UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

November 14, 2005 IG-CC-020

MEMORANDUM

TO: Chairman
Commissioners
Director, Office of Administration
Director, Office of External Relations
Director, Office of Operations
Director, Office of Facilities Management
Secretary
General Counsel

FROM: Acting Inspector General

SUBJECT: Inspector General's Independent Audit Report of the U.S. International Trade Commission's Financial Statements for Fiscal Years 2005 and 2004 and the Commission's Management Challenges
Audit Report Number: OIG-AR-01-06

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the U.S. International Trade Commission's financial statements for fiscal years (FY) ended 2005 and 2004. We engaged the independent public accounting firm of O'Connor & Drew, P.C. to perform the audits. The contract required that the audits be done in accordance with *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Additionally, as reported in our October 2005 Semiannual Report to the Commission and to the Congress, the Office of Inspector General (OIG) considers the following to be the top management challenges facing the Commission as identified by the OIG—as well as recent OIG activities relating to each challenge:

Top Management Challenges

Competitive Sourcing -- The Commission has competitively contracted for information technology services, certain editing and publishing services, mailroom and general labor services, cleaning and building maintenance services, and security services. Private sector contract employees comprise more than 10 percent of on-site personnel. In addition, other services are acquired on an as-needed basis, such as virtually all equipment maintenance services, application systems design and development, and certain audit and financial services.

Improved Financial Performance -- In compliance with the Accountability of Tax Dollars Act of 2002, the Commission produced financial statements, notes and a management discussion and analysis for FYs ended 2005 and 2004. The OIG's audit found no material weaknesses or reportable conditions and resulted in an unqualified opinion on the statements. However, we will be making five recommendations to strengthen internal controls related to property, cash, and procurement.

Budget and Performance Integration -- The Commission's efforts to link budgeting with strategic planning have allowed Commission managers more effectively to compare changes in workload with changes in cost. Budget formulation and execution activities permit the allocation of virtually all costs to one of the five operations set forth in the Strategic Plan. Specifically, because personnel costs are 75 percent of total costs, the Commission uses the labor cost reporting system to collect work years and cost information and attribute it directly to strategic operations when feasible. In doing so, the Commission is able to determine whether resources are being allocated efficiently. The performance goals and indicators in the Commission's Annual Performance Plan also provide measures by which the agency's activities can be assessed.

Expanded Electronic Government -- Agency Inspectors General are to conduct an annual independent evaluation of agency information security programs and practices. Accordingly, we conducted the fifth annual comprehensive audit of the Commission's information security program during this period. Our audit found the Commission made limited progress in strengthening its information security program plan during FY 2005, and we made 23 recommendations for improvement.

Strategic Management of Human Capital -- Human capital is the Commission's largest resource, with salaries and personnel benefits representing approximately 75 percent of the FY 2005 budget. The Commission maintains an expert staff of professional international trade and nomenclature analysts, investigators, attorneys, economists, computer specialists and administrative support personnel. More than one third of the Commission's workforce is eligible to retire in the next 5 years. During FY 2005, the Commission enrolled all senior managers in a 48-hour leadership training program provided by the U.S. Office of Personnel Management's Federal Executive Institute.

UNITED STATES INTERNATIONAL TRADE COMMISSION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Financial Statements

September 30, 2005 and 2004

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INDEPENDENT AUDITORS' REPORT

Office of Inspector General, U.S. International Trade Commission

We have audited the accompanying balance sheets of the United States International Trade Commission (USITC/Commission) as of September 30, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity (hereinafter referred to as the financial statements) for the years then ended. The objective of our audits was to express an opinion on the fair presentation of the financial statements. In connection with our audits, we also considered the Commission's internal control over financial reporting and tested the Commission's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its financial statements.

SUMMARY

We found the following:

- The financial statements referred to above are fairly presented, in all material respects, and in conformity with accounting principles generally accepted in the United States of America,

- The Commission had effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations,

- The Commission's financial management systems substantially complied with the applicable requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and

- No reportable noncompliance matters with laws and regulations.

The following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and (2) the scope of our audits.

Opinion on Financial Statements

We have audited the accompanying balance sheets of the Commission as of September 30, 2005 and 2004, and the related statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USITC as of September 30, 2005 and 2004, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Management Discussion and Analysis section and the Management Challenges identified by the Inspector General are not required components of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

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

However, we noted other matters involving internal control financial reporting and its operation that we have reported to the management of USITC in a separate restricted use report.

