OFFICE OF INSPECTOR GENERAL

Audit of the U.S. African Development Foundation's Financial Statements for Fiscal Years 2007 and 2006

AUDIT REPORT NO. 0-000-08-002-C
November 14, 2007

WASHINGTON, DC

USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 14, 2007

MEMORANDUM

TO: USADF President and CEO, Lloyd O. Pierson

FROM: AIG/A, Joseph Farinella Joseph Farinella

SUBJECT: Audit of the U.S. African Development Foundation's Financial Statements for Fiscal Years 2007 and 2006 (Audit Report No. 0-ADF-08-002-C)

The final report on the subject audit is enclosed. The Office of Inspector General contracted with the independent certified public accounting firm of Leonard G. Birnbaum and Company, LLP (LGB) to audit the financial statements of the U.S. African Development Foundation (USADF) as of September 30, 2007 and 2006 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; generally accepted auditing standards; Office of Management and Budget Bulletin 07-04, *Audit Requirements for Federal Financial Statements;* and the Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual. LGB determined that:

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,

- there were no material weaknesses or significant deficiencies in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,

- there were no instances in which USADF's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) Section 803(a), and

- there were no instances of reportable noncompliance with laws and regulations tested.

In connection with the audit contract, we reviewed LGB's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on USADF's financial statements. We also express no conclusions on the effectiveness of USADF's internal control, USADF's substantial compliance with FFMIA Section 803(a), or USADF's compliance with other laws and regulations. LGB is responsible for the attached auditor's report dated November 7, 2007 and the conclusions expressed in it. However, our review disclosed no instances where LGB did not comply, in all material respects, with generally accepted government auditing standards.

The report does not contain recommendations. USADF comments to the auditor's report are included in Appendix I.

The Office of Inspector General appreciates the cooperation and courtesies extended to our staff and to the staff of LGB during the audit. If you have questions concerning this report, please contact Andrew Katsaros at (202) 712-4902.

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AFRICAN DEVELOPMENT FOUNDATION

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2007

Leonard G. Birnbaum and Company, LLP
6285 Franconia Road
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November 9, 2007

AFRICAN DEVELOPMENT FOUNDATION
MESSAGE FROM THE PRESIDENT

It gives me great pleasure to report that FY 2007 has been a very successful year for the African Development Foundation (ADF).

ADF fosters hope, growth, and goodwill in Africa. Its programs are focused on creating opportunities for Africa's poor, especially improving the lives of those at the lower end of the spectrum.

ADF's major country programs align with those African countries that have large marginalized communities:

- In Nigeria, Ghana, Zambia, Tanzania and Uganda, ADF concentrates its investment to develop small and medium-sized, African-owned enterprises and to help small farmers diversify production into high value cash crops for the global market.

- In Liberia and Rwanda, ADF's programs provide income-generating activities for communities recovering from conflict, thereby promoting peace and stability.

- In Guinea, Northern Nigeria, Mali, Niger, and Senegal, ADF's programs foster goodwill between the American people and predominately Muslim countries; moreover, these programs help alleviate poverty, which may contribute to the spread of radical Islamic fundamentalism.

ADF has proven its effectiveness and demonstrated its uniqueness and impact. We had some noteworthy accomplishments during this past year.

- Keeping up our track record of the past several years running, the Foundation continued to demonstrate how its funding directly improves people's lives:

  - In FY 2007, ADF *directly* supported more than 250 enterprises.

- From the growth of these enterprises, more than 46,500 jobs were created or improved; half of those benefiting from ADF's support were women.

- These ADF-assisted businesses had $82.3 million in sales revenue.

- During the past three years, small agricultural producers had $66.3 million total in export earnings, demonstrating their increased competitiveness in global markets.

➢ As an indication of their strength and sustainability, almost 70 percent of ADF's clients were still in business three years after assistance ended.

➢ American companies are linking with ADF for African-made products. We are in active discussions with Macy's, General Mills and Cargill to link with African enterprises that will be able to produce to international standards and sell, at a fair price, to those companies.

ADF has produced significant results with relatively small appropriations. The Foundation is being recognized – within the development community, in the Administration, and in Congress – as one of the most distinctive and effective foreign assistance programs we have. Moreover, it serves as a powerful example of the compassion and goodwill of the American people.

I am pleased to submit the FY 2007 Performance and Accountability Report for the African Development Foundation. The financial statements and the performance results data are complete, reliable and prepared in accordance with the Office of Management and Budget (OMB) 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

AFRICAN DEVELOPMENT FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

About the African Development Foundation

Congress established the African Development Foundation (ADF) in 1980 as a U.S. Government corporation dedicated to promoting grassroots development in Africa. ADF provides grants to private enterprises and other nongovernmental organizations in Africa. The usual maximum grant size is $250,000, but ADF can fund larger projects as rare exceptions, with the approval of the Board of Trustees and notification of Congress. The usual maximum grant duration is five years, but may extend to seven years in some circumstances. ADF:

- finances sustainable poverty alleviating initiatives that are conceived, designed, and implemented by Africans and aimed at enlarging opportunities for community development;

- expands the participation of Africa’s poor in the development of their countries; and

- builds sustainable African institutions that foster development at the grassroots level.

The African Development Foundation’s mission is to respond to the needs of small African entities and help communities take control of their own development – from the bottom-up. Its assistance enables informal enterprises to move into the formal economy, small businesses to grow into robust enterprises that can produce high quality products as substitutes for expensive imports and for regional and global markets, and poor farmers to produce nontraditional high-value cash crops, and capture additional revenue through processing prior to export.

The Foundation takes a unique approach to development assistance:

- ADF’s program allows Africans to drive their own development. ADF develops the capacity of its local partner institutions to work with prospective clients in assessing clients’ operations, identifying solutions, and achieving intended results.

- ADF initiated the concept of the “Reinvestment Contribution,” or RIC, through which grantees commit to reinvesting a portion of their profits to support community development projects.

- ADF provides funds directly to the intended beneficiary, rather than through government agencies, nongovernmental organizations, and the like. This means that 100 percent of the funding goes directly to the project participants.

As the international community rallies to help reduce poverty and promote broad-scale economic growth in Africa, it is recognized that all too little of external funding is actually getting to the grassroots. The African Development Foundation can demonstrate tangible, measurable outcomes, which are *directly* attributable to its support. These outcomes have an economic impact that far surpasses the original value of the grant.

The Office of Management and Budget rated the agency fully "effective," after completing the comprehensive Program Assessment Reporting Tool (PART) in FY 2005. This is its highest rating and is a significant accomplishment, given that only 11 percent of federal agencies, and a mere 5 percent of grant-making programs, receive it.

Analysis of Financial Statements

ADF is pleased to report that in FY 2007 the Foundation continued to receive an unqualified opinion on all financial statements from its independent auditors, Leonard G. Birnbaum and Company, and the USAID Office of the Inspector General. Since FY 2001, ADF has received an unqualified opinion on the Balance Sheet, the Statement of Net Costs, the Statement of Net Position, the Statement of Budgetary Resources, and the Statement of Financing.

Fund Balance with Treasury

The fund balance with Treasury remained constant from FY 2006 to FY 2007. This is due primarily to the fact that ADF's appropriations remained constant, as described below.

Net Cost of Operations

Costs associated with program activities increased, from $12.9 million in FY 2006 to $16.3 million in FY 2007. This is due primarily to increased expenses associated with a growing grant portfolio. As the number of grants supported grows, expenses will increase gradually over the average five-year period of the typical ADF grant. In addition, there were increased field costs associated with the office in Accra, Ghana.

Operating expenses increased from $9 million in FY 2006 to $10.9 million in FY 2007. This is due to a combination of factors including higher payroll costs due to cost of living allowance and with-in grade increases, normal rent increases, additional technology expenditures, and increased costs associated with the country representative offices and the office in Accra, Ghana.

Close to one-third of ADF's operating 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 sixteen African countries. Having ADF country representatives in close contact with our grantees is a hallmark of the ADF program. The remaining one-third relates to rent, travel, supplies, publications, training, contractual services, and information technology.

