OFFICE OF INSPECTOR GENERAL

Audit of the African Development Foundation's Financial Statements for Fiscal Years 2005 and 2004

AUDIT REPORT NO. 0-ADF-06-003-C
November 14, 2005

WASHINGTON, DC

Office of Inspector General

November 14, 2005

MEMORANDUM

TO: ADF President, Nathaniel Fields

FROM: Acting AIG/A, Joseph Farinella Joseph Farinella

SUBJECT: Report on Audit of the African Development Foundation's Financial Statements for Fiscal Years 2005 and 2004 (0-ADF-06-003-C)

Enclosed is the final report on the subject audit. We contracted with the independent certified public accounting firm of Leonard G. Birnbaum & Company, LLP (LGB) to audit the financial statements of the African Development Foundation as of September 30, 2005 and 2004 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 (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual.

In its audit of the African Development Foundation (ADF), LGB found that;

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

• ADF had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,

• ADF's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and

• no reportable noncompliance with laws and regulations it 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, opinions on ADF's financial statements or internal control or on whether ADF's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. LGB is responsible for the attached auditor's report dated October 26, 2005 and the conclusions expressed in it. However, our review disclosed no instances where LGB did not comply, in all material respects, with applicable standards.

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

The OIG 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

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- Total portfolio of 221 ongoing development projects in 16 countries with a total budget of $42.2 million.
- Seventy-nine new development projects and project amendments amounting to $11.3 million in 16 countries.
- Began operations in Rwanda and Zambia.
- Supported projects that export a wide variety of products including fresh and processed fish, fresh and dried fruits, vegetables, salt, fruit jams and juices, nuts and oils, tea, coffee, processed grains, sugar, and vanilla.
- Helped build the capacity of local development assistance organizations through cooperative agreements for promotion of sustainable, grassroots development in 13 countries.

I am pleased to introduce ADF's FY 2005 financial statements, which have been prepared in

Nathaniel Fields

AFRICAN DEVELOPMENT FOUNDATION

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2005

Leonard G. Birnbaum and Company, LLP
6285 Franconia Road
Alexandria, VA 22310
(703) 922-7622

MANAGEMENT'S DISCUSSION AND ANALYSIS

The African Development Foundation's (ADF) mission is to support community-led, demand-driven development in Africa and generate best practices for grassroots African development that are sustainable and replicable. ADF accomplishes this mission by providing funding to nongovernmental organizations (NGOs) and small enterprises that help these local entities invest in their communities and become self-sustaining.

ADF is a unique organization that supports projects of $250,000 or less. These projects are conceived, designed, implemented and managed by local NGOs and small businesses throughout sub-Saharan Africa. The Foundation was established as a federal agency and public corporation by the African Development Foundation Act of 1980, and it began active program operations in 1984. Since that time ADF has funded more than 1600 projects across Africa.

Foundation grants help African NGOs and small businesses:

- Develop viable micro enterprises and small enterprises that generate higher incomes, new jobs, and higher rates of self-employment in some of Africa’s poorest communities;
- Achieve the capacity to tap regional and international market opportunities;
- Build self-supporting, sustainable, local community development agencies;
- Promote community based interventions that mitigate the social and economic impact of HIV/AIDS; and
- Strengthen democratic values and institutions at the local level.

ADF practices a thorough, three-stage grant review process that includes detailed reviews of:

1. initial applications and applicant project sites,
2. project concept papers, and
3. final project papers that include clearly structured implementation plans and full budgetary and financial analyses.

Most of ADF's grants are greater than $50,000, and the maximum grant value is normally $250,000. Grants larger than $250,000 require special approval from ADF’s Board of Directors. To help enhance the impact of its funding, ADF often assists its beneficiaries in leveraging grants, loans, and loan guarantees from other sources. This enhancement is accomplished through strategic partnerships with national and regional governments in Africa, national and regional development banks, other international development assistance agencies, and private sector entities.

Unlike most development agencies, ADF works directly with African producer groups and nongovernmental organizations. The Foundation does not channel any of its resources through governments. All ADF-funded projects are initiated by the enterprise or community groups. Rather than designing projects on behalf of its grantees, ADF works with the local partner nongovernmental organizations (NGOs) to help applicants define and acquire the assistance they need to achieve project goals. The Foundation's participatory approach to development ensures local ownership and strong local participation. This approach has been shown to enhance the impact and sustainability of ADF’s investments.