Compliance with Laws and Regulations

The results of our tests of compliance with other laws and regulations, exclusive of the *Federal Financial Management Improvement Act* (FFMIA), disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Opinion on FFMIA Compliance

In our opinion, the Commission's financial management systems substantially complied with the three FFMIA requirements: (1) Federal financial management system requirements, (2) Federal accounting standards, and (3) the U.S. Government Standard General Ledger (SGL) at the transaction level, as of September 30, 2005 and 2004.

Management's Responsibility

The Accountability of Tax Dollars Act of 2002 requires each federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the reporting requirements, the USITC prepares annual financial statements.

Management is responsible for the financial statements, including:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America,
- Establishing and maintaining internal controls over financial reporting, and preparing the Management Discussion and Analysis (including performance measures), and
- Implementing, maintaining, and assessing financial management systems to provide reasonable assurance of substantial compliance with the requirements of FFMIA, and
- Complying with applicable laws and regulations.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibility and Methodology

Our responsibility is to express an opinion on the fiscal year 2005 and 2004 financial statements of USITC based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes:

-Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;

-Assessing the accounting principles used and significant estimates made by management, and

-Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2005 and 2004 audits, we considered the USITC's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audits was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertion. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Commission's fiscal year 2005 and 2004 financial statements are free of material misstatement, we performed tests of the Commission's 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 certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Commission. Providing an opinion on compliance with laws and regulations was not an objective of our audits, and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Commission's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

This report is intended solely for the information and use of USITC's management, the USITC's Office of the Inspector General, OMB, and the U.S. 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.

O'Connor & Drew, P.C.

O'Connor & Drew, P.C.

Certified Public Accountants

October 31, 2005

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Balance Sheets

September 30, 2005 and 2004

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Balance Sheets

September 30,
(in dollars)

	2005	2004
Assets:		
Intragovernmental		
Fund Balance with Treasury (Note 3)	**$ 10,866,911**	$ 11,249,689
Accounts Receivable (Note 4)	**347,720**	-
Total Intragovernmental	**11,214,631**	11,249,689
Accounts Receivable, Net (Note 5)	**501,635**	756,981
Prepaid Expenses (Note 6)	**208,000**	-
Equipment (Note 7)	**3,320,719**	2,493,449
Total Assets	**$ 15,244,985**	$ 14,500,119
Liabilities:		
Intragovernmental		
Employer Contributions and Payroll Taxes Payable (Note 8)	**$ 110,496**	$ 91,478
Other (Note 8)	**742,786**	1,003,036
Total Intragovernmental	**853,282**	1,094,514
Accounts Payable (Note 8)	**1,884,026**	763,165
Accrued Funded Payroll (Note 8)	**1,080,842**	941,067
Withholdings Payable (Note 8)	**632,593**	538,059
Unfunded Leave (Note 8)	**2,948,491**	2,960,006
Total Liabilities	**7,399,234**	6,296,811
Net Position:		
Unexpended Appropriations (Note 3)	**7,265,523**	8,669,865
Cumulative Results of Operations	**580,228**	(466,557)
Total Net Position	**7,845,751**	8,203,308
Total Liabilities and Net Position	**$ 15,244,985**	$ 14,500,119

The accompanying notes are an integral part of these financial statements.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Statements of Net Cost

For the Years Ended September 30,
(in dollars)

	2005	2004
Intragovernmental Costs	**$ 8,182,544**	$ 6,680,990
Costs with the Public	**53,066,006**	48,034,896
Cost Not Assigned to Programs (Note 10)	**(11,516)**	40,925
Total Net Cost	**$ 61,237,034**	$ 54,756,811

The accompanying notes are an integral part of these financial statements.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Statements of Changes in Net Position

For the Years Ended September 30,
(in dollars)

	2005	2005	2004	2004
	Cumulative Results of Operations	**Unexpended Appropriations**	Cumulative Results of Operations	Unexpended Appropriations
Balances, Beginning of Fiscal Year	**$ (466,557)**	**$ 8,669,865**	$ (2,728,714)	$ 5,599,248
Prior Period Adjustment (Note 11)	-	-	2,407,925	-
Beginning of Fiscal Year, Restated	**(466,557)**	**8,669,865**	(320,789)	5,599,248
Budgetary Financing Sources:				
Appropriations Received	-	**61,700,000**	-	58,295,000
Appropriations-Used	**62,279,819**	**(62,279,819)**	54,611,043	(54,611,043)
Other Adjustments	-	**(824,523)**	-	(613,340)
Total Financing Sources				
Other Adjustments	**4,000**	-	-	-
Total Financing Sources	**62,283,819**	**(1,404,342)**	54,611,043	3,070,617
Net Cost of Operations	**61,237,034**	-	54,756,811	-
Balances, End of Fiscal Year	**$ 580,228**	**$ 7,265,523**	$ (466,557)	$ 8,669,865

The accompanying notes are an integral part of these financial statements.