Appropriations

ADF's appropriations are available for two years. Due to the year-long continuing resolution CR in FY 2007, ADF's appropriations remained at $23 million in FY 2007/2008, straightlined from the prior year. In addition to current year appropriations, ADF carried forward approximately $4.5 million in unused FY 2006/2007 appropriations and donated funds. These carried forward resources enabled ADF to fund $13.8 million in grant obligations, a large increase over the prior year's programming levels of $8 million. As a result, however, ADF has carried forward only a small amount of funding from the FY 2007/2008 to the current year. If the FY 2008 CR lasts for the entire year, ADF will need to make major cuts in both its programming and operating obligations to live within such limited resources.

Improper Payments

The African Development Foundation has no improper payments to report for FY 2007.

Challenges to ADF Operations

ADF's operating environment presents many challenges. Ensuring that grantees receive timely disbursements is one such challenge. All grantees are required to establish separate bank accounts for their ADF grants. Once a disbursement request is approved, the funds are electronically transferred, in local currency, directly to the grantee's bank account. Because a number of intermediary banks may be involved in the process, the time between the release of funds from the U.S. and the posting of funds to the grantee's account can be inordinately long.

In FY 2007, ADF began using the International Treasury System (ITS), a part of the US Treasury, for making local currency disbursements to grantees. This new method of disbursement provided immediate improvements in both cost and efficiency. Because the Treasury processes a high volume of foreign currency transactions, ADF benefited from a much more favorable exchange rate on its local currency disbursements. In the age of a weakening dollar, ADF experienced significant savings over the rates obtained through private sector currency providers. In addition, ITS added a level of efficiency that made the disbursement process faster and more secure.

To help our grantees receive their funds as quickly and efficiently as possible, we document the flow of funds with written confirmations as the funds move through various financial institutions until they reach the grantee's bank. Then, on those occasions when the posting of the grantee's funds is delayed, he/she can go directly to the bank, armed with the thorough documentation of the transaction that we provide, and request that the funds be posted immediately. With this monitoring system, our grantees receive timely payments virtually all the time.

ADF's grantees are located in over 15 countries, often in remote locations. Effective communication can be difficult, especially in countries where telecommunications systems are not reliable. While ADF has an extensive field network working directly with grantees and ensuring that grantees provide quarterly financial and performance reports, communicating this information back to ADF Washington can be challenging. During FY 2007, ADF began implementing updated, web-based grant information system. This will allow local staff to input project-related directly into the database, which can then be used by headquarters staff to measure project performance more efficiently.

ADF Quality Assurance, Internal Controls and Legal Compliance

During 2007, ADF made additional improvements in internal controls. Building on the improvements made to the grant and cooperative agreement audit program in FY 2005, ADF implemented further refinements this year. In FY 2006, ADF had restructured its auditor position and filled it with a highly qualified certified public accountant with a strong government auditing background. In FY 2007, we have begun to see the benefits of dedicating a full-time person to internal control issues. The auditor manages the audit program for project grantees, determines which projects will be audited, defines the scope of work required for each audit, evaluates the performance of contracted auditing firms, and authorizes payment to contracted auditing firms. Based on the ADF auditor's thorough review of grantee audit results, the agency's Audit Committee is informed of any material issues raised by the audit firms. These issues are then tracked by the portfolio managers responsible for the grantees in question to ensure timely follow up.

As a small agency, managers and staff work closely on all aspects of program management, and this ensures a high level of review over financial transactions. In FY 2007, the auditor continued the major initiative begun in FY 2006 to assess risk, test controls, evaluate their effectiveness, and recommend improvements to ADF's internal control systems. These actions will not only ensure that ADF has a strong internal control system in place but will also allow for potential procedural improvements that will lead to a more efficient use of ADF's limited resources.

ADF's grants database has a full time Grants Database and Operations Manager, who is the primary person responsible for the continued integrity and security of all grantee administrative and financial data reported. The financial information contained in the database is reconciled monthly with the financial information contained in the agency's core financial system, Oracle Federal Financials. During FY 2007, ADF conducted on-the-ground training in several West African countries on the use of the web-based system. Additional training is planned for FY 2008. Within the next two years, ADF expects to complete the implementation of the system in each African country where we have a presence. This major accomplishment will allow ADF program and senior managers to have access to real time information.

A key to the success of ADF's methodology is the hands-on approach we take with every grantee. As soon as grantees receive their first disbursement, the Regional Program Coordinators and Portfolio Analysts begin monitoring the grantees that have been assigned to them. They 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.

In FY 2005, ADF eliminated all long-standing material weaknesses related to its core financial system. ADF's systems are now fully compliant with all OMB and Treasury requirements. ADF is fully compliant with the Federal Managers Financial Integrity Act and the Federal Financial Management Improvement Act.

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. These factors include poor communication systems, poor infrastructure, unsuitable health conditions, poverty, the threat of civil strife, and political instability, just to name a few. Despite these challenges, ADF projects have proven to be highly successful.

Limitations of Financial Statements

ADF's principal financial statements have been prepared to report the financial position and results of operations of the entity, 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.

AFRICAN DEVELOPMENT FOUNDATION
ANNUAL PERFORMANCE INFORMATION

ADF has clearly articulated purpose, vision and mission statements:

Purpose: Fostering hope, growth and goodwill in Africa.
Vision: To stimulate grassroots development and empower the poor in Africa by growing profitable businesses and sustainable social enterprises.
Mission: To be a leader in promoting high impact activities and innovative approaches to improve the lives of Africans.

ADF's strategic goals and objectives are designed to ensure that there is a system in place to track and measure agency performance against the purpose, mission, and vision.

ADF's Program and Strategic Goals and Objectives

Goal I: Invest in small businesses and social enterprises that create jobs, generate income, and improve the lives of the poor.

Despite recent impressive growth and development, sub-Saharan Africa still lags behind all other regions of the world. Every significant socio-economic indicator (GNP per capita, life expectancy, infant and child mortality, adult literacy, primary and secondary school enrollment, total fertility) shows that the welfare of the people of Africa is still significantly worse than every other region.

ADF funds projects that directly and significantly improve the livelihoods of low-income people. The Foundation stresses innovation and rigor in its projects to create jobs and increase incomes for the poor. ADF seeks to stimulate growth on a large scale by demonstrating successful models that can be replicated by African governments, large bilateral and multilateral donors, and private voluntary organizations.

Strategic Objective 1: *Grow African-owned small and medium-sized enterprises and increase their participation in local and global markets*

Building on 25 years of experience in grassroots development, the Foundation has formulated a high impact strategy to help African-owned enterprises grow, develop new products, and take advantage of opportunities in both the local and global markets.

ADF has programs in Ghana, Tanzania, Uganda and Zambia, Cape Verde, Mali, Nigeria and Rwanda, focused on assisting small-scale enterprises and farmers cooperatives to produce, process and export about 40 products, including clothing and fabric, silk, dried fruit and juices, vegetables, processed grains and legumes, meats, hides and leather products, butter, fish products (Nile perch and rock lobster), various spices (paprika, chili peppers, vanilla), honey, sugar, tea, coffee, sea salt, ceramics, and solar-powered hearing aids. Many of these products are certified organic and, consequently, fetch a premium price for the producer.

Strategic Objective 2: *Expand small farmer production of high value crops, value-added* *processing of agricultural goods, and access to local and global markets*

Poverty in Africa is most pervasive in rural areas. With as many as three quarters of the populations in many African countries depending on agriculture for their livelihood, the sector is truly the backbone of most economies. Enabling small farmers to move from subsistence farmer to production of high value cash crops has tremendous impact on improving the lives of Africa's poor, the rural economy, and even the environment. It provides rural families with sorely needed reliable employment and better incomes. This enables them to buy fertilizer to increase productivity of staple crops, purchase food they cannot grow, pay school fees and medical costs, and improve clothing and shelter. Moreover, the agriculture sector has extensive forward and backward linkages within African economies, so it can provide a significant stimulus to growth and stability, in rural and urban areas, in formal and informal enterprises.

