OFFICE OF INSPECTOR GENERAL

Audit of the African Development Foundation's Financial Statements for Fiscal Years 2008 and 2007

AUDIT REPORT NO. 0-ADF-09-002-C
November 17, 2008

WASHINGTON, DC

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 17, 2008

MEMORANDUM

TO: ADF President and CEO, Lloyd O. Pierson

FROM: AIG/A, Joseph Farinella /s/

SUBJECT: Audit of the African Development Foundation's Financial Statements for Fiscal Years 2008 and 2007 (Audit Report No. 0-ADF-09-002-C)

With this memorandum, the Office of Inspector General is transmitting the audit report prepared by the certified public accounting firm of Leonard G. Birnbaum and Company, LLP (Independent Auditor) on the Financial Statements of the African Development Foundation (ADF) as of September 30, 2008 and 2007. We contracted with this Independent Auditor to audit the financial statements.

The Independent Auditor expressed an unqualified opinion that ADF's financial statements, including notes thereto, presented fairly in all material respects its financial positions, the net cost of operations, the changes in net position, and use of budgetary resources for the years ended September 30, 2008 and 2007, in conformity with U.S. generally accepted accounting principles. The report included a significant deficiency related to ADF's management of grants as discussed on page 14 of the report. ADF is required to address this significant deficiency in the Chief Financial Officer's (CFO) Letter contained in the report, pursuant to the requirements of OMB Circular A-136 and to provide timeframes for correcting the inadequacies, but ADF did not. Therefore, we are making the following recommendation:

We recommend that ADF develop a corrective action plan to remediate the significant deficiency and to transmit a revised CFO letter to OMB, GAO and the U.S. Treasury that documents the timeframes for correcting the inadequacies, in accordance with Section II.1.3, CFO Letter of OMB Circular A-136, *Financial Reporting Requirements*.

The report contained no material weaknesses in the internal controls over financial reporting and no instances of material noncompliance with selected provisions of applicable laws and regulations involving ADF's financial management system. In addition, there were no instances in which ADF's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) Section 803(a).

We reviewed the audit report and found it to be in accordance with auditing standards generally accepted in the United States; the Government Auditing Standards issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin (OMB) 07-04, *Audit Requirements for Federal Financial Statements*.

In connection with our contract, we reviewed the Independent Auditor's related audit documentation. Our review, as differentiated from an audit in accordance with the auditing standards discussed above, was not intended to enable us to express, and we do not express, an opinion on ADF's financial statements. We also do not express opinions on the effectiveness of ADF's internal control, ADF's substantial compliance with FFMIA Section 803(a), or ADF's compliance with other laws and regulations. The Independent Auditor was responsible for the attached auditor's report dated November 7, 2008 and the opinions expressed in it. However, our review disclosed no instances where the Independent Auditor did not comply, in all material respects, with the auditing standards discussed above.

The Office of Inspector General appreciates the cooperation and courtesies extended to our staff and to the staff of Leonard G. Birnbaum and Company, LLP during the audit. If you have questions concerning this report, please contact Rohit Chowbay at (202) 712-1317.

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AFRICAN DEVELOPMENT FOUNDATION

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2008

Leonard G. Birnbaum and Company, LLP
6285 Franconia Road
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November 7, 2008

AFRICAN DEVELOPMENT FOUNDATION
MESSAGE FROM THE PRESIDENT

I am pleased to submit the FY 2008 Performance and Accountability Report for the African Development Foundation (ADF).

ADF has a unique development assistance mission in the Federal government. The Foundation works directly with marginalized and under-served poor populations across Africa, with a focus on long-term economic development. Local economic development is the key to poverty alleviation; therefore a majority of ADF funding goes toward community-based groups. A major component of ADF's approach is directed toward helping to develop and grow small and medium-sized enterprises in Africa that produce both economic gains and quality of life improvements. These gains are measured in terms of more jobs, improved incomes, better work conditions, and greater access to educational and health services.

In FY 2008, ADF expanded its special mission to work directly with Africa's poorest and most marginalized communities. Programming was initiated in Mauritania, the Tuareg area of Niger and Mali, and post-conflict Burundi. ADF also signed country protocols in Burkina Faso and Malawi. ADF now has program agreements in 20 countries.

ADF's operating model is one of low overhead to maximize the amount of appropriated dollars that provide direct economic development assistance to the most underprivileged populations in Africa. In FY 2008, the Foundation continued to focus attention on lowering costs, speeding up delivery of services, and improving our strategic partnership initiative. Overhead expenses were reduced by more than 20 % below the projected levels on October 1, 2007 while program funding increased by 32% over FY 2007 levels. ADF has pledged to be a Federal agency model of openness and transparency and has taken significant actions to make this happen, including launching a new public information directory on our web site. A new Board of Directors was installed in October 2008, and has begun its oversight role.

The financial statements and the performance results data contained herein are complete, reliable, and prepared in accordance with the Office of Management and Budget requirements and in conformity with generally accepted accounting principles. ADF has appropriate management controls in place to ensure that all internal controls are operating in accordance with applicable policies and procedures and are effective in meeting the requirements imposed by the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

Signed:

/s/
Lloyd O. Pierson
President and CEO

AFRICAN DEVELOPMENT FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

About the African Development Foundation

The 1980 African Development Act established a bold and unique mission to ensure that United States development dollars would bypass layers of governmental inefficiencies and work directly at the community level in Africa. This new approach aimed to maximize the participation of the poor in the identification, design, implementation, and evaluation of projects addressing the most pressing social and economic needs of the local community. ADF shares a common commitment to form a united front with other United States foreign assistance agencies to combat poverty and the conditions that sustain it. ADF invests directly in African-owned enterprises, farming cooperatives, and community-based groups to create jobs and better incomes for poor communities. Currently, ADF has 316 active grants (including Cooperative Agreements with African Partner Organizations) in 18 countries, representing over $56 million in direct funding to enterprises, community groups, and local development organizations.