UNITED STATES
INTERNATIONAL TRADE COMMISSION
Statements of Budgetary Resources

For the Years Ended September 30,
(in dollars)

	2005	2004
Budgetary Resources:		
Budget Authority:		
Appropriations Received (Note 1)	**$ 61,700,000**	$ 58,295,000
Unobligated Balance:		
Beginning of Fiscal Year	**777,708**	375,256
Spending Authority From Offsetting Collections Earned:		
Collected (Note 12)	**14,268**	14,536
Recoveries of Prior Year Obligations (Note 12)	**636,623**	685,329
Cancellation of Expired and No Year Accounts	**(408)**	-
Permanently Not Available (Note 1)	**(824,115)**	(613,341)
Total Budgetary Resources	**$ 62,304,076**	$ 58,756,780
Status of Budgetary Resources:		
Obligations Incurred - Direct	**$ 60,109,360**	$ 57,979,072
Unobligated Balance - Available	**2,194,716**	777,300
Unobligated Balance - Not Available	**-**	408
Total Status of Budgetary Resources	**$ 62,304,076**	$ 58,756,780
Relationship of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Fiscal Year	**$ 10,218,945**	$ 7,045,868
Obligated Balance, Net, End of Fiscal Year:		
Undelivered Orders	**5,070,807**	7,892,157
Accounts Payable	**3,358,603**	2,326,788
Total Net Obligated Balance, End of Fiscal Year	**$ 8,429,410**	$ 10,218,945
Outlays:		
Disbursements	**$ 61,262,272**	$ 54,120,666
Collections	**(14,268)**	(14,536)
Net Outlays	**$ 61,248,004**	$ 54,106,130

The accompanying notes are an integral part of these financial statements.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Statements of Financing

For the Years Ended September 30,
(in dollars)

	2005	2004
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	**$ 60,109,360**	$ 57,979,072
Less: Spending Authority From Offsetting Collections/Adjustments (Note 12)	**650,891**	699,865
Total Budgetary Resources Used to Finance Activities	**59,458,469**	57,279,207
Other Resources:		
Other	**4,000**	-
Total Resources Used to Finance Activities	**59,462,469**	57,279,207
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	**(2,821,351)**	2,668,165
Resources That Finance the Acquisition of Assets	**1,362,575**	348,094
Resources That Finance the Prepaid Expenses	**208,000**	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**(1,250,776)**	3,016,259
Total Resources Used to Finance the Net Cost of Operations	**60,713,245**	54,262,948
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability (Note 13)	**(11,516)**	40,925
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	**535,305**	452,938
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**523,789**	493,863
Net Cost of Operations	**$ 61,237,034**	$ 54,756,811

The accompanying notes are an integral part of these financial statements.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Statements of Custodial Activity

For the Years Ended September 30,
(in dollars)

	2005	2004
Revenue Activity:		
Cash Collections - Penalties	$ 250,000	$ 250,000
Accrual Adjustments	(250,000)	750,000
Total Custodial Revenue (Note 14)	-	1,000,000
Disposition of Collections:		
Transferred to Treasury	(250,000)	-
Increase in Amounts Yet to be Transferred	250,000	(1,000,000)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these financial statements.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Notes to the Financial Statements

September 30, 2005 and 2004

Note 1. Significant Accounting Policies

A. *Reporting Entity* - The United States International Trade Commission (USITC) is an independent agency of the U.S. Government created by an act of Congress and is headed by six commissioners, appointed by the President and confirmed by the U.S. Senate for nine-year terms. The President designates the chairman and vice chairman, each of whom serve two-year terms.

The USITC conducts investigations and reports findings relating to imports and the effect of imports on industry, and unfair import practices. The USITC advises the President on the probable economic effect of proposed trade agreements with foreign countries. The USITC also conducts analytical studies and provides reports on issues relating to international trade and economic policy on behalf of both the Congress and President.