ADF is currently administering more than 221 projects in sixteen countries:

Benin	Namibia	Tanzania
Botswana	Niger	Uganda
Cape Verde	Nigeria	Zambia
Ghana	Rwanda	Zimbabwe
Guinea	Senegal	
Mali	Swaziland	

HIGHLIGHTS OF FY 2O05 RESULTS

- In FY 2005, ADF had 221 ongoing development projects in 16 countries with a total budget of $42.2 million. During the year, ADF funded 79 new development projects and project amendments amounting to $11.3 million in 16 countries. ADF began operations in Rwanda and Zambia.

- In FY 2005, ADF supported projects that export a wide variety of products including fresh and processed fish, fresh and dried fruits, vegetables, salt, fruit jams and juices, nuts and oils, tea, coffee, processed grains, sugar, and vanilla.

- In FY 2005, ADF had completed a total of ten strategic program alliances with African Governments (three more than the previous year). An additional four are currently under negotiation, and seven more are planned for FY 2007.

- ADF leveraged $2.408 million in contributions from five national governments and one state government in Africa in FY 2005 (Botswana, Cape Verde, Ghana, Kano State in Nigeria, Swaziland, and Zambia).

- ADF helped build the capacity of local development assistance organizations through cooperative agreements for promotion of sustainable, grassroots development in 13 countries.

PROMOTING INNOVATIVE TRADE AND INVESTMENT

For the past several years, the African Development Foundation has been piloting exciting investments that promote new export trade and investment (T&I) opportunities for small-scale African businesses and agricultural cooperatives. The focus of these efforts is to identify and promote nontraditional export crops and existing small-scale manufacturers or processors and to help these enterprises improve production and productivity and successfully move their products into regional and international markets. The African Growth and Opportunity Act of 2000 (AGOA) specifically recognized the important role of ADF in helping to integrate small-scale producers at the grassroots level into the global economy.

ADF has ongoing T&I programs in Uganda, Tanzania, Zimbabwe, Namibia and Ghana focused on assisting small-scale producers with their efforts to grow, process and export a variety of primary commodities, including paprika, vanilla, silk, Nile perch, rock lobster, leather products, fruit juices, and sea salt. In addition, the Foundation is currently launching new T&I programs in Zambia and Cape Verde, and later this year will initiate programs in Nigeria. Most of these eight programs involve co-funding contributions from African governments, and they leverage capital or technical assistance from the private sector. ADF conducts rigorous financial analyses and market surveys as part of the design and approval process, similar to what a venture capital firm would undertake to fund an activity. The Foundation also develops and tests models for transferring technology to small producers.

These highly successful endeavors are proving that small African enterprises and African farmers can diversify into new commodities, meet international standards, and successfully compete in the global economy.

STRATEGIC PARTNERSHIPS

Under its new corporate strategy, the Foundation has set an objective to "establish strategic partnerships with national and local governments, other donor agencies, and the local private sector, to support sustainable, grassroots development." Toward this end, ADF is building innovative partnerships that can serve as vital sources of capital and technology to expand the impact of ADF's program and disseminate and replicate lessons learned and best practices for grassroots development.

The Foundation began strategic partnerships several years ago. The initial focus has been on leveraging contributions from national and state governments. ADF is now expanding its efforts to attract contributions from international and African corporations. In all these programs, the Foundation maintains and promotes its core values – accountability, sustainability, innovation, and a commitment to building up grassroots-based and African-owned investments. ADF is wholly responsible for ensuring accountability for funds, program implementation, and achievement of targeted results. At the end of FY 2002, ADF had three active strategic partnerships. By the end of FY 2005, that number had expanded to nine, with agreements in place with Benin, Botswana, Cape Verde, Ghana, Mali, Nigeria, Sao Tome, Senegal, Swaziland, and Zambia. ADF is currently negotiating agreements with Burkina Faso, Guinea, Kenya and Niger; in FY 2007, it expects to implement partnerships in Angola, Burundi, Congo, Namibia, Rwanda, Tanzania, and Uganda. These important partnerships provide as much as fifty percent of the funding for a grant and are a hall mark of the ADF model, realizing significant returns for every dollar invested by the American taxpayer.

These partnerships are forged with the recognition that ADF's approach is both unique and effective, as captured by the comments of Zambian President Levy Mwanawasa: "Appreciating the grassroots work and the activities that the African Development Foundation supports…I know very well that such support to Zambia would be significantly very beneficial to our people."

Based on discussions the Foundation has already had with other governments, as well as with large corporate entities seeking to fund philanthropic activities, there is an unmet demand for ADF's support and great potential for additional strategic partnerships.

STRENGTHENING PROGRAM OPERATIONS

The Foundation has undertaken a major restructuring of both its headquarters and field operations during the past two and a half years to strengthen program operations. These fundamental changes, which have resulted in some transitional costs, are being driven by ADF management's objectives of improving program effectiveness, protecting U.S. government resources, and containing long-term costs.