ADF is stimulating economic growth in rural economies by:

- Identifying non-traditional high-value crops that have potential on regional and international markets

- Supporting their production by small-scale farmers through provision of training, technical assistance and seasonal agricultural credit;

- Establishing or expanding small-scale agro-processors, through operating capital and equipment procurement, and providing them technical and managerial assistance to ensure they meet market standards; and

- Creating new export marketing linkages for regional or international trade

Strategic Objective 3: *Develop sustainable social enterprises that meet critical social and economic needs of marginalized peoples*

No other continent is more afflicted by natural disasters, disease and civil conflict than Africa. Many countries have recently emerged from prolonged civil war or ethnic conflict that have wrought devastation to families and destroyed the local economies. Those situations – including northern Uganda, Rwanda, Burundi, the Democratic Republic of the Congo (DRC), and Liberia – will require innovative approaches to stimulating community action and unleashing entrepreneurship.

Examples of social enterprise support that ADF provides under this objective include the following:

- Education and mentoring for "night commuters", the children in northern Uganda who were displaced and traumatized by civil war and abductions;
- Service enterprises and basic rural infrastructure, such as health clinics, schools, and wells, utilizing contributions from a strategic partnership with Global Alumina in Guinea;
- Income-generating activities for families devastated by AIDS in Swaziland;
- Youth job training and community-based care for orphans and vulnerable children in Zambia, under an innovative public-private sector partnership.

In addition, much of ADF's programming in post-conflict situations – Liberia, Burundi, and DRC – will involve funding small enterprises and community-based organizations to generate income and deliver essential services to affected and marginalized communities and peoples.

Goal II: Expand local institutional and financial capacities that support businesses and social enterprise growth

Conventional ways of stimulating economic development through huge infrastructure, large-scale industries, or expensive international consulting firms have yielded too little benefit for too few people at high financial and environmental costs. Investments administered by government agencies and parastatal companies are often inefficient and ineffective. By contrast, ADF works directly at the grassroots level with private enterprises, producer groups, and community organizations that assist them.

ADF has extensive experience in participatory, grassroots development strategies that are appropriate for the types of clients most under-served by conventional foreign aid programs. In addition to the direct impact of ADF-funded investments on investment beneficiaries, ADF strengthens African institutional and financial capacities to support and sustain grassroots development. It also seeks to multiply benefits by influencing how government agencies, bilateral and multilateral donors, development banks, and non-governmental organizations foster economic development.

Strategic Objective 1: *Create local development trusts and generate renewable pools of local capital to fund small business growth and community initiatives.*

The Foundation has pioneered an innovative "pay it forward" mechanism called the Reinvestment Commitment (RIC), which will vary in size and nature depending on the kind of enterprise. This mechanism produces a *multiplier effect* for ADF's initial investment by creating renewable pools of local capital and by supporting various community-level needs.

The Foundation is providing intellectual leadership through this innovation. For example, the International Finance Corporation of the World Bank invited ADF to share its approach and experience to help it launch a new initiative focused on promoting "social enterprises." ADF, its Partner organization in Uganda, and the Rockefeller Foundation are undertaking a joint investment program funded, in part, from resources generated under ADF's program trusts.

Strategic Objective 2: *Strengthen the capacity of African business and community leaders to foster entrepreneurship and social philanthropy and to model transparency and accountability*

ADF's experience in grassroots development showed that there was a great need for local, African institutions and professionals able to provide high quality, reasonably priced technical assistance and training to enterprises and community groups. Consequently, during the past four years, ADF has pursued a unique business model to provide support to its applicants and clients. In most countries where it operates, the Foundation is investing in developing the capacity of indigenous non-governmental organizations, which serve as its "Partner." They help applicants that have passed the initial screening done by ADF's Country Representative to develop their ideas into business plans with rigorous financial analyses. After ADF awards a grant, the Partner organizations train the clients in financial management and participatory monitoring, visit them regularly to monitor progress and help rectify any implementation problems, and provide assistance in procurement and in preparation of quarterly financial and performance reports.

ADF transfers U.S. development expertise to its African Partner organizations through training and technical assistance to build their capacity. It also monitors the quality of their services and helps them plan and develop systems for attracting future funding from other sources. ADF's cooperative agreements with Partner organizations were awarded based on an open, competitive process; they are performance-based and renewable annually for up to five years.

Strategic Objective 3: *Establish strategic partnerships with African governments and institutions, development groups, and the private sector, to fund and replicate ADF programs and approaches*

ADF is building innovative partnerships with African governments and international corporations that can serve as vital sources of capital and technology to expand the impact of the Foundation's program.

The following countries have made contributions to ADF that have leveraged US taxpayer dollars:

- Botswana
- Swaziland
- Cape Verde
- Mali
- Senegal
- Nigeria
- Benin
- Uganda

Strategic Objective 4: *Promote and disseminate international and ADF best practices, lessons learned, and successful models for African-driven development*

African governments, other donors, and PVOs/NGOs are very interested in adopting new ways of fostering broad-based and sustainable economic development when the cost-effectiveness of these approaches has been demonstrated.

With the recent restructuring of headquarters, a new thrust for the Foundation is knowledge dissemination. Having funded more than 1,700 investments during the past twenty years, the Foundation has a rich set of lessons learned and has developed some best practices. ADF is disseminating its innovative development strategies, such as its grassroots trade and investment program and the RIC mechanism.

In FY 2008, ADF will undertake program evaluation and will strengthen its documentation and dissemination activities to encourage the replication of successful models and investments. ADF will share the lessons learned from impact evaluations, country program assessments, and cross-country sectoral studies with other government agencies and development organizations. The

Foundation will also participate in major international, regional, and national fora and conduct dialogues with development partners.

<u>Performance Highlights</u>

FY 2007 Program Funding

New program funding obligations totaled $17.2 million in FY 2007. New obligations for Partner Organization cooperative agreements and technical assistance providers (CAs/TAPs) amounted to $1.4 million. The CAs/TAPs support development of new investment plans and studies as well as ongoing technical and managerial assistance for existing investments. New enterprise development and expansion investments totaled $15.8 million.

Performance Tracking at ADF

ADF has collected annual performance information on its portfolio of investments since FY 1999 in its Assessment of Program Impact (API). Due to changes in program priorities and decisions to focus on the most meaningful indicators that can be measured reliably, many of the indicators used in the annual Assessment of Program Impact (API) have been modified over this period. For example, ADF has reduced or eliminated some indicators for microfinance projects and AIDS prevention and mitigation to reflect changes in program focus.

In FY 2005, for the Program Assessment Rating Tool (PART) process, ADF and the US Office of Management and Budget (OMB) agreed on 12 performance indicators with annual targets for a 5-year period. ADF worked closely with OMB to develop this core set of indicators that best reflect ADF's performance against its strategic objectives. Some of the PART indicators focus on the performance of the grantees' projects while others relate to the internal operations of the Foundation. The PART indicators fall into 4 categories: 1) business growth, expansion, and sustainability; 2) resource mobilization, 3) information dissemination; and 4) operational efficiency.

The PART indicators are reported annually in addition to the API indicators. Some PART indicators are derived from API indicators. Although ADF will continue collecting the API indicators because the information is useful in assessing the status of individual projects, country programs, and the overall portfolio, the Foundation's current performance targets are only based on the PART indicators.

