OFFICE OF INSPECTOR GENERAL

Audit of the United States African Development Foundation's Financial Statements for Fiscal Years 2010 and 2009

AUDIT REPORT NO. 0-ADF-11-002-C
November 12, 2010

WASHINGTON, DC

Office of Inspector General

November 12, 2010

MEMORANDUM

TO: ADF President and CEO, Lloyd O. Pierson

FROM: AIG/A, Joseph Farinella /s/

SUBJECT: Audit of the United States African Development Foundation's Financial Statements for Fiscal Years 2010 and 2009 (Audit Report No. 0-ADF-11-002-C)

With this memorandum, the Office of Inspector General (OIG) is transmitting the audit report prepared by the certified public accounting firm of GKA, P.C. (Independent Auditor) on the Financial Statements of the United States African Development Foundation (ADF) as of September 30, 2010 and 2009. The OIG contracted with this Independent Auditor to audit the financial statements.

The Independent Auditor expressed an unqualified opinion on ADF's FY 2010 and 2009 financial statements and notes. The report states that the Financial Statements presented fairly, in all material respects, ADF's financial position, the net cost of operations, the changes in net position, and budgetary resources for the years ended September 30, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

The report contained no material weaknesses or significant deficiencies in ADF's internal control over financial reporting and no instances of material noncompliance with selected provisions of applicable laws and regulations involving ADF's financial management system.

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

In connection with our contract, we reviewed the Independent Auditor's related audit documentation. Our review which is different 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. Also, we did not express conclusions on the effectiveness of ADF's internal control or ADF's compliance with other laws and regulations.

U.S. Agency for International Development
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The Independent Auditor was responsible for the attached auditor's reports dated October 29, 2010 and the conclusions expressed therein. 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 GKA, P.C., during the audit. If you have questions concerning this report, please contact Rohit Chowbay at (202) 712-1317.

gka, P.C.

Certified Public Accountants | Management Consultants

United States African Development Foundation

PERFORMANCE AND ACCOUNTABILITY REPORT

Fiscal Year 2010

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SECTION I

OVERVIEW

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October 29, 2010

MESSAGE FROM THE PRESIDENT

I am pleased to submit the FY 2010 Performance and Accountability Report for the United States African Development Foundation (USADF). USADF is committed to achieving the highest levels of effective and efficient operations, full transparency and accountability in financial reporting, and full compliance with applicable laws and regulations.

USADF 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 USADF funding goes toward community-based groups. A major component of USADF'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.

USADF'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 2010, the Foundation continued to focus attention on lowering costs, speeding up delivery of services, and improving our strategic partnership initiative. USADF 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.

Our vision is to help end the poverty of thousands of marginalized groups across Africa. Our success is measured in lives improved, new economic opportunities created, and goodwill established. Our mission is as applicable today, if not more so, than when USADF was founded in 1980. We look forward to continued cooperation with Congress, U.S. Government agencies, and friends and experts throughout the African development community.

Signed:
/s/
Lloyd O. Pierson
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

United States African Development Foundation Mission and Organizational Structure

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 United States African Development Foundation (USADF or the Foundation), created in 1980, is an independent Federal agency established to support African-designed and African-driven solutions that address grassroots economic and social problems. The Foundation is a public corporation with a seven member Board of Directors who are nominated by the United States President and confirmed by the U.S. Senate. They serve for a fixed term. The Board of Directors selects and names the President and CEO of USADF.

The United States African Development Foundation provides grants of up to $250,000 to indigenous African organizations that benefit under served and marginalized[1] groups. The Foundation has a unique mission among U.S. foreign assistance programs, by-passing layers of inefficiencies and working directly with the neediest communities in Africa. The Foundation uses a participatory approach to actively engage marginalized local community groups[1] or enterprises in the design and implementation of development projects. This approach ensures these programs are distinctively African initiated and led, resulting in outcomes that best address the real needs of the community. Project success and long term impact is further enhanced through USADF efforts to establish a network of local support and technical service providers across Africa. Partner organizations are local non-governmental organizations that provide project design, implementation and management support to USADF grant recipients. Grant success is measured in terms of jobs created and sustained, increased income levels, and improved social conditions.

Over the past 30 years, The United States African Development Foundation has established a foreign assistance model that works. During this period, USADF has worked in more than 26 countries and has invested more than $230 million in African initiated and led development projects. USADF projects are designed to improve economic and social conditions for some of the poorest, most neglected communities in the world. Congressional appropriations, administered by USADF, are tangible expressions of good will from people of the United States to the people of Africa. Support for USADF programs provide an opportunity for economic growth and social development in places where little other hope and assistance exist.

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[1] Marginalized groups are people who have been disenfranchised from the political, economic and social fabric of the broader society and who have significant needs that currently are not being addressed.

Country Project Table

Country	Active Projects	Active Value (USD)
Benin	20	2,540,058
Botswana	25	2,975,684
Burkina Faso	33	2,089,886
Burundi	16	2,031,617
Cape Verde	24	3,856,784
Ghana	16	3,054,415
Guinea	8	1,291,354
Kenya	8	49,242
Liberia	30	2,899,384
Malawi	16	2,785,529
Mali	17	3,404,132
Mauritania	24	3,015,449
Namibia	6	300,808
Niger	10	2,112,139
Nigeria	44	5,695,987
Rwanda	16	2,778,610
Senegal	17	1,922,823
South Africa	8	301,863
Swaziland	14	1,474,244
Tanzania	22	4,044,276
Uganda	25	4,768,787
Zambia	32	4,699,546
Zimbabwe	32	1,838,599
Total	446	59,931,216

As of September 30, 2010 USADF has almost 440 active project grants and small grants in 23 countries, representing just under $60 million invested in enterprises, farmer associations, cooperatives, and community groups that improve food production, increase income levels, and improve social benefits in poor communities. Table on the right shows the number and value of active grants by country. Active projects are all USADF funded grants that have not expired.

The Staffing Table below shows the personnel required to support USADF operations across a three year period. USADF has plans to further simplify organizational structures in 2011 to improve operational efficiencies.

Professional Staffing Levels	End of FY 2009	End of FY 2010	Estimated FY 2011
Direct Federal Hires	25	25	32
PSC - Washington	13	9	8
PSC - Field	23	23	20
Total	**61**	**57**	**60**

Staff Table

USADF Strategic Priorities

The following seven core principles serve as guidelines for all USADF management planning, budgeting, and evaluation activities. These priorities help ensure that USADF stays true to its authorizing legislation and mandate.