Analysis of Financial Statements

ADF is pleased to report that in FY 2008 the Foundation continued to receive an unqualified opinion on all financial statements from its independent auditors, Leonard G. Birnbaum and Company. Since FY 2001, ADF has received an unqualified opinion on the Balance Sheet, the Statement of Net Costs, the Statement of Net Position, and the Statement of Budgetary Resources.

Assets

ADF's *Fund balance with Treasury* increased, from $24.8 million at the end of FY 2007 to $31.5 million at the end FY 2008. ADF's FY 2008 appropriation was $7 million higher than the FY 2007 appropriation. The Continuing Resolution in effect during the first quarter of FY 2008 resulted in a delay in the Agency's initiation of new programming. ADF obligates multi-year grants in their entirety and disburses the funds over a period of two to three years, resulting in a higher fund balance than would occur were the funds to be disbursed in a shorter time period.

Cash and other monetary assets consist of foreign currency donations made by African governments and private-sector entities with which ADF has established strategic partnerships. The funds are held in bank accounts in each country where such a partnership is in effect. These assets increased, from $6.4 million at the end of FY 2007 to $8.2 million at the end of FY 2008, primarily due to new donations from strategic partners in Rwanda and Nigeria during FY 2008.

Liabilities and Net Position

Liabilities did not change significantly from FY 2007 to FY 2008. ADF's *Net Position* (the sum of the Unexpended Appropriations and Cumulative Results of Operations) at the end of 2008 as shown on the Balance Sheet and the Statement of Changes in Net Position was $41.5 million, a $9 million increase from the previous fiscal year. *Unexpended Appropriations* of $32.3 million represent funds appropriated by the Congress for use over multiple years that were not expended by the end of FY 2008. *Cumulative Results of Operation* of $9.2 million consists primarily of funds donated by strategic partners that were not expended by the end of FY 2008.

Net Cost of Operations

The *net cost of operations* is defined as the gross (i.e., total) cost incurred by the Agency, less any exchange (i.e., earned) revenue. Program costs assigned to program activities, such as grants and cooperative agreements, decreased from $16.3 million in FY 2007 to $15.2 million in FY 2008, due primarily to reduced program activities in Ghana and restructuring of the Africa Regional Office. Costs not assigned to program, such as office expenses, staff salaries, and other administrative costs, decreased from $11.1 million in FY 2007 to $10.5 million in FY 2008. This decrease is due to ADF's continuing effort to reduce overhead and to become a more efficient organization.

Close to one-third of ADF's non-program expenses are related to payroll. The next most significant category of expense, also at approximately one-third, relates to the on-the-ground presence ADF maintains in African countries. The remaining one-third relates to rent, travel, supplies, publications, training, contractual services, and information technology.

Budgetary Resources

ADF's budgetary resources consist of its annual appropriation from Congress, which are available for two years, and donations from strategic partners. ADF's FY 2007 appropriation was $23 million; its FY 2008 appropriation was $30 million. ADF received $4.7 million in donations from strategic partners, representing an increase from $3.7 million received in FY 2007.

Limitations of Financial Statements

ADF's principal financial statements have been prepared to report the financial position and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from books and records in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

ADF Quality Assurance, Internal Controls, and Legal Compliance

A key to the success of ADF's methodology is the hands-on approach that is taken with every grantee. As soon as a grantee receives its first disbursement, a Regional Program Director and Portfolio Analyst begin monitoring. Regional Directors and Portfolio Analysts take an active role in monitoring budget execution, approving disbursements, approving budget shifts, reviewing expenditure reports, making adjustments to the timing of grantee activity, and even recommending suspension and termination, if the need should arise.

At the May 5th, 2008 ADF Board of Directors meeting, the ADF President issued a comprehensive directive that assigned responsibility for establishing, maintaining, evaluating, and reporting on internal controls. The directive included establishing an expanded and more independent Internal Audit function, a new Monitoring and Evaluation unit to access and report on ADF program effectiveness, clearly defined support functions of the Finance division, improved Contract Management and oversight, and broader program management responsibilities and accountability assigned to the Regional Program Directors. The directive included specific instructions as follows:

- The Audit Officer presents to the Office of the President the status (planned vs. actual) of: project-level audits by country; partner organization audits; Country Coordinator office audits; country level audit training completed; and audit policy status.

- The Monitoring and Evaluation (M&E) Officers present to the Office of the President the status of project-level M&E activities by country and a report on one of two annual case studies on ADF program effectiveness.
- The Finance Officer will report on budget management, funds accounting, disbursement activities, and the financial compliance of ADF operations, including the status of internal controls effectiveness and deficiencies.
- The Contracting Officer will report on contracting status and compliance of ADF operations.
- The Regional Program Directors present to the office of the President the state of operations at the country level. Status information to include: Country Coordinator and Partner Organization staff levels; staff training status; disbursement amounts and timing summary; project reporting performance, client financial training status; and project performance summary (remediation, termination, close out).

In FY 2009 the directive will be expanded to add the Management and Administration section to the bi-annual management review process that includes reporting and status of human resource management, information technology compliance, and records management.

Internal Operations

Inspector General Audit

In March 2008, the Inspector General (IG) advised ADF it had initiated a broad audit of ADF programs and operations based on a letter originating from Congressman Payne's office in October 2007. The ADF Board of Directors and the President welcomed the IG involvement and have been fully cooperative throughout the process. During the process ADF remains committed to conducting its own internal review and taking corrective actions wherever needed. The IG has completed their program audits of ADF activities in Senegal and Ghana. ADF has received the IG reports for each country and formally responded to the IG findings and recommendations.

Management proactively took several important steps to improve internal controls and compliance practices in ADF operations:

1) Enhanced Internal Audit Function

Prior to the IG audit activities, ADF management moved to establish and strengthen an independent internal audit capability that reports directly to the ADF President and the Board of Directors. The internal audit function will focus its efforts on assessing compliance with ADF financial policy and practices at the Country Coordinator Offices, ADF Partner Organizations, and the ADF project grantees. Each assessment will be followed by an Internal Audit Report and follow-up project plan.