- A restructuring of ADF/Washington will help the Foundation improve the timeliness and effectiveness of portfolio management.

- ADF is ensuring better due diligence and compliance through its placement of in-country representatives.

- Through its Partner Organizations in country, applicants and grantees receive the necessary support to develop and implement a project.

The Partner Organization assists prospective grantees in developing proposals for funding and conducts rigorous financial analyses to ensure the viability and sustainability of proposed projects. After ADF awards a project grant, the Partner Organization provides training in financial management and participatory evaluation to the grantees. It visits them to monitor progress and assist in rectifying implementation problems, and advises them on preparation of quarterly financial and progress reports.

The Country Representative reports to ADF/Washington and is independent of the Partner Organization. While the Partner Organization supports grantees, the Country Representative carries out functions that support ADF. Their principal duties include analyzing the viability of proposals, conducting due diligence on prospective grantees, assessing the financial management capacity of new grantees, reviewing their use of funds throughout the life of the grant, monitoring project implementation and remediation, and assessing program impact.

With this new field structure, ADF undertook a reduction-in-force to reduce and realign the headquarters staffing in FY 2004. The Foundation decided to give greater attention to project analysis, financial management, portfolio management, technical support for trade and investment and HIV/AIDS programs, developing and implementing strategic partnerships, assessing program impact, disseminating lessons learned and best practices, and strengthening outreach. While the Foundation is optimistic that the new structure will improve efficiency and effectiveness over time, the Foundation has incurred significant costs in making the transition in FY 2003 and 2004.

ADF launched two new online publications during FY 2004, <u>ADF e-News</u> and <u>The ADF Approach</u>. <u>ADF e-News</u> provides detailed information on new ADF grants as well as updates on project performance. It is disseminated via links to the main page of ADF's website and through an e-mail subscription list that has more than 1,700 recipients. ADF e-News produced 31 articles on ADF projects in the four issues published in FY 2004. In September of 2004, the development journal Appropriate Technology asked ADF for permission to reprint articles. ADF also contracted with a private design firm at the end of the year to make the Foundation's website a more engaging and information-rich resource for potential grantees, other development assistance agencies, and the general public.

STRENGTHENING FINANCIAL MANAGEMENT AND INFORMATION SYSTEMS

The African Development Foundation has greatly strengthened its own financial management and that of its grantees. It has also improved its management information systems for headquarters operations and grants administration. ADF takes its fiduciary responsibilities very seriously. Despite the nascent capacity of many of its grantees, the Foundation maintains high standards of financial accountability.

- In an initial screening process, ADF’s Country Representatives assess the applicant’s capacity to control and account for funds and identify areas where additional training or personnel are required.

- All development project grantees are required to submit quarterly financial reports and progress statements. Grantees with MSE, MFI, and T&I projects are also required to submit quarterly financial statements.

- After a grant is approved, the Partner Organization provides a five-day training course in ADF accounting procedures and reporting requirements. Each of the Partner Organizations has a full-time, experienced Financial Officer on staff that provides this initial training, as well as refresher training and advice, as needed by grantees.

- The Country Representative monitors the reporting by grantees and also makes regular site visits to check project accounting as well as to monitor overall implementation progress.

- Finally, ADF contracts with independent audit firms in each country where it operates to conduct audits of each grant over $50,000 at least once during its life.

ADF also maintains financial oversight of all Partner Organizations that have cooperative agreements with the Foundation. An internal audit of each Partner Organization is conducted every year. ADF undergoes annual, independent audits that address its financial statements, internal controls, and compliance with USG laws and regulations. For the past three years, the Foundation has received an unqualified opinion on all five financial statements, from its independent auditors and the USAID Office of the Inspector General. Thus, the Foundation is in full compliance with all OMB requirements and new statutes, including the Accountability for the Tax Dollar Act. These are major accomplishments.

To further strengthen its financial management, ADF negotiated an interagency agreement with Department of Interior's National Business Center to provide full system support utilizing the USG-approved, Oracle Federal Financials. This will ensure the integrity of ADF's financial data and produce timely reports to assist management in key decisions on the Foundation's financial operations. With implementation fully completed in FY 2005, the financial statement audit for this year has been conducted using information generated by Oracle Federal Financials. This is a major accomplishment and represents a significant improvement in ADF's financial management capabilities.

Finally, ADF has a comprehensive grants database to improve management oversight and internal controls for financial reporting by grantees and Partner Organizations. ADF is using the database to support its year-end financial statements.