1. High effectiveness, low overhead: The efficient use of taxpayer funds is paramount in every decision made. While accomplishing tangible results is important, it is essential that USADF is accountable to use public monies in the most cost effective manner possible. Maintaining this priority moves USADF toward achieving the lowest overhead rate in the Federal government.

2. Focus on marginalized communities*:* USADF is the only United States Government agency with a specific mission to provide direct development assistance to the most marginalized, under-privileged populations in Africa. These populations can be identified by geography, ethnicity, gender, age, or disability, and are often disenfranchised from the political, economic and social fabric of the broader society. Typically, USADF provides development grants to communities and groups living in the most difficult, challenging areas of sub-Saharan Africa and lacking access to traditional domestic or foreign development assistance.

3. Investing in Africans and their ideas*:* USADF takes participatory development principles

seriously. The Foundation trusts Africans to understand the challenges they face and to know the best approaches to resolving them. USADF also ensures that grantees have access to assistance from African experts in the design and implementation of projects. This approach ensures that outcomes will best address real community needs. USADF's development model empowers Africans in the decision-making and implementation process.

4. Addressing social development needs and ensuring lasting economic results: The majority of the USADF program portfolio is devoted to income generating projects that produce jobs, better income levels, and tangible social benefits. Social benefits include skills training, nutritional and hygiene training, and basic vocational education. In cases where the right opportunities exist, USADF helps marginalized populations develop their capacity to join the global economy.

5. Encouraging and expanding African management: All USADF programs in Africa are managed by Africans. There are no expatriate offices and there is minimal use of outside consultants. When consultants are required most often African experts are selected. This approach helps make USADF fundamentally different from other development organizations. USADF values and has policies that ensure that Africans take leadership roles in developing, implementing, and managing foreign assistance.

6. Maintaining the highest level of openness and transparency in the U.S. Government: As an organization primarily dependent on U.S. taxpayer funds, management believes that an open and transparent organization is the best approach. The USADF website and other communication vehicles are continually updated to make it simple for people to know more about Africa, what USADF is doing, and exactly how program funds are being used.

7. Developing an equal opportunity, results driven staff team: that provides equal opportunities, and rewards hard work, dedication to the mission.

Supporting Administration Priorities in Marginalized Area

With more than one billion people in the world suffering from chronic hunger, the international development community has made improving 'food security' a priority item. The global community often defines the term food security as people having a *reliable* source of food and *sufficient* resources to purchase food. From its inception USADF has focused the majority of its grants on improving agricultural production and improving the income levels of marginalized groups across Africa. USADF's participatory development approach ensures that the most effective food security solutions come from those closest to the problem.

The majority of USADF grants directly support improved agricultural productivity by providing access to better inputs such as seed, feed, fertilizer, machinery, and irrigation systems. Most all grants also provide access to improved farm knowledge, training in financial management, and natural resource management.

In addition to improving the means of production, USADF grants also focus on helping marginalized groups expand their market access. Higher incomes are achieved when groups gain the abilities to take greater advantage of local, regional, and international markets. To achieve this USADF grants support improved means of transportation, better product storage, better product distribution and marketing, and improved access to market information.

The table shows where USADF grant funding economic development grants for marginalized communities corresponds to other Administration foreign assistance initiatives:

Country	Feed the Future	Global Health Initiative	USADF Portfolio Funding
Benin			2,540,058
Botswana			2,975,684
Burkina Faso			2,089,886
Burundi			2,031,617
Cape Verde			3,856,784
Ethiopia*	x	x	
Ghana	x		3,054,415
Guinea			1,291,354
Kenya	x		49,242
Lesotho*			*See Note*
Liberia	x		2,899,384
Madagascar*			
Malawi	x	x	2,785,529
Mali	x	x	3,404,132
Mauritania			3,015,449
Mozambique*	x		
Namibia			300,808
Niger			2,112,139
Nigeria			5,695,987
Rwanda	x	x	2,778,610
Senegal	x		1,922,823
São Tomé *			
South Africa			301,863
Swaziland			1,474,244
Tanzania	x		4,044,276
Uganda	x		4,768,787
Zambia	x		4,699,546
Zimbabwe			1,838,599
Total			**59,931,216**

**Denotes a non-USADF Country*
Note – USADF will begin programming in Kenya immediately after the MOU with Government of Kenya is signed.

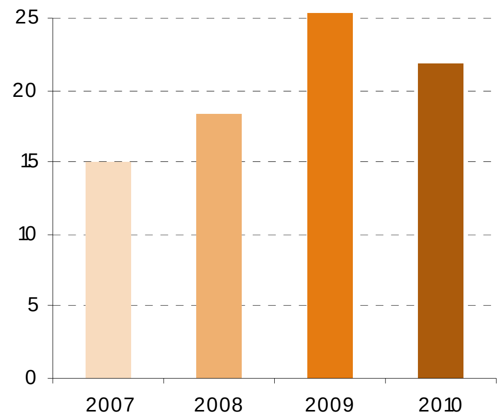
In FY 2010, USADF set aside $4.8 million for special food security programs in extremely marginalized and under served areas such as Lake Turcana area of Kenya; the Central African Republic; and Zimbabwe. The ability of USADF to move rapidly, with due diligence, assured results and impact, is a major comparative advantage for the Foundation and for the United States. In FY 2011, approximately $1.4 million of foreign assistance is reserved for special food security needs in Somalia and the Central African Republic.

Performance Summary and Discussion

The summary charts below reflect several aspects of USADF improved performance in 2010. While total value of USADF grants provided in 2010 decreased from the 2009 peak, the growth trend over a four year period continues to be a significantly positive with 11% average annual growth rate from FY 2007 to FY 2010. This growth was achieved while maintaining a constant level in administration costs over the same period due to ongoing productivity gains achieved by improved USADF operations. These improvements included faster disbursement processing cycle times and a better distribution of workload across the calendar year.