B. *Basis of Accounting and Presentation* - USITC's financial statements conform to U.S. Generally Accepted Accounting Principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants (AICPA) recognizes FASAB Standards as GAAP for federal reporting entities. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as, the recognition of other long-term assets and liabilities. The statements were prepared in conformity with OMB Bulletin 01-09, *Form and Content of Agency Financial Statements,* as updated by OMB A-136 *Financial Reporting Requirements,* August 23, 2005.

The financials have been prepared from the books and records of the USITC and include all accounts of all funds under the control of the USITC. Accounting principles generally accepted in the United States of America encompass both accrual and budgetary transactions. Under the accrual method, 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 and controls over the use of federal funds. The accompanying financial statements are prepared on the accrual basis of accounting. The USITC's fiscal year is October 1 through September 30. Fiscal year 2005 and 2004 financial statements are audited to allow comparison.

Note 1. Significant Accounting Policies - Continued

Assets - Intragovernmental assets are those assets that arise from transactions with other federal entities. Funds with the U.S. Treasury composed the majority of intragovernmental assets on USITC's balance sheet.

Financing Sources - The USITC has received a no-year appropriation for operations since fiscal year 1993. Appropriations are recognized as revenue and expensed when related operating expenses are incurred. Differences between appropriations received and expensed are included as unexpended appropriations. Congress appropriated to the USITC $61,700,000 and $58,295,000 for salaries and expenses in fiscal years 2005 and 2004, respectively. Congress also rescinded funds in the amount of $824,115 and $613,340 for fiscal years 2005 and 2004, respectively.

C. *Fund Balances with the U.S. Treasury* - Cash receipts and disbursements are processed by the Treasury. Fund balance with the Treasury represents appropriated entity funds in the custody of the U.S. Treasury and is available to pay current liabilities and finance authorized purchase commitments. The USITC's obligated and unobligated fund balances are carried forward until goods or services are received and payments are made, or until such time as funds are deobligated.

D. *General Property, Plant, and Equipment* - USITC capitalizes acquisitions with costs exceeding $50,000 and useful lives of two or more years. Property and equipment consist of equipment and software. Depreciation expense is calculated using the straight-line method over its estimated economic useful life as follows: software, 7 years; and equipment ranges from 5 to 7 years.

Internal use software development and acquisition costs of $100,000 or more are capitalized as software development in progress until the development stage has been completed and the software successfully tested. Upon completion and testing, software development-in-progress costs are reclassified as internal use software costs and amortized using the straight-line method over the estimated useful life. Purchased commercial software which does not meet the capitalization criteria is expensed.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Notes to the Financial Statements - Continued

September 30, 2005 and 2004

Note 1. Significant Accounting Policies - Continued

E. *Accrued Annual Leave* - Annual leave is accrued quarterly, although it is not funded until it is used by employees. To the extent current and prior-year appropriations are not available to fund annual leave earned but not taken; funding will be obtained from future salaries and expenses appropriations. Sick, compensatory, and certain other types of leave are not accrued and are expensed when used by the employee.

F. *Net Position* - Net position is the residual difference between assets and liabilities and is composed of unexpended appropriations and cumulative results operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative results of operations are the net result of USITC's operations since inception.

G. *Intergovernmental Activities* - The USITC records and reports only those Government-wide financial matters for which it is responsible and identifies only those financial matters that the USITC has been granted budget authority and resources to manage.

H. *Use of Estimates* - The preparation of the accompanying financial statements requires management to make estimates and assumptions about certain estimates included in the financial statements. Actual results will invariably differ from those estimates.

I. *Tax Status* - USITC, as a federal agency, is not subject to federal, state, or local income taxes and accordingly, no provision for income taxes is recorded.

J. *Reclassifications* - Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Notes to the Financial Statements - Continued

September 30, 2005 and 2004

Note 2. Non-Entity Assets

	2005		
	Entity	Non-Entity	Total
Intragovernmental:			
Fund balance with Treasury	$ 10,624,125	$ 242,786	$ -
Accounts Receivable	347,720	-	-
Total intragovernmental	10,971,845	242,786	11,214,631
Accounts receivable	1,635	500,000	501,635
Prepaid expenses	208,000	-	208,000
Plant, property, and equipment	3,320,719	-	3,320,719
Total	3,530,354	500,000	4,030,354
Total assets	$ 14,502,199	$ 742,786	$ 15,244,985

	2004		
	Entity	Non-Entity	Total
Intragovernmental:			
Fund balance with Treasury	$ 10,996,653	$ 253,036	$ -
Total intragovernmental	10,996,653	253,036	11,249,689
Accounts receivable	6,981	750,000	756,981
Plant, property, and equipment	2,493,449	-	2,493,449
Total	2,500,430	750,000	3,250,430
Total assets	$ 13,497,083	$ 1,003,036	$ 14,500,119