2) Ghana Program Suspension

ADF Management has suspended any new project funding to the Ghana program until:

- The report of the Inspector General has been received and corrective actions have been completed by ADF; and
- ADF has implemented the necessary internal controls, management practices, and monitoring/ evaluation to ensure the appropriate use of taxpayer funds.

3) Improved Contracting Practices

During FY 2006 and 2007 contracting was managed at Headquarters through the Finance Division by two Contracting Officers trained in Federal Acquisitions Regulations. In the middle of FY 2007, contracting for professional services and facilities for three African countries was delegated to the Africa Regional Office (ARO) in Accra, Ghana as a part of an organizational shift to locate ADF management and oversight closer to the field of operations.

As a cost savings and control measure, all contracting authorities were returned to Washington, D.C. under the singular control and authority of the newly formed Management and Administration Division, which reports to the President of ADF. Additionally, a contract compliance specialist was engaged in November 2007 to review all existing ADF contracts to ensure that all agreements were in compliance with federal procurement standards and compensation levels were in line with ADF and client requirements. Any irregularities detected have been brought to the attention of ADF management and the Inspector General's office for appropriate action. Two contracting specialists have been retained to clear the back log of outstanding contract and procurement needs required to support field program activities.

4) Increased Transparency

To make ADF a model of openness and transparency in the Federal government, ADF has simplified the steps needed for the public to access and view information about ADF operations and programs. In December 2007, ADF launched the "Quick Source Information Directory" which is accessible from the ADF public website, www.usadf.gov. This Information Directory is organized into four primary categories: Financial; Personnel; Contracts; and Program. Users can view information online or save it to their computer for use at a later time. This initiative is in keeping with the intention and spirit of the recently enacted Coburn-Obama Act, which requires the full disclosure to the public of all entities or organizations receiving federal funds.

Management of Strategic Partnerships

Strategic partnerships have been central to ADF's unique business model. Over the past several years, ADF has established partnerships with a number of African governments and private sector entities for the purpose of leveraging U.S. taxpayer funds, thereby increasing the impact of ADF's programs on the poor in Africa. ADF has sought to obtain a one-to-one match for its appropriated dollars dedicated to programming. Since the establishment of strategic partnerships, however, the Foundation has learned several important lessons. Actual collections have lagged behind projections. Utilization of funds, also, in some cases, has been complicated by the desire of donors to have input in the review and award process. Over the four-year period ending September 30, 2008, ADF collected only $14.1 million of the over $56 million pledged. Of the amount collected ADF to date has utilized $10.8 million.

At the beginning of FY 2008, ADF's Board of Directors recognized that the strategic partnership approach needed retooling. ADF's new president was given the charge to assess the program's structure and make changes to ensure that collections match pledged donations. Learning from past collection efforts, ADF has re-emphasized the Regional Program Director (RPD) role and responsibility in actively managing strategic partner relationships. Management of strategic partnerships is a component of semi-annual program reviews for each RPD. Strategic partner donations are a component of ADF's bi-weekly funding review meeting and report. ADF currently holds an unobligated balance of $3.7 million of strategic partner funds on hand and, when possible, will utilize these funds in 2009.

Project Cycle Timelines

As a small-scale development foundation, ADF was established with a unique mission and a core operating principle to provide grants and partnership development funds quickly and efficiently. While there are several internal process issues that ADF must address, a new timeline has been established requiring that the review and evaluation of all funding proposals be completed no later than August 31 of each fiscal year. September will be devoted to finalizing all new grant obligations; 100 percent of first disbursements for new projects must be completed by the end of October each year. Additionally, the core internal process associated with project selection, design and approval is being reviewed and streamlined. These new standards for FY 2008 and 2009 will more than cut in half the time needed to get grant money to a qualified applicant.

Operating Expense Ratios

The operating expense ratio is one measure of an organization's efficiency in carrying out its mission. Accurately calculating operating expenses (OE) must be done against fixed income i.e. appropriated dollars. Including un-appropriated funds pledged but not received in OE calculations, as was done on occasion in the past, provides a distorted view of the actual operating expense ratio. In the future, OE will be measured only against appropriated dollars. Collections and leveraged funds will be correctly identified as funds available to ADF, but because of their uncertainty the numbers will not be used as a justification for long term staff expansion and program budgets. ADF management has undertaken a comprehensive review of all ADF operating expense categories and has taken actions to reduce ADF's expense ratio. Actions to date have included personnel reductions and the elimination of redundant field office activities. This is being done on an urgent basis and is fully supported by the ADF Board of Directors.

Personnel Practices

ADF management has completed a full review of all existing contracts and has reduced the use of American contractors overseas and in Washington. While currently 51 percent of ADF's workforce is African, ADF will continue to increase the number of Africans in country management positions overseas.

All Recruitment, Retention, and Relocation (RRR) incentives in place as of FY2007 have been reviewed and eliminated. Human resource policy has been revised to withdraw the use of future RRR incentive programs at ADF. The use of performance incentives will continue to be a component of ADF human resource management practices in ways that support the results based focus of the agency.

Management has drafted a re-structuring plan for 2009 to re-align and balance staff levels, and to provide for ADF's continuity of services. ADF will explore alternative personnel systems as a means to gain greater levels of cost effectiveness. ADF has also re-instituted a summer intern program.

Organization Realignments

ADF was intended to maximize the amount of project money flowing directly to community-based organizations and local enterprises by operating as a low-overhead, highly responsive organization. In October 2007, the ADF organizational structure was increasingly moving toward duplicate management in field operations and increasing overhead costs associated with additional upper level management positions. The 2007 organizational model also relied heavily on US expert contractors based in Africa. The cumulative effect of this structure was to reduce the amount of appropriated funds directly available for African project grants. In 2008, substantial progress was made in reversing this trend by reducing expensive contract positions and in consolidating management of field operations. A new organizational structure will be completed in FY 2009. Restructuring ADF is an important step to reduce overall operating expenses and to speed up the delivery of services to African communities. Several other important benefits are expected to be gained from this reorganization, including greater focus on accountability and results, greater separation of duties, and streamlined processes. The restructuring also places greater emphasis on monitoring and evaluation.