Continued Growth Trends in New Program Grants Obligated

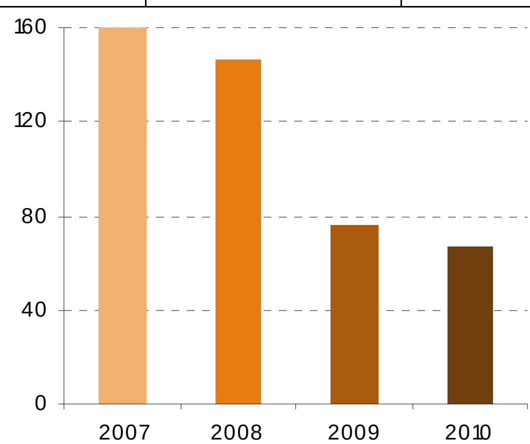
$ Million FY	2007	2008	2009	**2010**
Project Grants	13.7	12.5	20.7	**17**
Partner Grants	1.4	5.9	4.7	**4.9**
Total	15.1	18.4	25.4	**21.9**



Total Grant Funding ($Million)

Improved Grant Disbursement Processing Times

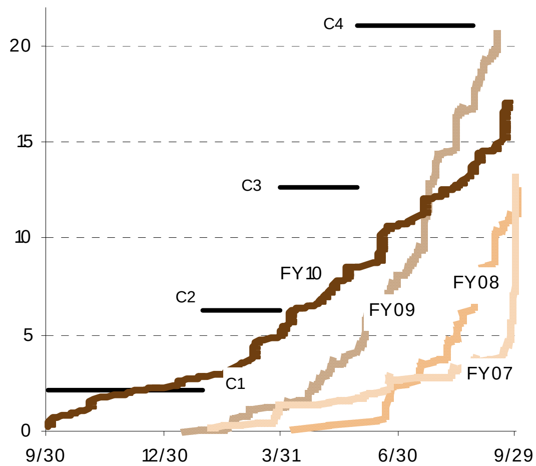
(days) FY	2007	2008	2009	**2010**
1st Disb (45)	160	119	76	**67**
2nd Disb (135)	214	180	156	**140**



1st Disbursement to Grantee after Obligation (Days)

Improved Workload Distribution

In FY 2008, 2009 and 2010 USADF management established four funding targets for new grant obligations to better distribute the workload across the year. The objective is to create better utilization of staff resources across a twelve month period and minimizes quality defect due to work overloads. The chart below shows a steady improvement over the past four years in distributing the workload across a 12 month period.

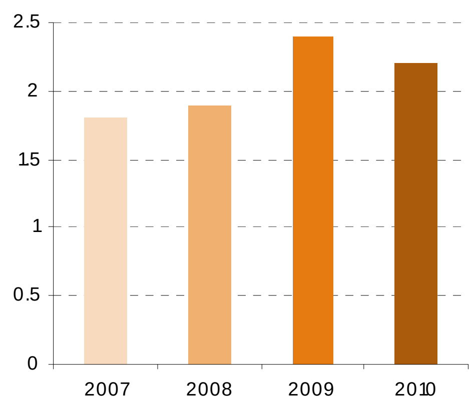


Cumulative Grant Obligations ($M) over 12 Month Period

Improved Productivity

The table below shows the improvement in program funding productivity over a four year period. During this period program costs remained fairly constant while the amount of program dollars delivered increased. This is a productivity gain of 22 percent.

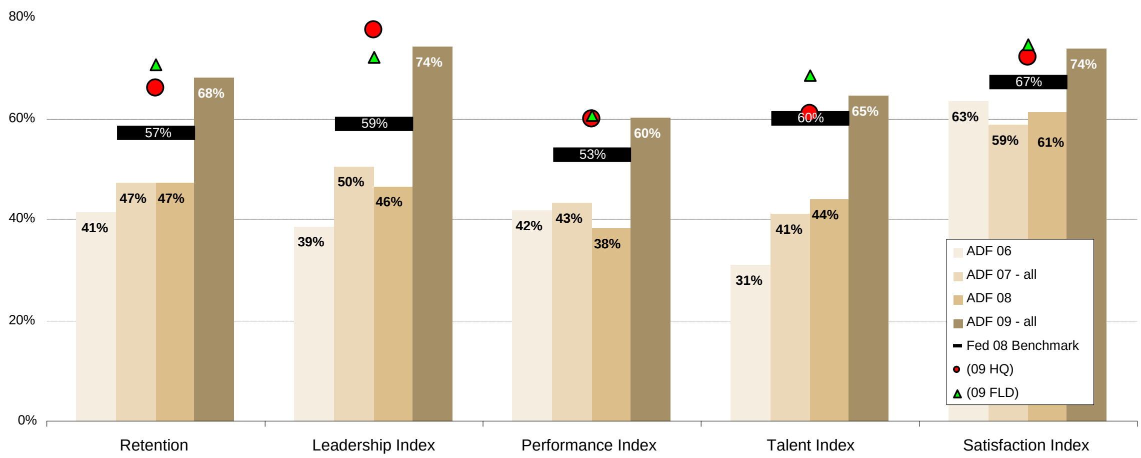
$ Million FY	2007	2008	2009	**2010**
Program Costs	10.5	10.6	11.3	**10.3**
Program Funding	19.2	20.5	27.1	**22.9**
Prgm / Cost	1.8	1.9	2.4	**2.2**



Program $ Delivered per $ of Program Cost

Organizational Improvements

The 2009 All Employee Survey revealed a remarkable improvement in USADF employee attitudes about the management, operations, and mission of USADF. The chart below highlights five different categories of the improved employee attitudes compared to earlier surveys and with the overall Federal employee population. USADF also scored higher than private sector responses in the areas of job satisfaction and personal work experiences.



% Positive Responses of Employees to the 2009 Federal Human Capital Survey

Program Results

The majority of USADF grants focus on economic development activities in agricultural production and other food security related areas. The results of these projects help rural farmers grow more food to feed their families and sell more of their products in commercial markets. Increased revenues generate greater income that enables people to purchase other goods and services such as food, education, healthcare, and housing. These basic outcomes significantly improve the quality of life for individuals and communities. The following statement, based on USADF's most recent annual assessment of program performance indicators, provides an overview of the positive impact USADF grants are having in marginalized communities across Africa.

"The current portfolio of <u>380</u> project grants and <u>70</u> small grants effects an estimated <u>810,000</u> people in <u>marginalized</u> communities by providing people with <u>the opportunity to engage in the development process</u> and gain social and economic benefits from the more than <u>$290</u> million dollars of new economic activities generated over extended grant period."