FY 2007 Performance Targets and Preliminary Results

ADF's PART Performance Indicators and Targets for FY 2007

Indicator	Indicator Name	Type of Measure	FY 07 Target	FY 07 Actual
BUSINESS GROWTH AND EXPANSION				
Cumulative increase in sales of enterprise development projects over their extrapolated baseline level during the project period and the 3 yrs following the grant expiration date.	Revenue growth	Annual	$31	Not available
For every dollar disbursed to enterprise development projects that were active or have closed within past 3 yrs, the cumulative increase in their gross revenues (sales) over the extrapolated baseline level, during project period and for 3 yrs following the grant expiration date.	Investment multiplier	Annual	2.2	Not available
% of active enterprise development projects that have achieved positive net income – before income taxes, depreciation and CRG contributions – from end of the 3rd yr of grant until expiration	Profitability	Long-term	70%	Not available
% of active enterprise development projects current in meeting their CRG pledges by 3rd year of ADF grant	CRG contribution	Long-term	70%	Not available
% of completed enterprise development projects or social development projects that are still operating during the 3 yrs following expiration of the ADF grant	Sustain-ability	Long-term	65%	Not available

Indicator	Indicator Name	Type of Measure	FY 07 Target	FY 07 Actual
RESOURCE MOBILIZATION				
Funds received from strategic partnerships during the year as a percent of new ADF obligations for development	Strategic partnership contribution	Annual	40%	25%
Cumulative non-ADF loans, grants, or equity investments, received by active and closed projects from the ADF grant start date thru 3 yrs after expiration of ADF grant (in millions US$)	Follow-on financing	Long-term	TBD	Not available
Annual non-CRG, private sector investments or contributions for in-country enterprise trust funds (in millions $US)	Enterprise trust funds	Long-term	$2.0	Not available
OPERATIONAL EFFICIENCY				
ADF's non-program costs as a percentage of total USG appropriations and non-USG funding contributions received during the year	Overhead	Annual	25%	36%
Median time required between ADF Country Rep's receipt of a grant disbursement request and the arrival of the funds in the grantee's bank account	Disburse-ment efficiency	Annual	26	Not available
INFORMATION DISSEMINATION				
# of voluntary subscriptions to ADF e-newsletter	E-news subscribers	Annual	2600	Not available
Average number of page views of ADF's website, per month	Website use	Annual	69,000	Not available

The table, above, shows that only two of the PART indicators have FY 2007 results. 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 2007 PAR focuses performance data for FY 2006. Some of the organizational performance indicators that are not derived from field data pertain to the USG fiscal year ending September 30. 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").

The two indicators for which there are results are based on information available at Headquarters. The funds received from Strategic Partners, as a percentage of program obligations, lagged significantly behind the target. This is due to two factors: First, because strategic partnership funds are in the form of donations, receipt of funds depends on the ability of the host country governments to make the donation. In certain instances, changes in host country government personnel impacted the timeliness of collection, as the new government required time to focus on the purpose and importance of these funds to ADF's programming. Second, ADF's total programming was nearly twice as high as last year's level. A number of the projects funded this year were in countries for which there is no strategic partnership, thus helping to lower the overall percentage.

The overhead measure also missed the target in FY 2007. This was not because ADF's overhead spending exceeded basic cost of living increases. On the contrary, this was because achieving the target depends to a great extent on the total amount of resources available. In FY 2007, ADF's appropriation of $23 million was lower than the request in the President's Budget of $26 million. In addition, as noted above, collections from Strategic Partners were below target. Those two events combined to raise the overhead percentage.

Annual Performance Highlights – FY 2006

Most API and PART indicators are limited to the active investments. Much of the information on active investments is collected quarterly through client progress reports and financial statements.

To address sustainability and long-term impact, some of the PART indicators are also concerned with completed investments. Since ADF's clients are not required to submit quarterly progress reports after the investment completion date, a special annual data collection effort is needed to gather new information on the completed investments. To reduce the burden on field staff and the costs of data collection, which can be relatively high if travel to scattered or remote areas of African countries is needed, the data is collected for recently completed investments – those that expired within the past three years. Also, a much more limited set of information is expected for the completed investments.

Most of ADF's new program obligations in one year do not lead to grant disbursements until the following year. Disbursements may continue for five or more years, but a large share of the total disbursements are typically released by the end of the third year of the project. Initial project impacts tend to follow disbursements with a lag time of six to twelve months. The impact tends to grow faster in subsequent years, reaching a maximum in the last year of the project. Consequently, the performance results reported in the reporting year are mainly an outgrowth of ADF disbursements over the previous five years, rather than the current year.

API Indicators

Trends in the performance results for the API indicators from FY 2002 through FY 2006 are shown below. There are no targets for the API indicators for FY 2006 because ADF's targets were switched from the API indicators to the PART indicators in FY 2005.

Five-Year Trends for the API Indicators (cumulative numbers for active projects)

Performance Indicator	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Enterprises Assisted	86,180	80,946	95,176	108,341	Indicator discontinued
Owners and full-time workers in assisted enterprises[1]	96,854	112,802	115,827	114,597	46,553
Women as a percent of owners and workers in assisted enterprises[2]	58.1%	48.2%	75.6%	At least 64.9%	46.3%
Enterprises with loans	65,319	67,893	84,925	Indicator discontinued	Indicator discontinued
Cumulative value of loans disbursed	$11.243 million	$15.127 million	$17.250 million	$22.790 million	$17.136 million
Proportion of loans for women[3]	60.6%	61.8%	73.2%	Indicator discontinued	Indicator discontinued
Cumulative sales revenues from active enterprise projects[4]	$53.440 million	$28.830 million	$43.485 million	$54.836 million	$83.078 million
Net income of grantees during the year[4]	$14.611 million	$6.369 million	$8.807 million	$4.598 million	$3.110 million

[1]Unless actual data were available from grantee records or surveys to support higher numbers, the most conservative assumption was adopted -- that there was one owner/worker per enterprise assisted. The actual number for many projects is likely to be substantially higher than the reported number.
[2]In the absence of information on the gender of the owners and workers, the proportion of women beneficiaries was assumed to be zero. The actual proportion of women beneficiaries is likely to be substantially higher.
[3]This indicator was modified from the proportion of the number of loans that went to women to women's proportion of the total value of loans, which is a better measure of gender equity.
[4]For FY 2002 through FY 2004, gross revenues and net income of grantees included the income received by microfinance institutions. In FY 2005, ADF decided to stop including the income of microfinance institutions in gross revenues and net income to focus only on enterprise revenues. If the definitions from previous years had been retained, the gross revenues and net income in FY 2005 would have been higher than reported here.

Five-Year Trends for the API Indicators (continued).

Performance Indicator	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Export products promoted[1]	19	Indicator discontinued	Indicator discontinued	Indicator discontinued	Indicator discontinued
Cumulative export sales revenues from active enterprise projects	$7.594 million	$12.027 million	$21.530 million	$33.801 million	$11.046 million
People receiving AIDS prevention training	274,041	282,089	320,509	Indicator discontinued	Indicator discontinued
Women as a percent of people receiving AIDS prevention training[2]	66.8%	64.9%	66.7%	Indicator discontinued	Indicator discontinued
Partner organizations assisted	13	13	13	13	15
Host governments or donors providing funding for strategic partnerships	4	1	6	6	5
Funds from strategic partnerships[3]	$1.104 million	$0.455 million	$2.704 million	$3.541 million	$2.567 million

[1]This indicator was discontinued as a quantitative performance measure since a larger number is not necessarily better than a more focused program and there were inconsistencies in whether grantees lumped similar products together or split them into more specific categories.
[2]To produce a conservative estimate of gender equity, it was assumed that all of the beneficiaries were men if no gender-disaggregated data were available. The actual proportion of women among these beneficiaries is likely to be substantially higher than reported.
[3]In FY 2005, the indicator was changed from funds leveraged by strategic partnerships (which may not be received until the following year) to funds received from strategic partnerships during the year.

PART Indicators

Only 11 of the PART indicators were relevant in FY06. The remaining indicator, Enterprise Trust Funds pertains to an initiative that ADF did not plan to begin until a later year. Because the PART indicators were not established until FY 2005, PART data cannot be provided for earlier years.