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Notes to the Financial Statements - Continued

September 30, 2005 and 2004

Note 2. Non-Entity Assets - Continued

Non-entity funds include copier fees collected from the public for Freedom of Information Act (FOIA), civil penalty fees, and other collections which will be turned over to the U.S. Treasury and are not available for use by the USITC. Non-entity assets are assets that the USITC holds, but does not have authority to use. A part of the fund balance with Treasury is non-entity and the remaining is entity. Entity assets are those assets which the reporting entity holds and has the authority to use in its operations.

Note 3. Fund Balances with Treasury

	2005	2004
A. Fund Balances:		
Appropriated Funds	$ 10,624,125	$ 10,996,653
Other Fund Types	242,786	253,036
Total	$ 10,866,911	$ 11,249,689
B. Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 2,194,716	$ 777,300
Unavailable	-	408
Obligated Balance not yet Disbursed	5,070,807	7,892,157
Total	$ 7,265,523	$ 8,669,865

Fund Balances with Treasury is the sole intragovernmental asset. The entity fund balance represents funds appropriated by Congress for use by the USITC. No entity funds are restricted; however, in accordance with Section 605 of Title 5 of Public Law 105-277, Congressional approval is required under certain reprogramming or transfer actions.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Notes to the Financial Statements - Continued

September 30, 2005 and 2004

Note 4. Accounts Receivable, Intragovernmental

Intragovernmental assets arise from transactions among Federal entities. An overpayment for rent on the ITC leased building resulted in an Intragovernmental Accounts Receivable in the amount of $347,720 on September 30, 2005. This amount was credited through IPAC in October 2005.

Note 5. Accounts Receivable, Net

The balance of funds receivable from USITC employees for the parking program is $1,635 and $6,981 on September 30, 2005 and 2004, respectively.

A civil penalty was imposed by the USITC in the amount of $ 1,000,000 in fiscal year 2003. A receivable was set up in fiscal year 2004, and $250,000 was collected in fiscal years 2005 and 2004. As a result, there were balances of $500,000 and $750,000 outstanding at September 30, 2005 and 2004, respectively.

Note 6. Prepaid Expenses

The USITC prepaid for parking spaces for employees for fiscal year 2006. Employees who participate in the parking program reimburses the agency at a subsidized rate. The amount prepaid at September 30, 2005 was $208,000.

Note 7. General Property, Plant, and Equipment, Net

Major classes of general property, plant, and equipment include: 1) office furniture, fixtures, and equipment, and 2) information systems and data handling equipment. Depreciation is recorded annually, at the end of the fiscal year using straight-line method, based on estimated useful lives of seven years and five years, respectively, with a ten percent residual value.

UNITED STATES
INTERNATIONAL TRADE COMMISSION

Notes to the Financial Statements - Continued

September 30, 2005 and 2004

Note 7. General Property, Plant, and Equipment, Net - Continued

Fiscal Year 2005	Acquisition Value	Accumulated Depreciation	Net Book Value
Office Furniture, Fixtures, and Equipment	**$ 1,438,444**	**$ 924,111**	**$ 514,333**
Software	**3,798,083**	**991,967**	**2,806,386**
	$ 5,236,527	**$ 1,915,808**	**$ 3,320,719**

Fiscal Year 2004	Acquisition Value	Accumulated Depreciation	Net Book Value
Office Furniture, Fixtures, and Equipment	$ 1,223,453	$ 796,452	$ 427,001
Software	2,650,499	584,051	2,066,448
	$ 3,873,952	$ 1,380,503	$ 2,493,449

Note 8. Liabilities Not Covered by Budgetary Resources

	2005		
	Entity	Non-Entity	Total
Intragovernmental			
Other	$ -	$ 742,786	$ -
Total intragovernmental	$ -	$ 742,786	$ -
Unfunded leave	$ 2,948,491	$ -	$ -
Total liabilities not covered by budgetary	2,948,491	742,786	3,691,277
Total liabilities covered by budgetary	3,707,957	-	3,707,957
Total liabilities	$ 6,656,448	$ 742,786	$ 7,399,234

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Notes to the Financial Statements - Continued

September 30, 2005 and 2004

Note 8. Liabilities Not Covered by Budgetary Resources - Continued

	2004		
	Entity	Non-Entity	Total
Intragovernmental			
Other	$ -	$ 1,003,036	$ -
Total intragovernmental	$ -	$ 1,003,036	$ -
Unfunded leave	$ 2,960,000	$ -	$ -
Total liabilities not covered by budgetary	2,960,000	1,003,036	3,963,042
Total liabilities covered by budgetary	2,333,769	-	2,333,769
Total liabilities	$ 5,293,775	$ 1,003,036	$ 6,296,811

Intragovernmental: Other liabilities consist of a civil penalty imposed by the USITC which, upon collection, are held in trust for the U.S. Treasury. Other liabilities also include copier fees collected from the public for FOIA and other collections.