<u>Analysis of Financial Statements</u>

USADF is pleased to report that in FY 2010 the Foundation continued to receive an unqualified opinion on all financial statements from its independent auditors, GKA, P.C. Since FY 2001, USADF 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

USADF's *Fund Balance with Treasury* decreased, from $35.8 million at the end of FY 2009 to $34.2 million at the end of FY 2010. The difference of $1.6 million is due to continued efforts to improve the speed of grant disbursement processing.

Cash and Other Monetary Assets consist of foreign currency donations made by African governments and private-sector entities with which USADF has established strategic partnerships. The funds are held in bank accounts in each country where a partnership is in effect. These assets did not increase significantly, from $9.0 million at the end of FY 2009 to $9.26 million at the end of FY 2010.

Liabilities and Net Position

Liabilities did not change significantly from FY 2009 to FY 2010. USADF's *Net Position* (the sum of the Unexpended Appropriations and Cumulative Results of Operations) at the end of 2010 as shown on the Balance Sheet and the Statement of Changes in Net Position was $45.9 million, a $2.0 million decrease from the previous fiscal year. This decrease is explained in the prior section regarding the *Fund Balance with Treasury*. *Unexpended Appropriations* of $35.7 million represents funds appropriated by the Congress for use over multiple years that were not expended by the end of FY 2010. *Cumulative Results of Operations* of $9.7 million consists primarily of funds donated by strategic partners that were not expended by the end of FY 2010.

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, increased from $19.1 million in FY 2009 to $24.6 million in FY 2010, due primarily to an increase in grant activities. Costs not assigned to programs, such as office expenses, staff salaries, and other administrative costs, decreased from $10.7 million in FY 2009 to $9.6 million in FY 2010 as a result of the priority set by USADF management to move toward achieving the lowest overhead rate in the Federal government.

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

Budgetary Resources

USADF's budgetary resources consist of its annual appropriations from Congress, which are available for two years, and donations from strategic partners. USADF's FY 2009 appropriations were $32.5 million; its FY 2010 appropriations are $30 million. USADF received $4.7 million in donations from strategic partners, representing an increase of $900 thousand from the $3.8 million received in FY 2009.

Unobligated Balances increased from $10.9 million at the end of FY 2009 to $11.5 million at the end of FY 2010. *Obligations Incurred* line decreased from $ 39.8 million in FY 2009 to $35.4 million in FY 2010. The decrease of $4.4 million is due to reduction of cost associated with administration and grant programming.

USADF Internal Controls, and Legal Compliance

Management Assurance Statements

General FMFIA Assurance Statement

The Federal Managers' Financial Integrity Act of 1982 (Integrity Act or FMFIA) provides the statutory basis for management's responsibility for and assessment of accounting and administrative internal controls. Such controls include program, operational, and administrative areas, as well as accounting and financial management. The Integrity Act requires federal agencies to establish controls that reasonably ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to maintain accountability over the assets.

It is my informed judgment, as the head of the United States African Development Foundation that I provide a qualified statement of assurance with one information security material weakness. This weakness is a result of a significant deficiency reported in FY 2010 FISMA Compliance Report (to be issued by November 15, 2010). Except for the material weakness, the internal controls over program operations and financial management systems meet the objectives of FMFIA.

Signed:
/s/
Lloyd O. Pierson, President

Internal Control over Financial Reporting Assurance Statement

The United States 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. USADF assesses the effectiveness of USADF' internal control over financial reporting and is working toward full compliance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of our assessment, the USADF can provide reasonable assurance that internal control over financial reporting as of September 30, 2010 is operating effectively and that no material weaknesses have been found in the design or operation of the internal controls over financial reporting.

Signed:
/s/
Lloyd O. Pierson, President

Annual Assurance Statement on Financial Management System

The United States African Development Foundation has been using Oracle Federal Financial System hosted by National Business Center (NBC) under Department of Interior since FY 2004. Based on the results provided in the FY 2010 SAS 70 Report on Oracle Federal Financial System, I am able to provide a reasonable assurance that the USADF's Financial Management Systems conforms to government-wide requirements mandated by the FFMIA and OMB Circular No. A-127, <u>Financial Management Systems</u>, section 7.

Signed:
/s/
Lloyd O. Pierson, President

OMB Circular A-123 Compliance Improvements

In 2010, management strengthened its internal control environment by formalizing annual internal control assessment process. This enhanced approach was established as an institutional practice to increase confidence the level and quality of Management's Annual Statements of Assurance on internal controls. The adoption of a continuous improvement internal control process will include:

(1) A regular review of the organizational culture and structure: areas of authority and responsibility and delegations, reporting hierarchies, human capital policies, expectations of integrity and ethical patterns of behavior.
(2) A risk assessment of internal and external factors and previous findings.
(3) Assessment of policies, procedures, mechanisms, segregations of duties, physical controls on assets, authorizations processes, documentation and access to documentation, including those related to information systems, and mechanisms of communication of information internally and externally.
(4) Monitoring the effectiveness of these processes as a normal course of business, including: identification and reporting of deficiencies and consideration and, where appropriate, planning and implementing corrective action.

A directive issued by the President on November 3, 2009 formally outlined the steps and timeframes associated with the formal implementation of USADF's enhanced internal control assurance process. As a result, an Internal Control Assessment Committee (ICAC) was established and has completed a risk assessment matrix on USADF major business processes. Based on that assessment the ICAC conducted a business evaluation and has a draft report and recommendations pending with the President.

Internal Audit Function

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

In 2010 the USADF Internal Audit unit made significant progress in implementing a systematic plan and approach to review the financial management and accounting for USADF funds provided to project grants, partner grants, and country coordinator offices.

Financial Audits in 2010	Scheduled	Completed
Projects Grants	26	26
Partner Grants	21	14
Coordinator Offices	1	1

Integrated Contracting Practices

USADF has partially implemented an automated Acquisition Management System in FY 2010 to improve the procurement and contracting process through online records management, improvements to process controls and reporting, greater standardization of policy, and increased assurances of compliance with the Federal Acquisition regulation.

Grant Monitoring

Closely tracking the progress of grant implementation plans and budgets is an important aspect that can help increase the likelihood that a grant will result in a successful outcome. Monitoring can identify early problems and ensure that additional support is applied. In 2009 and 2010 USADF updated the monitoring roles of the Country Coordinator and Regional Director to better ensure Partners were providing the technical support to Grantees consistent with the terms of their cooperative agreement. Monitoring includes regular reviews of Grantees' quarterly reports, and periodic sites visits (at least annually) to Grantees by Partner Organizations, and by USADF staff. Each project grant with a value greater than $100,000 receives an independent financial audit on the use of USADF grant funds. At the end of a grant period, a Grant Close-Out procedure is completed for each grant. The close out process includes a final accounting of grant funds, an assessment of the grant's outcomes, and a determination about the sustainability of the project.