PART Indicator Trends and Achievements Versus Targets

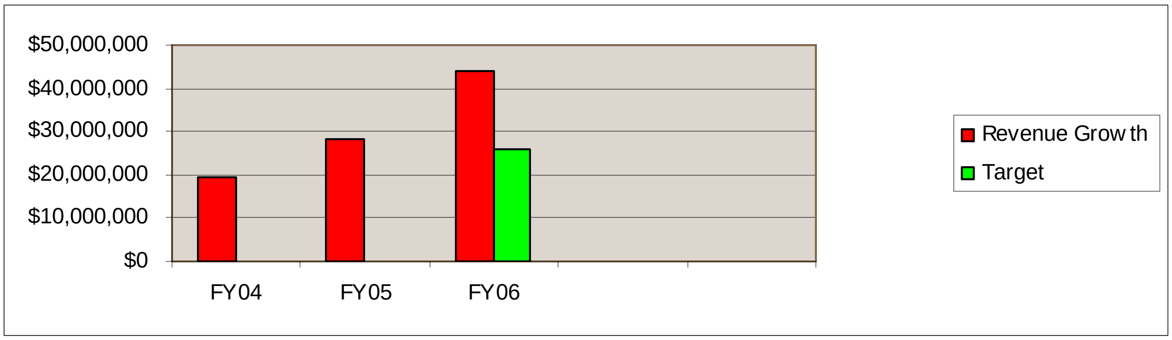
PART Indicators	FY 2005 Reporting Year	FY 2006 Target	FY 2006 Actual	Percent of Target Achieved
Revenue growth of active and completed MSE and T&I projects w/baseline data	$28. million	$26 million	$45 million	172%
Investment multiplier of active and completed MSE and T&I projects w/baseline data	1.68	2.00	2.33	117%
Profitability of active MSE and T&I projects	38%	70%	44%	63%
Community reinvestment	13%	50%	39%	77%
Sustainability of completed projects	59%	NA	69%	NA
E-newsletter subscribers	1,640	2000	2426	121%
Website usage	148,963	69,000	19,102	28%
Partnership contributions as a percent of total funding	31%	35%	32%	91%
Follow-on financing	$9.5 million	No target	$30 million	NA
Overhead rate[1]	31%	25%	32%	78%
Disbursement efficiency[1]	25 days	30 days	7 days	429%

[1]Lower numbers represent better performance under these two indicators, while higher numbers are best for the other indicators.

Summary of Key Performance Indicators By Program Goal

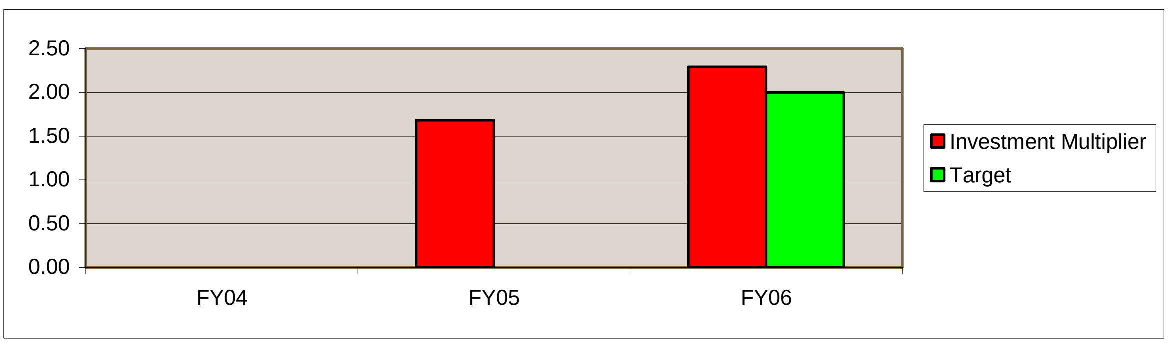
The API and PART indicators cut across ADF's goals and objectives. The following figures show the trends in key indicators for ADF's three program goals between FY 2004 and FY 2006 and the Foundation's targets for FY 2006.

Goal 1: Invest in businesses and social enterprises that create jobs, generate incomes, and improve the lives of the poor.



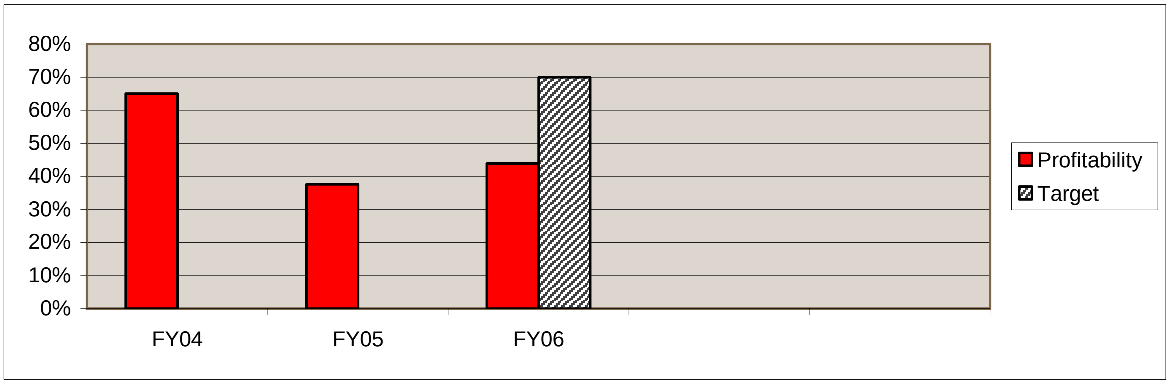
Cumulative Revenue Growth[1]

[1]FY 2005 and FY 2006 include active enterprise expansion investments and those completed within the prior 3 years; FY 2004 only includes the active investments.



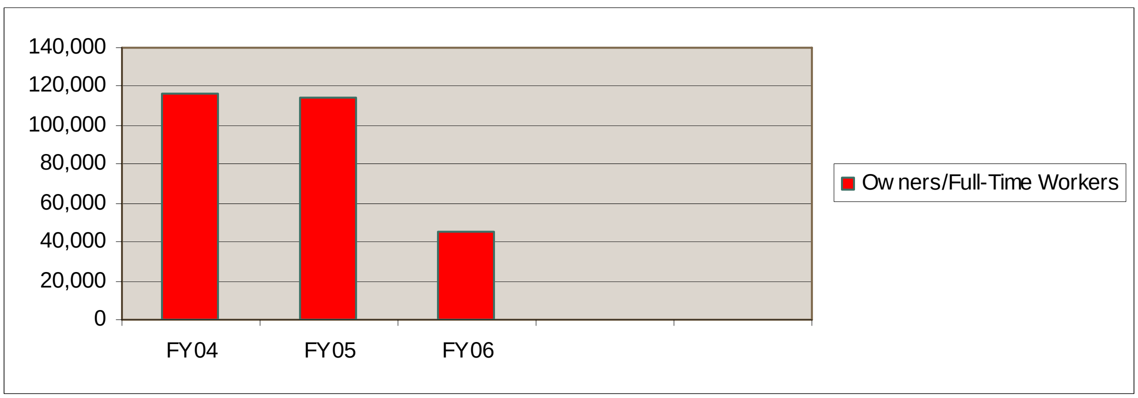
Investment Multiplier[1]

[1]FY 2005 and FY 2006 include active enterprise expansion investments and those completed within the prior 3 years



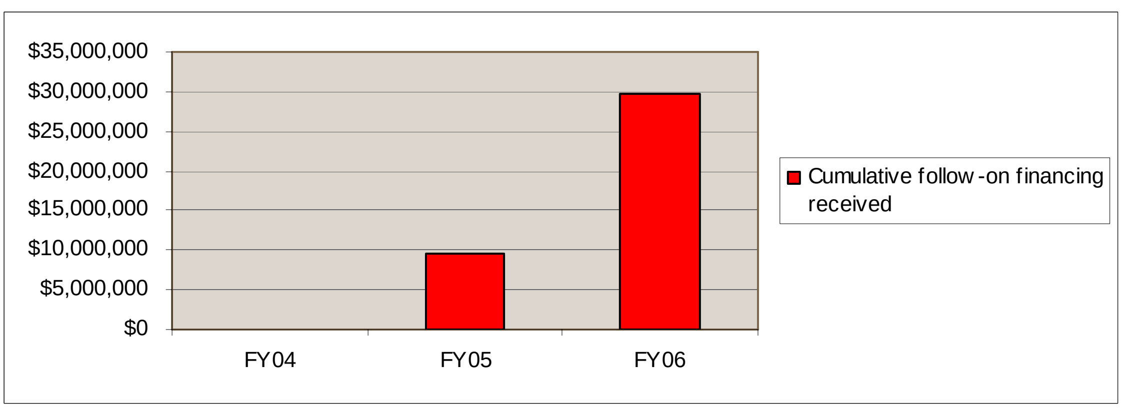
Percent of Active Enterprise Expansion Investments That Were Profitable[1]