Identification of Key Factors That Could Affect Achievement of General Goals and Objectives

ADF's programs are designed to assist "the poorest of the poor in Africa." Our mandate is to build a broad base for sustainable economic development in Africa, thereby enabling the people of Africa to break the vicious cycle of poverty. There are a number of factors that could affect program goals and objectives, including poor communication systems, poor infrastructure, unsuitable health conditions, poverty, the threat of civil strife, and political instability. Despite these challenges, ADF projects have proven to be highly successful.

AFRICAN DEVELOPMENT FOUNDATION
ANNUAL PERFORMANCE INFORMATION

ADF'S Purpose, Mission, Vision, and Goal Statements:

Purpose:	Fostering hope, growth, and goodwill in Africa.
Vision:	To end the poverty of a million Africans by investing in their ideas.
Mission:	To support underserved communities in Africa with resources that help create better economic opportunities for all.

The 1980 African Development Act established a unique mission to ensure that United States development dollars would bypass layers of governmental inefficiencies and work directly with marginalized and under-served populations at the community level to promote economic development. ADF was established to operate in an expedited, responsive manner, with low overhead levels. ADF seeks to maximize the participation of the poor in the identification, design, implementation, and evaluation of projects that address the most pressing social and economic needs of the local community.

The specific legislative language states that ADF shall give priority "to projects which community groups undertake to foster their own development and in the initiation, design, implementation and evaluation in which there is the maximum feasible participation of the poor." The organizations must be "indigenous to Africa."

The ADF Act (Section 290h-2) clearly outlines the purposes of all ADF activities:

(1) To strengthen the bonds of friendship and understanding between the people of Africa and the United States;
(2) To support self-help activities at the local level designed to enlarge opportunities for community development;
(3) To stimulate and assist effective and expanding participation of Africans in their development process; and,
(4) To encourage the establishment and growth of development institutions which are indigenous to particular countries in Africa and which can respond to the requirements of the poor in those countries.

ADF's Management Priorities

Management has established eight operational priorities for FY 2008 and 2009 to ensure that ADF is effectively meeting its obligations to the United States taxpayer and making a positive impact in Africa (see table 11 below). The majority of these focus on ADF programming activities and achieving greater cost effectiveness in operations in order to increase the amount of appropriated dollars going directly to poor communities in Africa.

2008 - 2009 Operational Priorities

1. Maintain operations in all of the countries with programming commitments and ensure program consistency with ADF's mandate and project selection criteria.
2. To the maximum extent possible, ensure Africans are key personnel in the management of all field operations.
3. Continue to reduce ADF overhead expenses and maximize funds available for Project Grants and partner organizations.

4. Serve as a model Federal agency for openness and transparency.
5. Strengthen ADF's monitoring and evaluation unit using existing resources to elevate our emphasis on project results, outcomes, and lessons learned.
6. Review, adjust as necessary, and vigorously pursue all strategic partner MOUs and committed funding levels.
7. Explore the establishment of new ADF programs in highly marginalized communities located in Western Sahara, Mauritania *(done)*, the Tuareg area of Niger and Mali *(done)*, Northern Kenya, Somalia, Somaliland, Eritrea, the Casamance area of Senegal, and Guinea-Bissau; and where feasible to include de-mobilized soldier groups.
8. Consistent with the ADF Act, explore additional public/private partnerships as a means of leveraging funds.

Several important management actions are underway to improve on programming, financial, and personnel practices. A number of the most important steps have been completed to simplify and streamline the project review and approval processes and lower costs to more efficiently achieve ADF mission objectives. Cost reduction actions taken to date include major contractor reductions, compensation adjustments, elimination of redundant regional office functions, de-layering ADF's organizational structure, and retaining current Washington Office facilities.

Additionally, the Foundation's Board of Directors and President have completed several important steps to enable the agency to strengthen program operations further. These include:

- Strengthened the Foundation's focus in accordance with its original legislative intent.
- Improved field operations with clearer oversight roles and filling key positions in local offices.
- Developed a streamlined project selection, design, and approval process, reducing the time between project application and disbursement to 180 days.

Performance Highlights

Because of the time-consuming nature of field data collection and analysis in remote rural areas of Africa, the investment results for a given fiscal year cannot be available in time for that year's PAR. Consequently, the FY 2008 PAR focuses on performance data for FY 2007. Due to the time lag time in the client's reporting schedule and field data collection, the performance indicators for ADF's investments focus on the 12-month period ending June 30 of each year ("the API/PART reporting year").

In 2007, ADF-funded projects produced some important results:

- In total, 46,000 people directly benefited through jobs created/improved; 47% of those who benefited are women.
- Gross enterprise revenues increased by $56.8 million over baseline values.
- Export sales grew by $5 million over baseline exports.

Beyond the numbers, ADF-funded projects are making a difference in the quality of life for Africans in many hundreds of poor communities across the countries where ADF has active programs. Project narratives that describe the types of projects ADF supports and the impact these projects can have on people in Africa can be viewed online at www.usadf.gov. Also, see the link for "The Matameye Women's Cooperative" on the home page.

Program Performance Indicators - Growth

A detailed set of ADF performance indicators is displayed in the table below. Performance indicators in FY 2007 showed significant improvements in the effectiveness of ADF funds to help grow Small and Medium Sized Enterprises in Africa. For example, the "investment multiplier" increased from 2 in FY 2006 to 3.5 in FY 2007. This indicator tracks how much sales revenues increased for each ADF dollar provided to that enterprise. Although considerable time and effort is needed to develop local growth engines, ADF clients prove they can productively use ADF funds to increase revenues and expand operations.

Program Performance Indicators – Long Term Viability

Of particular interest are the two important and related indicators of profitability (indicator #3) and sustainability (indicator #5). These indicators significantly increased in FY 2007. The FY 2007 performance data shows that 86 percent of projects in ADF's portfolio are sustainable and 80 percent are profitable. This shows the long-term staying power of the ADF development assistance approach. ADF-supported enterprises and community groups continue to provide needed jobs and increased incomes to local communities well after ADF support has ended.