Additionally, Regional Directors conduct bi-annual portfolio performance reviews with their country teams to monitor and assess project performance within their respective regions. USADF management also conducts bi-annual program reviews with Regional Directors to ensure there is a clear line of accountability for the overall effectiveness of grant programs. Based on the review, grants are given a performance grade using a common grading and assessment process. Grants with lower grades (C – F) are given special attention from Partner Organizations to help remediate the project difficulties. As a last resort grants with failing grades may be terminated. The most recent assessment was conducted on October 26 and 28, 2010.

Grant Evaluation

In late FY 2009, the new monitoring and evaluation unit at USADF commissioned POSDEV, an independent, African NGO based in Ghana to conduct an extensive program and grant evaluation across 15 countries in Africa.

The Program evaluation has the following three components:

1) Standardized survey of all USADF-funded clients with active projects underway for at least two years and projects that expired within the past 3 years.
2) In-depth evaluation of a random sample of 40 percent of the projects included in the client survey. The in-depth evaluations will be based on field visits and open-ended interviews with clients, partner organizations, country program coordinators, USADF staff, and other stakeholders; and,
3) Standardized sample surveys of workers and farmers or other primary raw material suppliers for the projects included in the in-depth evaluations.

Some Key Findings of the Client Surveys:

Item	Median Score
Project idea originated from the Grantee	96%
Country representative office rated professional or better	96%
Other technical assistance and training in implementation very useful or better	94%
USADF-required training on financial management and reporting very useful or better	93%
Project development and review process good or better	90%

Most Frequently Mentioned Grantee Recommendations:

Project Design and Review

- The quality of USADF support for technology selection and procurement needs to be improved.
- Partner Organization staff and consultants should work more closely with the clients in a more genuinely participatory manner.
- The quality of market assessment and marketing support needs to be improved.

Project Implementation

- Reduce disbursement delays and roadblocks.
- Training and technical assistance need to be more closely tailored to the actual needs of the clients instead of providing the same standardized training to all Grantees when that may be unnecessary or inappropriate.
- Partner Organizations should visit Grantees more frequently for monitoring, troubleshooting, and support.

In 2009 and 2010 USADF took active steps to ensure evaluation findings are incorporated into improved field operations practices, procedures and support documents.

Improper Payments Information Act of 2002 Reporting Detail

Generally, an improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, and administrative or other legally applicable requirement. OMB Circular A-123, Appendix C, defines significant improper payments as annual improper payments in a program that exceed both 2.5 percent of program annual payments and $10 million. The Improper Payments Information Act (IPIA) of 2002 (Public Law No. 107-300), requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments. During FY 2010, USADF reports no improper payments.

Limitations of Financial Statements

USADF'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.

ANNUAL PERFORMANCE INFORMATION

Program Achievements

It should be noted that USADF achieved several significant steps forward in 2010 programs. Working from a base budget of $30.0 million, USADF was able to provide over $18.8 million of quality grants and technical resources to improve lives and income levels to many of the most marginalized and underserved communities in Africa. At the same time, process times for critical grant activities have been reduced by more than 50%. Quality control and monitoring and evaluation are a critical priority for all program outputs and activities.

In 2010, USADF used over $3.1 million of African strategic partner matching funds to stretch U.S. tax dollars further in reaching under-served communities.

Management has established seven operational priorities for FY 2009 and 2010 to ensure that USADF is effectively meeting its obligations to the United States taxpayer and making a positive impact in Africa. The majority of these focus on USADF 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.

2009 - 2010 Operational Priorities
1. Model high effectiveness and low overhead operations.
2. Focus program activities on marginalized communities in Africa.
3. Invest in Africans and their ideas through participatory development.
4. Ensure projects produce long term social and economic results.
5. Promote African led and managed field project support.
6. Achieve the highest levels of openness and transparency in the U.S. government
7. Support and develop an equal opportunity, results-driven staff team that rewards hard work, dedication to the mission, and personal success.

Three simple performance measures help ensure USADF is maximizing the use of funds for development grants in Africa, is efficiently moving funds to Africa with minimum delays and is consistently moving toward lower overhead levels. The table below shows USADF achievements for 2005 through 2009. In 2009 USADF increased the number of grants provided to marginalized groups in Africa, significantly improved its disbursement processing cycle times, and better balanced strategic partner collections with current year funds utilization.

Comparative Performance Table:

Measure	**FY 2006 Achievement**	**FY 2007 Achievement**	**FY 2008 Achievement**	**FY 2009 Achievement**	***FY2010 Target***	**FY 2010 Achievement**
Development Grant Funding Levels[1]	$13.5 million	$15 million	$18 million	$25 million	*$26 million*	$22 million
Grant 1st Disbursement Timing	Not Tracked	214 days	146 days	78 days	*45 days*	67 days
Operating Expense Ratio[2]	38%	46%	36%	35%	*<35%*	34%

[1]Cooperative Agreement Grants and Project Grants including use of Strategic Partner Funds
[2] Operating Expenses / Current Year Appropriations

Development and Partner Cooperative Agreement grant funding levels decreased slightly from $25 million in 2009 to $22 million in 2010. The target of $26 million in grant funding was missed primarily due to two factors. In FY 2010, expected programming of $1 million in Niger was halted due to political pressures. An additional $3.1 million in food security programs were expected to begin in the Turkana region in Kenya and other conflict areas but was delayed due to lack of final country programming agreements. The management and Board agreed to carry forward these food security funds into 2010.

USADF continues to make progress in improving disbursement times. Disbursement timing represents the number of days between the date a legal grant agreement was established and the date funds were released for use by the grantee. In FY 2010, USADF made a 15% improvement in this cycle time, reducing the time from 78 days to 67 days.

Operating Expense levels continue to be a challenge. USADF budget priorities are to maximize the amount of appropriated funds for quality programs to marginalized communities in Africa while maintaining sufficient levels of oversight and internal controls. For FY 2011 Management plans to maintain current FY 2010 cost levels while continuing to increase program funding. While this will lock the Operating Expense Ratio at 33%, USADF productivity measures will continue to improve (see Productivity Improvements section page 6 of this report).