[1]Based on net income before income taxes and depreciation



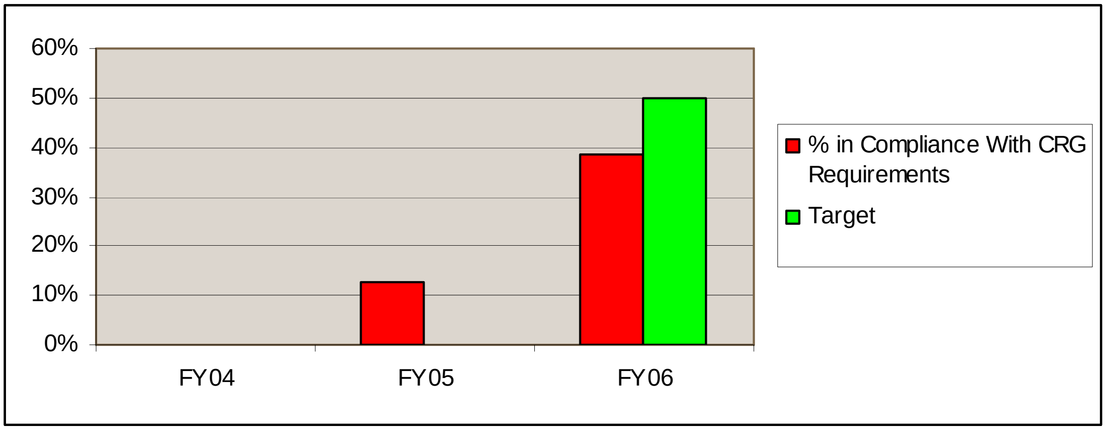
Owners and Regular, Full-Time Workers Benefiting[1]

[1] The high levels in FY 04 and 05 are the result of microcredit funding that was largely discontinued in FY 06.

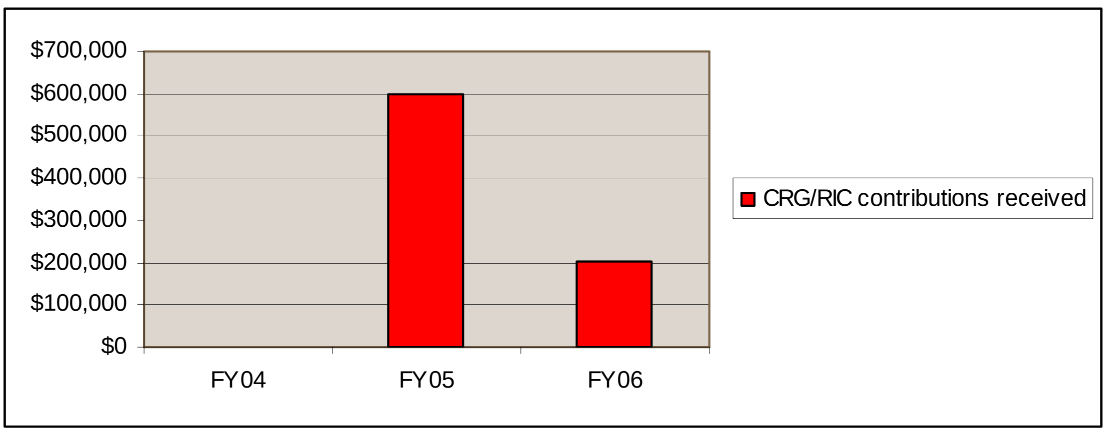


Cumulative Follow-on Financing (active + completed)

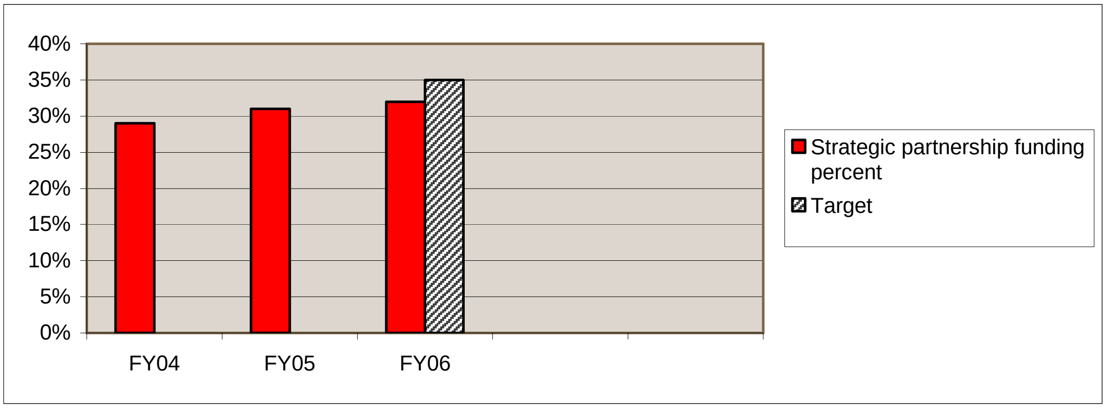
Goal 2. Expand local institutional and financial capacities to support business and social enterprise growth



Percent of Active Investments in Compliance With CRG Requirements



Community Reinvestment Contributions Received From Active Investments



Strategic Funding Partnership Contributions as a Percentage of New Investment Obligations

ADF exceeded its internal targets for four of the nine PART indicators with established targets this reporting year. ADF also made much better than expected progress in increasing its disbursement efficiency, helping grantees achieve revenue growth, and website usage. The investment multiplier indicator was above the target, reflecting the improvement that has taken place in the composition and performance of the portfolio.

The cumulative revenue growth in the active and recently completed investments was $44.65 million in FY 2006, an increase of more than 59% over FY 2005. ADF exceeded its FY 2006 target for this indicator by approximately 172 percent. The bulk of the improvement was due to four extraordinarily successful investments (two active and two recently completed) -- Uganda Marine Products, Tanzania Mtibwa Sugar, Tanzania Ruembe Sugar, and Tanzania Kilombero Sugar.

The *Investment Multiplier* indicator takes into account the cumulative revenue growth and the cumulative disbursements by ADF in the active and recently completed micro and small enterprises (MSE) and trade and investment (T&I) programs. This is a very important indicator because it allows a comparison of the total benefits and costs. For every $1.00 that ADF has disbursed to these investments, $2.33 in increased income has been generated so far.

Over the active and recently completed portfolio as a whole, the Investment Multiplier may rise or fall across years as old investments are dropped from the population and new ones are added. The Investment Multiplier for ADF's portfolio increased by 36% in FY 2006 and exceeded ADF's target by more than 14 percent. The Investment Multiplier was substantially higher for the active and recently completed T&I investments (over 3.00) than for the MSE investments (1.09). The T&I projects typically involve larger, more well-established businesses than MSEs and are often part of the formal sector.

Since cumulative disbursements typically are largely finished by the third year of ADF involvement while cumulative revenue growth continues to expand, the Investment Multiplier for a particular investment generally rises in the last two years of active ADF investment and the three years following completion of the investment period. As a result, it is not surprising that the Investment Multiplier was 5.10 for the recently completed MSE and T&I investments, but only

0.57 for the investments still under implementation.

The PART indicator for profitability is the proportion of business investments that have become profitable by the end of their third year of ADF support, and this was 44% in FY 2006. The profitability indicator showed improvement over the prior year, increasing by 6.3 percentage points, but was below the FY 2006 target of 70 percent.

While exchange rate changes may explain part of the decrease in the total net income gains of the portfolio in US dollars in FY 2006, it does not explain the decrease in the percentage of projects that were profitable in local currency terms. In FY 2006, petroleum prices rose sharply and increased many capital and operating costs across the board. Other changes in world commodity prices and domestic product prices at the micro level would need to be analyzed to explain the drop in the percentage of profitable projects.

There were some serious country-specific macroeconomic problems, such as Guinea and Zimbabwe. Differences in the weather across years (including droughts and floods) affect the profitability of many ADF-supported enterprises, directly because of their effects on enterprises that produce or process agricultural products and indirectly by reducing rural incomes.

ADF set 5-year profitability targets before the FY 2005 data were available to provide a basis for the decision for this new indicator. ADF’s target of 70 percent for the profitability indicator may be too ambitious for small businesses in Africa because only 44 percent of new employer establishments in the US survive at least four years.