Unfunded Leave: Accrued Annual Leave is the value of leave accumulated by USITC employees which is funded when used. The current portion is dependent upon such use and is, therefore, not accurately determinable.

Liabilities Covered by Budgetary Resources: These current liabilities are accounts payable, employer contributions, payroll taxes, accrued funded payroll, withholdings payable, and liabilities payable to the public.

Note 9. Contingencies

USITC has certain claims and lawsuits pending against it. Provision has been made in USITC's financial statements for losses considered probable and estimable. These amounts are considered by management to be immaterial. Management believes that losses, if any, from other claims and lawsuits would not be material to the fair presentation of USITC's financial statements.

Note 10. Gross Cost by Budget Functional Classification

The Statement of Net Cost for USITC uses a Budget Functional Classification (BFC) code. BFC codes are used to classify budget resources presented in the Budget of the United States Government per OMB. The Statement of Net Cost for financial purposes is designed to summarize Intragovernmental Costs, Costs with the Public, and Costs Not Assigned to Programs. The only cost that is included under the section "Costs Not Assigned to Programs" is the (decrease)/increase in Annual Leave Liability in the amounts of $(11,516) and $40,925 in fiscal years 2005 and 2004, respectively (see note 13). The total Net Cost was $61,237,034 and $54,756,811 at September 30, 2005 and 2004, respectively.

Note 11. Prior Period Adjustment

Prior to fiscal year 2003, many of the EDIS II costs were expensed. All costs were recognized as assets and adjusted accordingly in the software account as a prior period adjustment in 2004. Accumulated depreciation was calculated for all the costs from January 1, 2003 through September 30, 2003.

In addition, there was an acquisition of equipment which was to be recorded as a capital lease since fiscal year 2000, but the payments were expensed. In the fiscal year 2003, the equipment was bought out by USITC. Prior years were adjusted to book the equipment in the asset account and the necessary adjusting entries were made and accumulated depreciation was calculated. A prior period adjustment for fiscal year 2003 was made for the net addition.

Prior year fixed asset additions	$ 2,908,014
Accumulated depreciation	(500,089)
	$ 2,407,925

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Notes to the Financial Statements - Continued

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Note 12. Spending Authority from Offsetting Collections/Adjustments

Spending authority from offsetting collections consists of refunds of prior year expenditures reported to U.S. Treasury as collections. Adjustments include debt obligation of prior year funds.

	2005	2004
Spending authority from offsetting collections	$ 14,268	$ 14,536
Recovery of prior year obligations	636,623	685,329
	$ 650,891	$ 699,865

Note 13. Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

This represents the net increase in accrued annual leave reflected on the balance sheet as a liability not covered by budgetary resources. Costs of this nature are incurred in this reporting period and are a component of net cost of operations. Other liabilities not covered by budgetary resources are not a part of net cost of operations or obligations incurred and are not reflected on the Statement of Financing.

Note 14. Non-Exchange Revenue – Custodial Activities

In fiscal years 2005 and 2004, the USITC functions in a custodial capacity with respect to revenue transferred or transferable to recipient government entities or the public. These amounts are not reported as revenue to the USITC.

The USITC collects a civil penalty for the United States pursuant to 19 U.S.C. §1337(f)(2) in connection with violations of cease and desist orders. A person who violates a cease and desist order can be assessed a civil penalty of up to $100,000 for each day on which a violation occurs or up to twice the domestic value of the goods imported or sold in violation of the order. Payments are made to USITC and held temporarily by USITC in a custodial capacity until remitted to the U.S. Department of the Treasury.

A civil penalty was imposed by the USITC for $1,000,000 in fiscal year 2003. A receivable was set up in fiscal year 2004, and USITC collected $ 500,000, $250,000 of which has been remitted to Treasury. As of September 30, 2005 and 2004, USITC has a long-term receivable of $500,000 and $750,000, respectively.