(38)	(1,006)	35	(15,678)	(536)	(27,679)
Total Unpaid Obligated Balance, Net	16,439	389,816	–	139,870	3,093,320	770,635	7,807,333	246,173	346,357	(604)	838,250	746,188	14,393,777
Obligations Incurred Net (+/-)	17,940	1,321,982	21,463	14,160	2,430,223	1,279,069	6,884,331	120,592	132,394	59,921	2,713,734	679,074	15,674,883
Less: Gross Outlays	(18,516)	(1,033,214)	(7,824)	(131,056)	(1,805,077)	(875,780)	(4,913,925)	(229,903)	(148,099)	(62,033)	(1,647,627)	(624,569)	(11,497,623)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(9)	(35,433)	–	(17,281)	(93,226)	(66,183)	(174,434)	(27,380)	(91,619)	–	(37,877)	(133,415)	(676,857)
Change in Uncollected Customer Payments from Federal Sources (+/-)	–	(4,311)	–	–	(119)	–	(2,445)	–	–	–	9,507	174	2,806
Obligated Balance, Net, End of Period													
Unpaid Obligations	15,854	649,225	13,640	5,728	3,627,510	1,107,946	9,605,176	109,520	240,039	(2,751)	1,882,158	667,815	17,921,860
Less: Uncollected Customer Payments from Federal Sources	–	(10,385)	(1)	(35)	(2,389)	(205)	(4,316)	(38)	(1,006)	35	(6,171)	(363)	(24,874)
Total, Unpaid Obligated Balance, Net, End of Period	15,854	638,840	13,639	5,693	3,625,121	1,107,741	9,600,860	109,482	239,033	(2,716)	1,875,987	667,452	17,896,986
Net Outlays:													
Gross Outlays	18,517	1,033,212	7,825	131,055	1,805,078	875,781	4,913,925	229,906	148,095	62,033	1,647,628	624,568	11,497,623
Less: Offsetting Receipts	–	(47,379)	–	–	(5,135)	(192)	(114,865)	–	–	(800,209)	(997,687)	(1,701)	(1,967,168)
Less: Distributed Offsetting Receipts	–	–	–	–	–	–	–	–	–	71,742	–	–	71,742
Net Outlays	$ 18,517	$ 985,833	$ 7,825	$ 131,055	$ 1,799,943	$ 875,589	$ 4,799,060	$ 229,906	$ 148,095	$ (666,434)	$ 649,941	$ 622,867	$ 9,602,197

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)
0302 Capital Investment Fund-Recovery Act
0306 Assistance for Europe, Eurasia and Central Asia
1007 Operating Expenses of USAID Inspector General
1036 Foreign Service Retirement and Disability Fund

Program Funds

0305 Civilian Stabilization Initiative
1012 Sahel Development Program
1015 Complex Crisis Fund
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

1010 Special Assistance Initiatives
1021 Development Assistance
1027 Transition Initiatives
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

ALLOCATIONS FROM OTHER AGENCIES

1000 Operating Expenses of USAID
1014 Africa Development Assistance
1030 Global HIV/AIDS Initiative-Appropriations Carry Over
1031 Global Health and Child Survival
1096 International Organizations and Programs