The *CRG Compliance Rate* is the percent of active investments with a CRG commitment that are current on their contribution schedule by the end of their third year. Only 38.5 percent of the businesses with a CRG were in full compliance in FY 2006, while the target was 50 percent. Although this appears to represent an improvement over FY 2005, the higher compliance rate is due to a revaluation process that stretched out or reduced the expected contributions from businesses that had not achieved their targets for sales and profits.

The reasons for weak CRG compliance include client confusion as to whether this was voluntary since ADF had signed a grant agreement with them and grants are usually “free money,” the failure to secure written pledge agreements in most countries (other than Uganda), financial problems or delays in the client businesses, and slow ADF progress in establishing the in-country development trusts to recycle the funds. ADF is developing a new policy that will replace the CRG for businesses with an enforceable instrument, improve implementation and monitoring of compliance, and use commercial banks to administer the trust funds.

The *Sustainability* indicator is concerned with the percent of businesses or organizations supported by ADF that are still operating after completion of the period of support, even if they have changed their products or services. At least 69 percent of the former clients have demonstrated sustainability for up to three years past the period of ADF support in FY 2006. ADF has not yet set any targets for this new indicator for lack of information. With two years of information, ADF may now in a position to set sustainability targets for the following three years.

To avoid overstating sustainability, former clients are assumed to be out of operation if no data were available on their operating status. Information on sustainability was very incomplete -- four out of thirteen countries did not collect any sustainability information in FY 2006 and this represented 30 former clients, 22 percent of the portfolio of recently completed investments. There was also missing data on some former clients in the countries that provided some sustainability data.

The *Strategic Partnership Funding* indicator is the amount of contributions ADF actually received from strategic funding partnerships during the reporting year as a percent of ADF obligations for new development investments and amendments. In FY 2006, fully 32 percent of these obligations came from non-USG sources. Although this was a small improvement over the prior year (1 percentage point), it was below the target of 35 percent. Since ADF calculates this indicator based on partnership contributions *received, rather than pledged*, the timing of the actual payment affects the percentage. In FY 2006, actual collections were slow and a large contribution from one major funding partnership did not arrive in time for FY 2006 obligations.

Follow-on Financing refers to the cumulative value of grants, loans, or equity investments from sources other than ADF that have been received by clients since the Foundation's investment was made. The known amount of follow-on financing exceeded $29.61 million in FY 2006, which appears to be an increase of 212 percent over the prior year. However, the data for both years are very incomplete (particularly for former clients) and understate the true amounts. The apparent increase between the two years is largely due to greater data completeness in the latest year. There are no targets for this indicator since ADF did not measure it prior to FY 2005.

The *Enterprise Trust Fund* indicator refers to amounts raised from agreements for joint programs between ADF and another investor that do not flow through ADF's books like strategic funding partnership contributions. Instead, this money goes directly to a separate trust fund. These enterprise trust funds do not refer to the CRG Trust Funds. This indicator excludes amounts leveraged during the year that are not actually deposited until subsequent years. ADF did not have enterprise trust fund agreements in operation in FY 2005 or FY 2006, and there was no target for either year.

The Overhead Rate indicator is ADF's non-program costs as a percentage of the total USG appropriations and non-USG funding contributions received during the year. The overhead rate was 32 percent in FY 2006, compared to 31 percent rate for FY 2005. ADF's target for both years was 25 percent.

The increase in the overhead rate primarily resulted from an increase in administrative costs for field operations from $1.4 million in FY 2005 to $2.6 million in FY 2006 as a result of the start up of the Africa Regional Office in Accra, Ghana and filling of vacant Country Representative positions. Administrative costs at ADF/Washington also increased as a result of staffing vacancies and needed purchases of computer equipment.

The *Disbursement Efficiency* indicator is the median time between receipt of a properly completed, valid disbursement request by the Country Representative and ADF transmittal of funds for the disbursement (not the arrival of funds in the client's bank account). The median disbursement time improved from 25 days in FY 2005 to 7 days in FY 2006, which was better than the year's target of 30 days.

Two other PART indicators address ADF's communications with the broader development assistance community and other stakeholders – *External Newsletter Subscribers* and *Website Usage*. The number of subscribers on ADF's mailing list for the external newsletter increased 48 percent over the prior year and was 21 percent above the target for FY 2006. However, due to the vacancy in the Communications Manager position, ADF did not issue any external newsletters in FY 2006. ADF did institute an internal newsletter for Partner Organizations, Country Representatives, and headquarters staff.

The average number of monthly hits on ADF's website declined 87 percent in FY 2006. The main reason for this was the lack of external newsletters emailed to the subscribers list during the year. In addition, ADF switched to different software for measuring website hits, AWSTATS. The new software may be using a different definition or measurement method than the previous package, WS_FTP Pro.

November 9, 2007

AFRICAN DEVELOPMENT FOUNDATION
MANAGEMENT ASSURANCES

Federal Managers Financial Integrity Act (FMFIA) Assurance Statement

ADF's internal control structure is effective in supporting effective and efficient programmatic operations, reliable financial reporting, and compliance with all laws and regulations to which ADF is subject. ADF has no Section 2 material weaknesses to report.

ADF's financial management systems conform to financial system requirements. ADF has no Section 4 instances of nonconformance to report.

ADF has internal control systems in place that are effective over financial reporting.

Federal Financial Management Improvement Act (FFMIA) Assurance Statement

ADF is in compliance with Federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level.

Signed:

/s/
Lloyd O. Pierson
President

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WASHINGTON, DC
SUMMIT, NEW JERSEY
REDWOOD CITY, CALIFORNIA

November 9, 2007

AFRICAN DEVELOPMENT FOUNDATION
MESSAGE FROM THE CFO

I am pleased to present the FY 2007 comparative Financial Statements for the African Development Foundation. These statements, 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 subject.

Signed:

/s/
Martha C. Edmondson
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, 2007 and 2006; we have considered internal control over financial reporting in place as of September 30, 2007; and we have tested compliance with laws and regulations.

In our opinion, ADF's 2007 and 2006 Principal Financial Statements are presented fairly in all material respects.

We found no instances of material weakness in the internal controls over financial reporting or 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.

PRINCIPAL FINANCIAL STATEMENTS

In our opinion, ADF's 2007 and 2006 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, 2007 and 2006, 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.

INTERNAL CONTROL

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 Principal 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.
- data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

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. 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.

Finally, with respect to internal control related to performance measures reported in Management's Discussion and Analysis, we obtained an understanding of the design of significant controls relating to the existence and completeness assertions and determined whether those controls had been placed in operation as required by OMB Bulletin 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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 Principal 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 Principal 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 Principal 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 Principal 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 Principal 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 Principal Financial Statements;

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

- evaluated the overall presentation of the Principal Financial Statements;

- obtained an understanding of the internal controls over financial reporting by obtaining an understanding of the agency'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 internal controls relevant to performance measures included in Management's Discussion and Analysis, including obtaining an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they had been placed in operations;

- obtained an understanding of the process by which the agency 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 Principal 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 he 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, 2007

African Development Foundation
BALANCE SHEETS
As of September 30, 2007 and 2006

	FY 2007	FY2006
ASSETS		
Intragovernmental:		
Fund balance with treasury (Note 3)	$24,842,615	$25,498,947
Total intragovernmental	24,842,615	25,498,947
Cash and other monetary assets (Note 3)	6,405,219	4,416,145
Accounts receivable	268	-
General property, plant and equipment – Net (Note 6)	610,076	769,066
Advances and prepayments (Note 5)	1,649,341	3,774,857
TOTAL ASSETS	$33,507,519	$34,459,015
LIABILITIES		
Accounts payable (Note 7)	$ 489,475	$ 502,311
Accrued payroll (Note 7)	145,658	122,460
Accrued leave (Note 7)	256,646	211,182
TOTAL LIABILITIES	$ 891,779	$ 835,953
NET POSITION		
Unexpended Appropriations	24,359,219	27,055,611
Cumulative Results of Operations	8,256,521	6,567,451
TOTAL NET POSITION	32,615,740	$33,623,062
TOTAL LIABILITIES AND NET POSITION	$33,507,519	$34,459,015