ADF's PART Performance Indicators and Targets for FY 2007

	Key Performance Indicators	Actuals			Targets		
	PART Indicator	FY05	FY06	FY07	FY05	FY06	FY07
1	Cumulative revenue growth (active + expired)[1]	$28,060	$43,582	$56,395	$23,000	$26,000	$31,000
2	**Investment multiplier (active + expired)[1]**	1.68	2.05	3.48	1.8	2	2.20
3	**Profitability rate (active)**	38%	44%	81%	65%	70%	70%
4	CRG compliance rate (active)	13%	39% [2]	31% [2]	20%	50%	70%
5	**Sustainability rate (expired)**	59%	62%	86%	0%	0%	75%
6	Strategic partnership funding as percent of total project funding	31%	32%	25%	28%	35%	40%
7	Cumulative follow-on financing (active + expired)[1]	$ 9,501 [3]	$29,610 [3]	$36,399	TBD	TBD	TBD
8	External enterprise trust fund leveraging (annual)	-	-	-	$ 1,000	$ 2,000	$ 2,000
9	Overhead rate (annual)	31%	32%	36%	25%	25%	25%
10	Median disbursement time in days (annual)	NA	NA	NA	45	26	NA
	API/Other						
11	Number of active projects[4]	204	156	250			
12	Current grant value of active projects[4]	$33,947	$32,960	$26,695			
13	Proportion of current grant value for enterprise growth	70%	75%	75%			
14	Cumulative disbursements (enterprise growth)[5]	$16,717	$21,210	$16,202			
15	New project obligations (EEI + EDI)	$11,450	$8,047	$13,343			
16	Owners and full-time workers (active)	114,597	46,553	45,870			
17	Proportion of women owners and full-time workers	65%	46%	47%			
18	Proportion of revenue growth from active projects	97%	19%	16%			
19	Investment multiplier (active)	1.9	0.6	0.8			
20	Investment multiplier (expired)	0.4 [3]	5.1 [3]	11.4			
21	Cumulative growth in value of loans disbursed (active)	$6,302	$3,940	$ 4,188			
22	Cumulative growth in export sales (active + expired)	ND	ND	$4,970			
23	Cumulative RIC contributions received (active)	$599	$202	$942			
24	Cumulative RIC contributions expected (active)[2]	$4,071	$5,470	$7,551			

USD in Thousands

[1] Expired within past 3 years

[2] Post revaluation

[3] Incomplete data

[4] Number of active EEI in 2006; EEIs and EDIs in 2007

[5] With baseline sales data

November 7, 2008

AFRICAN DEVELOPMENT FOUNDATION
OMB Circular A-123 Assurance Letter

Fiscal Year 2008

Annual Assurance Statement on Internal Control over Financial Reporting

The African Development Foundation's management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The ADF conducted its assessment of the effectiveness of ADF' internal control over financial reporting in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the ADF can provide reasonable assurance that internal control over financial reporting as of June 30, 2008 was operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

Signed:

/s/
Lloyd O. Pierson
President

November 7, 2008

AFRICAN DEVELOPMENT FOUNDATION
MESSAGE FROM THE CFO

I am pleased to present the FY 2008 comparative Financial Statements for the African Development Foundation. These statements were prepared in accordance with generally accepted accounting principles in the U.S.

As in previous years, ADF has no material weaknesses or instances of noncompliance to report. The agency is in full compliance with the Federal Managers Financial Integrity Act, the Federal Financial Management Improvement Act, and all other laws and regulations to which the agency is subject.

Signed:

/s/
William E. Schuerch
Chief Financial Officer

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the President,
African Development Foundation:

We have audited the African Development Foundation's (ADF) Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources (Principal Financial Statements) as of, and for the years ended, September 30, 2008 and 2007; we have considered internal control over financial reporting in place as of September 30, 2008; and we have tested compliance with laws and regulations.

In our opinion, ADF's 2008 and 2007 Annual Financial Statements are presented fairly in all material respects.

We found the following:

- no instances of material weakness in the internal controls over financial reporting,
- a significant deficiency in ADF's internal control in management of grants, and
- no instances of noncompliance with selected provisions of applicable laws and regulations involving ADF's financial management system.

Each of these conclusions is discussed in more detail below. This report also discusses the scope of our work

ANNUAL FINANCIAL STATEMENTS

In our opinion, ADF's 2008 and 2007 Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources, including the notes thereto, present fairly, in all material respects, ADF's financial position as of September 30, 2008 and 2007, and the net cost of operations, the changes in net position, and use of budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

<u>INTERNAL CONTROL</u>

We considered ADF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Annual Financial Statements. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget's (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the following objectives are met:

- transactions are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over assets;

- funds, property, and other assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and

- transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements and other laws and regulations that the Office of Management and Budget (OMB), or ADF management have identified as being significant for which compliance can be objectively measured and evaluated.

Our consideration of internal control would not necessarily disclose all matters of internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We consider the following inadequacies in ADF's management of grants to be a significant deficiency:

- management has not implemented action to remediate problems associated with project implementation or terminated grants of ineffective or failing projects, particularly (1) those with weak financial management practices, (2) where fraud and misuse of funds is indicated, (3) where ineligible and/or unsupported costs were charged to the grants, and (4) where the grantees were not in compliance with the terms of their agreements,
- management has not effectively implemented monitoring and evaluation processes to ensure that reporting by grantees was accurate, complete and supported or provided related training,
- management has not executed audits of certain partner organizations and grantees as planned,

- audits that have been completed were not performed in compliance with ADF policy, and
- management has not performed quality control procedures of the audits of ADF's grant programs.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Because of inherent limitations in internal controls, misstatements, losses, errors or irregularities may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operations that we considered to be material weaknesses as defined above.