Program Monitoring and Evaluations

Each project grant funded by USADF includes specific set of goals and objectives, and a line item budget as a part of the standard grant agreement. For active grants, these documents may be viewed online at the USADF website. Progress toward achievement of these goals and an accounting of the use of grant funds is monitored on a quarterly basis through a grantee report. The grantee quarterly reports are reviewed by Partner Organizations, Country Coordinators, and USADF Washington staff to closely track and assess the grantee's progress and performance. The grant agreements and quarterly reports are on file with USADF and may be provided upon request. Partner Organizations, USADF Country Coordinators, and USADF Washington staff (including the President and Board of Directors) also conduct regular monitoring site visits to each USADF grantee, and summarize their findings in site visit reports. Timeframes for USADF grants range from two to five years in duration. At the end of a grant period, the Partner Organizations and USADF staffs complete a grant close-out process that includes a full accounting for the use of grant funds, and an assessment of the project's outcomes and its sustainability.

Each partner organization funded by a cooperative grant agreement provides USADF with a monthly report that includes both project and financial management information used by USADF to assess the performance of the grantee. These reports are on file with USADF and may be provided upon request. A new partner performance and assessment model was developed in FY 2009 for implementation in FY 2010.

As discussed previously (see MD&A section on Grant Evaluation), USADF commissioned an external program evaluation on September 23, 2008 with the Pan-African Organization for Sustainable Development (POSDEV). POSDEV is a non-governmental organization that was created in 1997 to build an alliance of indigenous African NGOs committed to the empowerment of local grassroots movements for self-reliant, sustainable development. Draft reports are currently under review.

Other Program Performance Indicators

A detailed set of USADF performance indicators is displayed in the table below. Performance indicators in FY 2008 mostly showed significant improvements in the effectiveness of USADF funds to help grow Small and Medium Sized Enterprises in Africa. Cumulative revenue growth nearly doubled from $63 million to $112 million. The "investment multiplier" increased from 3.8 in FY 2007 to 6.3 in FY 2008. This indicator tracks how much sales revenues increased for each USADF dollar provided to that enterprise. Both the export growth measure and the number of beneficiaries rose sharply in 2008. Although considerable time and effort is needed to develop local growth engines, USADF grantees prove they can productively use USADF funds to increase revenues and expand operations..

Key Performance Indicators FY 2008

(FY 2009 Indicators are still being finalized at the time of this report. We expect the final report to be completed by the end of January, 2011)

Indicator	FY 06 Actual	FY07 Actual	FY08 Actual
Cumulative Revenue Growth, active and recently expired (USD thousands)	$43,288	$63,044	$112,355
Investment Multiplier, active and recently expired	**2.0**	**3.8**	**6.3**
Cumulative Export Revenue Growth, active and recently expired (USD thousands)	ND	$4,970	$18,038
Net Income Before Income Taxes and Depreciation, active (USD thousands)	$3,106	$11,952	$17,364
Profitability, active	**44.0%**	**71.0%**	**68.7%**
Owners, Full-Time Workers, and Principal Raw Material Suppliers or Farms, active	46,553	44,464	106,814
Salaries, wages, and bonuses paid by grantees, active (USD 000)	ND	ND	$5,640
Sustainability, expired	**62%**	**84%**	**79%**

October 29, 2010

UNITED STATES AFRICAN DEVELOPMENT FOUNDATION
MESSAGE FROM THE CFO

I am pleased to present the fiscal year 2010 comparative Financial Statements for the United States African Development Foundation (USADF). The financial statements and performance results data are complete and reliable and are in accordance with OMB requirements. They are also in conformity with generally accepted accounting principles.

The USADF's administrative and fiscal accounting systems for the year ended September 30, 2010 fully comply with the requirements of the Federal Financial Management Improvement Act (FFMIA).

USADF is in substantial compliance with the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) except for a material weakness on information security. Except for this material weakness, the USADF has appropriate management controls in place to ensure that internal controls are operating in accordance with applicable policies and procedures and are effective in meeting the requirements imposed by the FMFIA and FFMIA. No other material weaknesses were found in the design or operation of controls.

This material weakness is the result of a significant deficiency in USADF's compliance with the Federal Information Security Management Act (FISMA), which is being reported by the USAID Office of the Inspector General (OIG) in an independent assessment of the security infrastructure supporting the USADF enterprise network system. The FY 2010 FISMA report is to be finalized by November 15, 2010.

USADF has taken steps to address the FISMA deficiency and plans to complete the implementation before the end of January, 2011.

Signed:

/s/
William E. Schuerch
Chief Financial Officer

SECTION II

INDEPENDENT AUDITOR'S REPORTS

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Independent Auditor's Report on Financial Statements

Inspector General, U.S. Agency for International Development, and
Board of Directors and the President,
United States African Development Foundation:

We have audited the accompanying balance sheet of the United States African Development Foundation (USADF) as of September 30, 2010, and the related statements of net cost, changes in net position, and budgetary resources (hereinafter referred to as "financial statements") for the year then ended. These financial statements are the responsibility of USADF's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements as of September 30, 2009 were audited by other auditors whose report dated November 3, 2009, expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of USADF as of September 30, 2010, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information in the Management Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and OMB Circular A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 29, 2010, on our consideration of USADF's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws, regulations, and contracts. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

October 29, 2010

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Independent Auditor's Report on Internal Control over Financial Reporting

Inspector General, U.S. Agency for International Development, and
Board of Directors and the President,
United States African Development Foundation:

We have audited the balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the United States African Development Foundation (USADF) as of and for the year ended September 30, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered USADF's internal control over financial reporting by obtaining an understanding of the design effectiveness of USADF's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on the effectiveness of USADF's internal control over financial reporting. Consequently, we do not provide an opinion on the effectiveness of USADF's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters involving internal control and its operation that we reported to management of USADF in a separate letter dated October 29, 2010.

This report is intended solely for the information and use of the Management of USADF, the Office of Inspector General of the U.S. Agency for International Development, the Government Accountability Office, OMB, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

October 29, 2010

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Independent Auditor's Report on Compliance with Laws and Regulations

Inspector General, U.S. Agency for International Development, and
Board of Directors and the President,
United States African Development Foundation:

We have audited the balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the United States African Development Foundation (USADF) as of and for the year ended September 30, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of USADF is responsible for complying with laws and regulations applicable to USADF. As part of obtaining reasonable assurance about whether USADF's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain requirements referred to in Section 803(a) of the *Federal Financial Management Improvement Act (FFMIA) of 1996*. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to USADF. However, our objective was not to provide an opinion on overall compliance with laws, regulations and contracts. Accordingly, we do not express such an opinion.