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENTS OF NET COST
For the Years Ended September 30, 2007 and 2006

	FY 2007	FY 2006
PROGRAM COSTS		
Program expenses	$16,349,502	$12,930,948
Operating expenses – Public	10,854,772	9,018,800
Operating expenses – Intragovernmental	255,118	188,159
TOTAL PROGRAM COSTS	27,459,392	22,137,907
NET PROGRAM COSTS	27,459,392	22,137,907
NET COST OF OPERATIONS	$27,459,392	$22,137,907

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, 2007 and 2006

	FY 2007		FY 2006	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ 6,567,451	$ 27,055,611	$4,297,787	$27,204,690
Budgetary Financing Sources				
Appropriations Received		22,799,629		23,000,000
Rescission & Cancelled Resources		(282,226)		(1,330,702)
Appropriations Used	25,213,795	(25,213,795)	21,818,377	(21,818,377)
Nonexchange Revenue	3,717,351		2,401,035	
Other Financial Services				
Imputed Financing	217,316		188,159	
Total Financing Sources	29,148,462	(2,696,392)	24,407,571	(149,079)
Net Cost of Operations	(27,459,392)		(22,137,907)	
Net Change	1,689,070	(2,696,392)	2,269,664	(149,079)
Ending Balances	$ 8,256,521	$ 24,359,219	$ 6,567,451	$27,055,611

The accompanying notes are an integral part of these statements.

African Development Foundation
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2007 and 2006

	FY 2007	FY2006
BUDGETARY RESOURCES		
Unobligated Balance – Beginning of Period	$ 6,257,243	$ 5,800,270
Recoveries of Prior Years Obligations	1,282,953	214,367
Budget Authority		
Appropriation	27,043,780	25,401,035
Nonexpenditure transfers, net, anticipated and actual	88,681	-
Permanently not available	(282,226)	(1,330,702)
TOTAL BUDGETARY RESOURCES	$34,390,431	$30,084,970
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred – Direct	29,884,641	23,441,998
Unobligated balances (Note 4)		
Apportioned	765,950	4,055,422
Exempt from apportionment	1,261,310	49,268
Unobligated balances – unavailable (Note 4)	2,478,530	2,538,282
TOTAL STATUS OF BUDGETARY RESOURCES	$34,390,431	$30,084,970
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net – as of October 1		
Unpaid Obligations, brought forward	23,525,888	22,004,418
Obligations Incurred	29,884,641	23,441,998
Gross Outlays	(25,385,533)	(21,959,928)
Recoveries of prior year unpaid obligations, actual	(1,282,953)	(214,367)
Obligated Balance, Net - End of Period		
Unpaid Obligations (Note 4)	26,742,043	23,272,120
NET OUTLAYS		
Gross Outlays	25,385,533	21,959,928
Net outlays	25,385,533	21,959,928

The accompanying notes are an integral part of these statements.

African Development Foundation
Notes to the Financial Statements
As of September 30, 2007

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 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 and Funds Held Outside Treasury

ADF's Fund Balance with Treasury as of September 30, 2007 and 2006 are summarized below:

	FY 2007	FY 2006
Appropriated Funds	$ 24,806,561	$ 25,467,393
Trust Fund	36,054	31,554
Total Fund Balance with Treasury	$ 24,842,615	$ 25,498,947

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 2007	FY 2006
EcoBank Mali	1,407,401	987,496
Barclays Bank of Botswana	1,143,987	1,104,267
Standard Chartered Ghana	1,015,383	1,100,275
EcoBank Guinea	625,571	-
EcoBank Benin	560,803	-
Cape Verde	539,366	312,436
EcoBank Senegal	345,592	402,017
Zenith Bank Nigeria	323,481	226,984
Standard Chartered Uganda	178,387	-
First National Bank Swaziland	171,552	281,088
Standard Chartered Zambia	60,938	(37,431)
Citibank Nigeria	32,758	39,013
Total Funds Held Outside Treasury	$ 6,405,219	$ 4,416,145

Note 4. Status of Fund Balance With and Outside Treasury

	FY 2007	FY 2006
Unobligated Balance		
Available	$ 2,027,260	4,104,690
Unavailable	2,478,531	2,538,282
Obligated balance not yet disbursed	$ 26,742,043	$ 23,272,120
Total	$ 31,247,834	$ 29,915,092

Note 5. Advances

ADF's advances as of September 30, 2007 and 2006 are summarized below:

	FY 2007	FY2006
Grants	$ 1,649,341	$ 3,319,149
Travel	-	230,821
Prepayments	-	224,887
Total	$ 1,649,341	$ 3,774,857

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, 2007 and 2006

	FY 2007	FY 2006
Equipment, at cost	$ 1,109,246	$ 1,818,078
Accumulated Depreciation	(499,170)	(1,049,012)
Equipment, net	$ 610,076	$ 769,066

Note 7. Accounts Payable and Other Liabilities

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

	FY 2007	FY 2006
Commercial vendors	$ 489,475	$ 502,311
Accrued employee payroll and leave	402,304	333,642
Total	$ 891,779	$ 835,953

Note 8. Leases

The space in which the Foundation Headquarters operates is leased by the Foundation through a multi-year lease until April 30, 2008. The total amount of funding commitment is detailed in Table 1.

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

TABLE 1 – ADF Headquarters'

Space Lease – Total Future Payment Due

Fiscal Year	Dates	Amount
Year 1	October 1, 2007 – April 30, 2008	$232,874
TOTAL		$232,874

Note 9. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government.

The 2008 Budget of the United States Government, with the Actual Column completed for fiscal year 2007, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to the Congress in February 2007. The 2007 Budget of the United States Government, with the Actual Column completed for fiscal year 2006, has been reconciled.

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, 2007 and 2006

	FY 2007	FY2006
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred	$ 29,884,641	$23,441,998
Less: Spending Authority from Offsetting Collections & Adjustments	(1,282,953)	(214,367)
Net Obligations	28,601,688	23,227,631
Financing Imputed for Cost Subsidies	217,316	188,159
Change in Budgetary resources not yet provided	(7,535)	-
Net Other Resources Used to Finance Activities	209,781	188,159
Total Resources Used to Finance Activities	28,811,469	23,415,790
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in budgetary resources not yet provided (Increase)	(1,328,933)	(964,011)
Resources that finance the acquisition of assets	(193,203)	(524,556)
Total resources that do not fund net costs	(1,522,136)	(1,488,567)
Total Resources Used to Finance Net Cost of Operations	27,289,333	21,927,223
Costs that will not Require Resources in this Period:		
Increase (decrease) in Accrued Annual Leave Liability	45,465	18,024
Total Costs that will Not Require Resources in this Period	45,465	18,024
Components not Requiring Resources		
Loss/Gains on the Disposal of Assets	2,809	-
Depreciation	234,767	192,660
Others	(112,982)	-
Total costs that do not require resources	124,594	192,660
NET COST OF OPERATIONS	$ 27,459,392	$22,137,907

Management Comments

November 7, 2007

Mr. Donald Gambatesa
Inspector General
Office of the Inspector General
United States Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523-8100

Re: Audit Report of the 2007 Financial Statements

Dear Mr. Gambatesa:

We have received the audit report supplied by Leonard G. Birnbaum and Company, including the opinion on the African Development Foundation's (ADF) fiscal years 2007 and 2006 comparative financial statements, internal controls status, and compliance with applicable laws and regulations. We are pleased to note that all four comparative financial statements (the Principal Financial Statements) have continued to receive unqualified opinions. Thank you and your team, as well as Birnbaum and Company, for working closely with us during the audit process.

We at the African Development Foundation recognize the importance of accountability and public disclosure, and our goal is to have excellent financial management systems. We are committed not only to maintaining the quality of our financial management systems but also to find ways to improve the efficiency and cost effectiveness of our systems. We look forward to working with your staff on the FY 2008 audit. Any questions may be addressed to Martha C. Edmondson, Chief Financial Officer, at ADF or to me.

Sincerely,

/s/

Lloyd O. Pierson
President