COMPLIANCE WITH LAWS AND REGULATIONS

ADF's management is responsible for complying with laws and regulations applicable to ADF. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of ADF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts, and certain other laws and regulations specified in OMB Bulletin 07-04, including the requirements referred to in FFMIA. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to ADF. The objective of our audit of the Annual Financial Statements, including our tests of compliance with selected provisions of applicable laws and regulations, was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions in statutes and regulations, which cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or that sensitivity warrants disclosure thereof.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB-Bulletin 07-04.

Under FFMIA, we are required to report whether the ADF's financial management systems substantially comply with the federal financial management system requirements, applicable accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements. The results of our tests disclosed no instances where the ADF's financial management systems did not substantially comply with the Federal financial management system requirements, applicable Federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

RESPONSIBILITIES AND METHODOLOGY

ADF management has the responsibility for:

- preparing the Annual Financial Statements and other accompanying information in conformity with accounting principles generally accepted in the United States of America;

- establishing and maintaining effective internal control; and

- complying with applicable laws and regulations.

Our responsibility is to express an opinion on these Annual Financial Statements based on our audit. Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the Annual Financial Statements are free of material misrepresentation and presented fairly in accordance with accounting principles generally accepted in the United States of America. We considered ADF's internal control for the purpose of expressing our opinion on the Annual Financial Statements referred to above and not to provide an opinion on internal control. We are also responsible for testing compliance with selected provisions of applicable laws and regulations that may materially affect the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the Annual Financial Statements;

- assessed the accounting principles used and significant estimates made by management;

- evaluated the overall presentation of the Annual Financial Statements;

- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of ADF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls;

- obtained an understanding of the process by which ADF identifies and evaluates weaknesses required to be reported under FMFIA and related agency implementing procedures;

- tested compliance with selected provisions of laws and regulations that may have a direct and material affect on financial statements;

- obtained written representations from management; and

- performed other procedures, as we considered necessary in the circumstances.

Our audits were conducted 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 07-04. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis is not a required part of the Annual Financial Statements, but are supplementary information required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended for the information of the Inspector General of U.S. Agency for International Development and management of the African Development Foundation. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

/s/
Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 7, 2008

African Development Foundation
BALANCE SHEETS
As of September 30, 2008 and 2007

	FY 2008	FY2007
ASSETS		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 31,478,499	$ 24,842,615
Total intragovernmental	31,478,499	24,842,615
Cash and other monetary assets (Note 4)	8,276,924	6,405,219
Accounts receivable	925	268
Advances and prepayments (Note 5)	2,090,886	1,649,341
General property, plant and equipment – Net (Note 6)	676,622	610,076
TOTAL ASSETS	$ 42,523.856	$33,507,519
LIABILITIES		
Intragovernmental:		
Accounts payable	$ 157,965	$ -
Total intragovernmental	157,965	-
Accounts payable	$ 419,143	489,475
Other (Note 7)	400,449	402,304
TOTAL LIABILITIES	$ 977,557	$ 891,779
NET POSITION		
Unexpended Appropriations	32,344,209	24,359,219
Cumulative Results of Operations	9,202,090	8,256,521
TOTAL NET POSITION	41,546,299	32,615,740
TOTAL LIABILITIES AND NET POSITION	$42,523.856	$33,507,519

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENTS OF NET COST
For the Years Ended September 30, 2008 and 2007

	FY 2008	FY 2007
PROGRAM COSTS		
Gross Costs	$ 15,270,768	$ 16,349,502
Less: earned revenue	(17,380)	(7,535)
Net program costs	15,253,388	16,341,967
Cost not assigned to program	10,535,962	11,117,425
NET COST OF OPERATIONS	$ 25,789,350	$ 27,459,392

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2008 and 2007

	FY 2008	FY2007
Cumulative Results Of Operations:		
Beginning Balances	$ 8,256,521	$ 6,567,451
Adjustments:		
Corrections of errors (Note 9)	(1,247,505)	-
Beginning Balances, as adjusted	7,009,016	6,567,451
Budgetary Financing Sources:		
Appropriations used	23,019,515	25,213,795
Other Financing Sources (Non-Exchange):		
Donations and forfeitures of property	4,713,923	3,717,351
Imputed financing	231,606	217,316
Other	17,380	-
Total Financing Sources	27,982,424	29,148,462
Net Cost of Operations	25,789,350	27,459,392
Net Change	2,193,074	1,689,070
Cumulative Results Of Operations:	9,202,090	8,256,521
Unexpended Appropriations:		
Beginning Balances	24,359,219	27,055,611
Adjustments:		
Corrections of errors (Note 9)	1,247,505	-
Beginning Balances, as adjusted	25,606,724	27,055,611
Budgetary Financing Sources:		
Appropriations received	30,000,000	22,799,629
Other adjustments	(243,000)	(282,226)
Appropriation used	(23,019,515)	(25,213,795)
Total Budgetary Financing Sources	6,737,485	(2,696,392)
Total Unexpended Appropriations	32,344,209	24,359,219
Net Position	$41,546,299	$32,615,740

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2008 and 2007

	FY 2008	FY2007
BUDGETARY RESOURCES		
Unobligated Balance, brought forward, October 1:	$ 4,505,790	$ 6,257,243
Recoveries of Prior year unpaid obligations	2,233,710	1,282,953
Budget Authority		
Appropriation	34,731,303	27,043,780
Nonexpenditure transfers, net, anticipated, and actual	-	88,681
Permanently not available	(243,000)	(282,226)
TOTAL BUDGETARY RESOURCES	$41,227,803	$34,390,431
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred – Direct	31,224,438	29,884,641
Unobligated balances (Note 3)		
Apportioned	3,558,027	765,950
Exempt from apportionment	3,737,028	1,261,310
Unobligated balances – unavailable (Note 3)	2,708,310	2,478,530
TOTAL STATUS OF BUDGETARY RESOURCES	$41,227,803	$34,390,431
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net – as of October 1		
Unpaid Obligations, brought forward	26,742,043	23,525,888
Obligations Incurred	31,224,439	29,884,641
Gross Outlays	(25,980,713)	(25,385,533)
Recoveries of prior year unpaid obligations, actual	(2,233,710)	(1,282,953)
Obligated Balance, Net - End of Period		
Unpaid Obligations	29,752,058	26,742,043
NET OUTLAYS		
Gross Outlays	25,980,713	25,385,533
Net outlays	25,980,713	25,385,533

The accompanying notes are an integral part of these statements.