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

Under FFMIA, we are required to report whether USADF's financial management systems substantially comply with (1) federal financial management systems requirements (FFMSR), (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level in accordance with FFMIA Section 803(a) requirements.

The results of our tests disclosed no instances in which USADF’s financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the Management of USADF, the Office of Inspector General of the U.S. Agency for International Development, the Government Accountability Office, OMB, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

October 29, 2010

SECTION III

FINANCIAL STATEMENTS AND NOTES

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United States African Development Foundation
BALANCE SHEETS
As of September 30, 2010 and 2009

	FY 2010	FY 2009
ASSETS		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 34,210,689	$ 35,844,724
Total intragovernmental	34,210,689	35,844,724
Cash and other monetary assets (Note 4)	9,257,024	9,045,747
Accounts receivable, net (Note 5)	-	-
Advances and prepayments (Note 6)	2,053,348	2,431,168
General property, plant and equipment – Net (Note 7)	394,569	608,180
TOTAL ASSETS	$45,915,630	$47,929,819
LIABILITIES		
Intragovernmental:		
Accounts payable	$ -	$ -
Total intragovernmental	-	-
Accounts payable (Note 8)	$ 70,220	388,765
Other (Note 8 and 9)	459,554	489,728
TOTAL LIABILITIES	$ 529,774	$ 878,493
NET POSITION		
Unexpended Appropriations	35,666,873	37,350,742
Cumulative Results of Operations	9,718,983	9,700,584
TOTAL NET POSITION	45,385,856	47,051,326
TOTAL LIABILITIES AND NET POSITION	$45,915,630	$47,929,819

The accompanying notes are an integral part of these statements.

United States African Development Foundation
STATEMENTS OF NET COST
For the Years Ended September 30, 2010 and 2009

	FY 2010	FY 2009
PROGRAM COSTS		
Gross Costs	$ 24,569,237	$ 19,102,782
Less: earned revenue	-	-
Net program costs	24,569,237	19,102,782
Cost not assigned to program	9,611,359	10,718,779
NET COST OF OPERATIONS (Note 11)	$ 34,180,596	$ 29,821,561

The accompanying notes are an integral part of these statements.

United States African Development Foundation
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2010 and 2009

	FY 2010	FY2009
Cumulative Results of Operations:		
Beginning Balances	$ 9,700,584	$ 9,202,090
Budgetary Financing Sources:		
Appropriations used	29,214,034	26,259,795
Other Financing Sources (Non-Exchange):		
Donations and forfeitures of property	4,657,568	3,809,553
Transfers in/out reimbursement	-	(2,047)
Imputed financing (Note 12)	327,393	252,754
Total Financing Sources	34,198,995	30,320,055
Net Cost of Operations (Note 11)	34,180,596	29,821,561
Net Change	18,399	498,494
Cumulative Results of Operations:	9,718,983	9,700,584
Unexpended Appropriations:		
Beginning Balances	37,350,742	32,344,209
Budgetary Financing Sources:		
Appropriations received	30,000,000	32,500,000
Other adjustments	(2,469,835)	(1,233,672)
Appropriation used	(29,214,034)	(26,259,795)
Total Budgetary Financing Sources	(1,683,869)	5,006,533
Total Unexpended Appropriations	35,666,873	37,350,742
Net Position	$45,385,856	$47,051,326

The accompanying notes are an integral part of these statements.

United States African Development Foundation
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2010 and 2009

	FY 2010	FY2009
BUDGETARY RESOURCES		
Unobligated Balance, brought forward, October 1:	$10,865,481	$10,003,364
Recoveries of Prior year unpaid obligations	4,269,971	6,208,971
Budget Authority		
Appropriation	34,191,859	35,689,843
Permanently not available	(2,469,835)	(1,233,671)
TOTAL BUDGETARY RESOURCES	$46,857,476	$50,668,507
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred – Direct	$35,368,160	$39,803,026
Unobligated balances (Note 3)		
Apportioned	6,739,599	5,363,781
Exempt from apportionment	3,450,613	2,363,731
Unobligated balances – unavailable (Note 3)	1,299,104	3,137,969
TOTAL STATUS OF BUDGETARY RESOURCES	$46,857,476	$50,668,507
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net – as of October 1		
Unpaid Obligations, brought forward	$34,024,990	$29,752,058
Obligations Incurred	35,368,160	39,803,026
Gross Outlays	(33,144,782)	(29,321,123)
Recoveries of prior year unpaid obligations, actual	(4,269,971)	(6,208,971)
Obligated Balance, Net - End of Period		
Unpaid Obligations	$31,978,397	$34,024,990
NET OUTLAYS		
Net outlays	$33,144,782	$29,321,123

The accompanying notes are an integral part of these statements.

United States African Development Foundation
Notes to the Financial Statements
As of September 30, 2010

Note 1. Organization

The United States African Development Foundation ("USADF" 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 has a unique mission among U.S. foreign assistance programs, by-passing layers of inefficiencies and working directly with the neediest communities in Africa. The Foundation uses a participatory approach to actively engage marginalized local community groups or enterprises in the design and implementation of development projects. This approach ensures these programs are distinctively African initiated and led, resulting in outcomes that best address the real needs of the community. Together, the focus on underserved populations and participatory development ensure greater equity and ownership in the development process. Project success and long term impact is further enhanced through USADF efforts to establish a network of partner organizations, local non-governmental organizations, that provide project design, implementation and management support to USADF grant recipients.

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 to reflect both the accrual and budgetary bases of accounting. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases is made before the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds. Grants are recorded when obligated and expenses are recognized when the funds are expended, without regard to receipt or payment of cash.

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 Bank Gaborone 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, Standard Chartered Uganda, Banque Commerciale du Rwanda and National Bank of Malawi to process grant funds for those countries. Governments with whom USADF has entered Strategic Partnerships deposit donations into these accounts. In general, grants are funds equally with appropriated funds and donated funds. USADF 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 USADF 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 USADF.

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.