African Development Foundation
Notes to the Financial Statements
As of September 30, 2008

Note 1. Organization

The African Development Foundation ("ADF" or "the Foundation") is a government-owned corporation established by Congress under the African Development Foundation Act in 1980 and began operations in 1984. The Foundation is the principal agency of the U.S. Government that supports community-based, self-help initiatives that alleviate poverty and promote sustainable economic and social development in Africa at the grassroots level. The Foundation's headquarters are in Washington, D.C. ADF maintains partnerships with local organizations, staffed with African professionals, in each of the countries in which it operates. Over the past 23 years, the Foundation has funded more than 1600 projects in 34 African countries.

Note 2. Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis to report the financial position and results of operation in accordance with the concepts and standards contained in the Statements of Federal Financial Accounting Standards, as required by the Chief Financial Officers Act of 1990. These statements have been prepared from the books and records of the Foundation in accordance with the form and content for federal financial statements specified in the Office of Management and Budget (OMB) in *OMB Circular No A-136, Financial Reporting Requirements,* as amended, and the Foundation's accounting policies, which are summarized in this note.

B. Basis of Accounting

Transactions are recorded on an accrual basis. Grants are recorded when obligated and expenses are recognized when the funds are expended, without regard to receipt or payment of cash. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of grants and expenses during the reporting period. Actual results will invariably differ from those estimates.

C. Fund Balances with Treasury and Cash

The Foundation maintains the majority of its funds in the U.S. Treasury. These are amounts for which the Foundation is authorized to make expenditures and pay liabilities. In addition, commercial, noninterest bearing accounts (in local currencies) are maintained with Barclays Bank of Botswana, Citibank Nigeria, and Banco Comercial do Atlantico in Cape Verde, Standard Chartered Bank in Ghana, Ecobank in Mali, Citibank and Zenith Bank in Nigeria, First National Bank of Swaziland in Swaziland, Standard Chartered Bank in Zambia, EcoBank Guinea, EcoBank Benin and Standard Chartered Uganda, Banque Commerciale du Rwanda to process grant funds for those countries. Governments with whom ADF has entered Strategic Partnerships deposit donations into these accounts. In general, grants are funds equally with appropriated funds and donated funds. ADF controls all disbursements from these accounts.

D. Foreign Currencies

The Foundation awards grants to private organizations in Africa. Most of the grants are denominated in local currencies to facilitate accounting by the recipient organizations. Depending on the nature of the transaction, foreign currencies are translated into dollars at the actual exchange rate received by the Foundation when the transaction is made or at the prevailing exchange rate at the beginning of the month in which the transaction occurred. The value of obligations incurred by the Foundation in foreign currencies varies from time to time depending on the current exchange rate. The Foundation adjusts the value of its obligations at the end of each quarter during the year to reflect the prevailing exchange rates. Downward adjustments to prior year obligations based on favorable foreign currency exchange rates will be made available for obligation if the adjustment occurs within the Foundation's authorized two year funding period. Upward adjustment to prior year obligations based on unfavorable foreign currency exchange rate with the U.S. dollar will be made from funds made available for upward adjustments, if any, or from currently available funds.

E. Grant Accounting

The Foundation disburses funds in advance to grantees to cover their projected expenses over a three-month period. Grantees report to the Foundation periodically on the actual utilization of these funds. For purposes of these financial statements, the Foundation treats disbursements to grantees as advances. The advance is reduced when the grantee reports expenditures. The total grant advance is the total amount disbursed to the grantee less the total expended for open (nonexpired) grants as of the reporting date. In order to ensure timeliness in reporting grantee expenditures, the Foundation will use estimates to complete to calculate the last quarter's grantee expenditures based on historical expenditure trends since 1996 and disbursement activity funding that quarter's activity. The actual expenditures adjustments will be reported in the following quarter's financial statements. Once a grant has closed (expired or cancelled) any excess disbursement is reclassified as an Accounts Receivable.

F. Travel Advances

Advances are given to ADF employees for official travel. Travel advances are recorded as expenses upon receipt of employee travel vouchers.

G. Property, Plant and Equipment, Net

The space in which the Foundation operates is leased by the Foundation through a multi–year lease. Equipment is depreciated using the straight–line method over useful lives, which is estimated at five years. Equipment with an acquisition cost of less than $5,000 or less than two years of life is expensed when purchased.

H. Accounts Payable

Accounts payable represent amounts owed to nonfederal entities, primarily commercial vendors, for goods and services received by ADF.

I. Contingencies

The Foundation is a party in various administrative legal actions and claims brought by or against it. According to the Foundation's legal counsel, the likelihood of unfavorable outcomes for all these legal actions and claims is remote. In the opinion of the Foundation's management, the ultimate resolution of these proceedings, actions, and claims will not materially affect the financial position or results of operations of the Foundation.

J. Annual, Sick, and Other Leave

Annual, sick, and other leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the Foundation calculates the value of the accrued annual leave at the end of the year based on current pay rates. Funding for payment of accrued annual leave at the end of the year will be taken from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

K. Retirement Plan

The Foundation's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Foundation makes statutory contributions to the Office of Personnel Management for employees enrolled in each plan. The Foundation does not report accumulated assets, plan benefits or unfunded liabilities, if any, attributable to its employees. The Office of Personnel Management reports such amounts.

L. Trust Fund

The Foundation maintains a Trust Fund with the U.S. Treasury in accordance with its gift authority.

Note 3. Fund Balances with Treasury

A. Fund Balances:

	FY 2008	FY 2007
General Funds	$ 31,431,866	$ 24,806,561
Trust Fund	46,633	36,054
Total	$ 31,478,499	$ 24,842,615

B. Status of Fund Balance with Treasury:

	FY 2008	FY 2007
Unobligated Balance		
Available	$ 3,558,027	765,950
Unavailable	2,708,310	2,478,530
Exempt from apportionment	41,158	31,967
Obligated balance not yet disbursed	25,171,004	21,566,168
Total	$ 31,478,499	$ 24,842,615

Note 4. Cash and Other Monetary Assets

ADF's funds held outside the Treasury consist of local currency donations made by African governments and certain private sector entities for program purposes in each respective country. September comparative balances are summarized below

	FY 2008	FY 2007
EcoBank Mali	1,815,085	1,407,401
Zenith Bank Nigeria – Kano	1,044,143	323,481
Barclays Bank of Botswana	1,020,934	1,143,987
Stanbic Bank of Uganda	790,488	178,387
Cape Verde	726,110	539,366
EcoBank Guinea	588,404	625,571
EcoBank Benin	580,206	560,803
Standard Chartered Ghana	577,469	1,015,383
Banque Commerciale du Rwanda	572,578	-
EcoBank Senegal	220,706	345,592
Zenith Bank Nigeria – Kaduna	143,498	-
First National Bank Swaziland	88,816	171,552
Standard Chartered Zambia	65,276	60,938
Citibank Nigeria	43,211	32,758
Total Funds Held Outside Treasury	$ 8,276,924	$ 6,405,219

Note 5. Advances

ADF's advances as of September 30, 2008 and 2007 are summarized below:

	FY 2008	FY2007
Grants	$ 2,086,286	$ 1,649,341
Travel	4,600	-
Total	$ 2,090,886	$ 1,649,341

Note 6. Property, Plant and Equipment, Net

Equipment is capitalized at cost if the initial unit acquisition cost is $5,000 or more and service life is two years or more. Equipment with an acquisition cost of less than $5,000 or less than two years of life is expensed when purchased.

ADF's property, plant, and equipment as of September 30, 2008 and 2007

	FY 2008	FY 2007
Equipment, at cost	$ 1,343,751	$ 1,109,246
Accumulated Depreciation	(667,129)	(499,170)
Equipment, net	$ 676,622	$ 610,076

Note 7. Other Liabilities

Other liabilities represent amounts accrued for employee payroll and annual leave.

	(Current) FY 2008	(Current) FY 2007
Employees' accrued salary	$ 152,031	$ 145,658
Accrued annual leave	248,418	256,646
Total	$ 400,449	$ 402,304

Note 8. Leases

The space in which the Foundation Headquarters operates is leased by the Foundation through Ten year lease until May 31, 2018. The total amount of funding commitment is detailed in Table 1.

ADF also enters into year-to-year leases in the countries with established Country Representative Offices.

TABLE 1 – ADF Headquarters'

Space Lease – Total Future Payment Due

Fiscal Year	Dates	Amount
Year 1	June 1, 2008 - May 31, 2009	$698,873
Year 2	June 1, 2009 - May 31, 2010	$716,305
Year 3	June 1, 2010 - May 31, 2011	$734,209
Year 4	June 1, 2011 - May 31, 2012	$752,584
Year 5	June 1, 2012 - May 31, 2013	$771,430
Year 6	June 1, 2013 - May 31, 2014	$806,766
Year 7	June 1, 2014 - May 31, 2015	$826,868
Year 8	June 1, 2015 - May 31, 2016	$847,599
Year 9	June 1, 2016 - May 31, 2017	$868,801
Year 10	June 1, 2017 - May 31, 2018	$890,474
TOTAL		$ 7,913,909

Note 9. Correction of Errors

On the Statement of Changes in Net Position for fiscal year ended September 30, 2008 a correction was made to the beginning balances of cumulative results of operations and unexpended appropriations. This correction reduced the beginning balance of cumulative results of operations and increased the beginning balance of unexpended appropriations by $1,247,505. The overall impact of this correction on net position is zero dollars. Since this correction is recorded in FY 2008, so no prior years financial statements were restated.

The cause of errors is due to incorrect entries in past years on recording of donated fund expenses. In addition to the appropriate funds, ADF also has donated funds from other countries. Donated fund expenses should only be closed to cumulative result of operations instead of unexpended appropriations. In prior years some transactions for donated funds were closed to unexpended appropriation account.

Management has taken the following step to correct these misclassifications in the future:

- Management will perform monthly review of Unexpended Appropriation account (3100) to ensure the integrity of trial balance and enter any corrective adjusting entries.

Note 10. Reconciliation of Net Cost of Operations to Budget

African Development Foundation
RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET
For the Years Ended September 30, 2008 and 2007

	FY 2008	FY2007
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$31,224,438	$29,884,641
Less: Spending Authority from offsetting collections & recoveries	(2,233,710)	(1,282,953)
Net Obligations	28,990,728	28,601,688
Other Resources		
Imputed financing from costs absorbed by others	231,606	217,316
Other	(17,380)	(7,535)
Net Other Resources Used to Finance Activities	214,226	209,781
Total Resources Used to Finance Activities	29,204,954	28,811,469
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 (Increase)	(3,357,554)	(1,328,933)
Other resources or adjustments to net obligated resources That do not affect net cost of operations	17,380	-
Resources that finance the acquisition of assets	(281,706)	(193,203)
Total resources that do not fund net costs	(3,621,880)	(1,522,136)
Total Resources Used to Finance Net Cost of Operations	25,583,074	27,289,333
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase (decrease) in Accrued Annual Leave Liability	(8,229)	45,465
Total components of Net Cost of Operations that will require or Generate resources in future periods	(8,229)	45,465
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Loss/(gains) on the disposal of assets	-	2,809
Depreciation and amortization	215,161	234,767
Others	(656)	(112,982)
Total components of Net Cost of Operations that will not require or Generate resources	214,505	124,594
Total components of Net Cost of Operations that will not require or Generate resources in the current period	206,276	170,059
NET COST OF OPERATIONS	$25,789,350	$27,459,392

The accompanying notes are an integral part of these statements.