M. Use of Estimates

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. The USADF recognized imputed costs and financing sources in fiscal years 2010 and 2009 to the extent directed by OMB.

O. Non-Entity Assets and Liabilities

The USADF did not hold any Non-Entity assets or liabilities as of September 30, 2010 and 2009.

P. Expired Accounts and Cancelled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account in which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled.

Note 3. Fund Balances with Treasury

A. Fund Balances:

	FY 2010	FY 2009
General Funds	$ 34,174,535	$ 35,808,570
Trust Fund	36,154	36,154
Total	$ 34,210,689	$ 35,844,724

B. Status of Fund Balance with Treasury:

	FY 2010	FY 2009
Unobligated Balance		
Available	$ 6,739,599	5,363,781
Unavailable	1,299,104	3,137,969
Exempt from apportionment	36,154	36,154
Obligated balance not yet disbursed	26,135,832	27,306,820
Total	$ 34,210,689	$ 35,844,724

Note 4. Cash and Other Monetary Assets

USADF'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 2010	FY 2009
Stanbic Bank of Uganda	$ 1,504,059	$ 1,449,909
EcoBank Mali	1,436,735	1,791,968
Banque Commerciale du Rwanda	1,392,865	546,191
EcoBank Benin	1,179,687	1,098,828
Bank Gaborone of Botswana	989,995	1,020,386
EcoBank Senegal	841,039	200,479
Cape Verde	478,177	707,001
Zenith Bank Nigeria – Kaduna	410,794	291,810
Zenith Bank Nigeria – Kano	298,125	404,908
EcoBank Guinea	287,432	367,572
Standard Chartered Ghana	150,116	342,508
National Bank of Malawi	134,766	673,333
First National Bank Swaziland	89,178	84,384
Citibank Nigeria	33,473	33,473
Standard Chartered Zambia	30,583	32,997
Total Funds Held Outside Treasury	$ 9,257,024	$ 9,045,747

Note 5. Accounts Receivables, Net

USADF's accounts receivables, net as of September 30, 2010 and 2009 are summarized below:

	FY 2010	FY 2009
Accounts receivables	$ 877,785	$ 937,509
Allowances for Loss on Accounts	(877,785)	(937,509)
Total	$ -	$ -

Note 6. Advances

USADF's advances as of September 30, 2010 and 2009 are summarized below:

	FY 2010	FY 2009
Grants	$ 2,053,348	$ 2,431,168
Travel	-	-
Total	$ 2,053,348	$ 2,431,168

Note 7. 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.

USADF's property, plant, and equipment as of September 30, 2010 and 2009 are summarized below:

	FY 2010	FY 2009
Equipment, at cost	$ 1,402,635	$ 1,483,225
Accumulated Depreciation	(1,008,066)	(875,045)
Equipment, net	$ 394,569	$ 608,180

Note 8. Liabilities

The accrued liabilities for the USADF are comprised of accounts payables, payroll accruals, and unfunded annual leave earned by employees. Accounts Payable accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

	(Current) FY 2010	(Current) FY 2009
Accounts Payables	$ 70,220	388,765
Other Liabilities		
Employees' accrued salary	$ 167,277	$ 170,766
Liabilities not covered by budgetary resources: unfunded leave	292,277	318,962
Total Other Liabilities	$ 459,554	$ 489,728
Total Liabilities	$ 529,774	$ 878,493

Note 9. Liabilities Not Covered By Budgetary Resources

The liabilities on the USADF's Balance Sheet as of September 30, 2010 and 2009 include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Other liabilities not covered by budgetary resources consist of unfunded leave. Unfunded leave balances are $292,277 and $318,962 as of September 30, 2010 and 2009, respectively.

Note 10. Undelivered Orders at the End of the Period

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. For the periods ended September 30, 2010 and 2009, undelivered orders amounted to $33,794,249 and $35,896,627, respectively.

Note 11. Net Cost of Operations

Costs by major budget object classification as of September 30, 2010 and 2009 are as follows:

Budget Object Classifications	FY 2010	FY 2009
Personnel compensation	$ 2,785,756	$ 2,997,913
Personnel benefits	840,412	1,181,877
Travel and transportation of persons	520,433	753,003
Rent, Communications, and Utilities	986,219	1,018,984
Printing and reproduction	24,984	26,368
Other contractual Services	4,457,036	4,774,597
Supplies and materials	761,213	1,284,014
Equipment	200,084	246,019
Grants, subsidies, and contributions	23,604,459	17,538,786
Total Net Cost of Operations	$ 34,180,596	$ 29,821,561

Note 12. Imputed Financing Sources

The USADF recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. For the fiscal years ended September 30, 2010 and 2009, imputed financing was $327,393 and $252,754, respectively.

Note 13. 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.

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

TABLE 1 – USADF Headquarters'

Space Lease – Total Future Payment Due

Year	Dates	Amount
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		$ 6,498,731

Note 14. Budgetary Resource Comparisons to The budget of the United States Government

The President's Budget that will include FY10 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2011 and can be found at the OMB Web site. http://www.whitehouse.gov/omb The 2011 Budget of the United States Government, with the actual column completed for 2009 has been reconciled to the Statement of Budgetary Resources and there were no material differences.

Note 15. 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, 2010 and 2009

	FY 2010	FY2009
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$35,368,160	$39,803,026
Less: Spending authority from offsetting collections & recoveries	(4,269,971)	(6,208,971)
Net Obligations	31,098,189	33,594,055
Other Resources		
Imputed financing from costs absorbed by others	327,393	252,754
Other	465,709	649,363
Net Other Resources Used to Finance Activities	793,102	902,117
Total Resources Used to Finance Activities	31,891,291	34,496,172
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)	2,102,379	(4,782,822)
Resources that finance the acquisition of assets	(7,480)	(202,875)
Total resources that do not fund net costs	2,094,899	(4,985,697)
Total Resources Used to Finance Net Cost of Operations	33,986,190	29,510,475
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	(26,685)	70,545
Total components of Net Cost of Operations that will require or Generate resources in future periods	(26,685)	70,545
COMPONENTS NOT REQUIRING OR GENERATING RESOURCES		
Depreciation and amortization	221,091	239,616
Others	-	925
Total components of Net Cost of Operations that will not require or Generate resources	221,091	240,541
Total components of Net Cost of Operations that will not require or Generate resources in the current period	194,406	311,086
NET COST OF OPERATIONS	$34,180,596	$29,821,561