SUMMARY OF PROGRAM PERFORMANCE AND TRENDS

ADF sets most of its performance targets each year based on the actual achievements in the most recent prior year available and the ratio of the projected cumulative disbursements for active projects in the reporting year to those of the prior year. This is a reasonable approach to setting aggregated portfolio targets, but it assumes that the composition of projects by strategic objective remains unchanged from one year to the next. However, the actual proportions of ADF funds disbursed for projects with strategic objectives vary a lot from year to year. Because of these differences in the composition of the portfolio across years, ADF may exceed impact targets for some strategic objectives while falling below targets for other strategic objectives. The internal performance targets that ADF set for leveraging funding contributions through strategic partnerships were not based on prior year performance and were set at a very ambitious level. The information presented in this summary of program performance and trends is for FY 2004, the most recent year for which we have annual data.

Table 1 summarizes the FY 2004 program results against ADF's internal targets**.** In general, the FY 2004 targets were higher than the FY 2003 targets. ADF exceeded nearly all of its targets for program impact by far. The achievements for enterprises assisted, owners and workers in the assisted enterprises, women owners and workers, value of loans disbursed, export revenues, people receiving AIDS prevention training, and women receiving AIDS prevention training were 133% to 187% of the targets. The active projects generated very slightly less gross revenue than planned (1.3 percent). One reason why is that exchange rate fluctuations are out of ADF's control and make it difficult to set targets in US dollars.

Table 2 compares ADF's performance results over the past 4 years. The performance results in any given year depend on the number of active projects, the average amount of funding that has been disbursed in the projects, the mix of ADF strategic objectives that the projects address, the performance of the individual projects, and the level of resources ADF has devoted to collecting performance data for the year. ADF's new program obligations in FY 2004 were $14.720 million.

Most of ADF's new program obligations in a year do not lead to grant disbursements until the following year. Disbursements may continue for four or five years, but a large share of the total disbursements for a project 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 fifth year of the project. Consequently, the performance results reported in FY 2004 are mainly an outgrowth of ADF disbursements from FY 1999 to FY 2003, which correspond to ADF program obligations from FY 1998 to FY 2002.

TABLE 1. Summary of FY 2004 Performance Against Targets (Cumulative Figures for Active Projects With Significant Disbursements)[1]

Performance Indicator	FY 2004 Performance (Planned)	FY 2004 Performance (Actual)	Percent of Target Achieved
Enterprises assisted	70,500	95,176	134.9%
Owners and workers in assisted enterprises	79,200	115,827	146.2%
Women as a percent of owners and workers[2]	Minimum of 50%	At least 69.0%	At least 138.0%
Value of loans disbursed to MSEs	$9.194 million	$17.250 million	187.6%
Percent of loans disbursed to women	Minimum of 50%	At least 73.2%	At least 146.4%
Gross revenue of assisted enterprises and organizations	$43.697 million	$43.485 million	99.5%
Export revenues	$6.210 million	$21.530 million	347.0%
People receiving HIV/AIDS prevention training	224,100	320,509	143.0%
Women as a percent of those receiving HIV/AIDS training	Minimum of 50%	66.7%[2]	133.4%[2]
Countries with ADF support for building the capacity for nongovernmental partner organizations	15	13	86.7%
Number of strategic partnerships for leveraging funding contributions	-	6	-
Funding contributions leveraged	$5.000 million	$2.704 million	54.1%

1 Cumulative refers to the period from the starting date of the ADF project through the end of FY 2004

2 The actual proportion of assistance to women is substantially higher because when gender-disaggregated data were not available, it was assumed that all beneficiaries were men to ensure conservative, lower-bound estimates of women beneficiaries.

[1]Cumulative refers to the period from the starting date of the ADF project through the end of FY 2004.

[2]The actual proportion of assistance to women is substantially higher because when gender-disaggregated data were not available, it was assumed that all beneficiaries were men to ensure conservative, lower-bound estimates of women beneficiaries.

TABLE 2. Performance Result Trends, FY 2001 to FY 2004 (cumulative numbers for active projects)

Performance Indicator	FY 2001	FY 2002	FY 2003	FY 2004
Enterprises Assisted	47,049	86,180	80,946	95,176
Owners and Workers in Assisted Enterprises[1]	36,457	96,854	112,802	115,827
Women as a Percent of Owners and Workers in Assisted Enterprises[2]	56.8%	58.1%	48.2%	75.6%
Enterprises With Loans[3]	54,099	65,319	67,893	84,925
Value of Loans Disbursed	Indicator not in use	$11.243 million	$15.127 million	$17.250 million
Proportion of Loans for Women[4]	50.8%	60.6%	61.8%	73.2%
People Receiving Business Management Or Technical Training[5]	66,126	Indicator discontinued	Indicator discontinued	Indicator discontinued
Women as a Percent of People Receiving Business Management Or Technical Training[5]	26.3%	Indicator discontinued	Indicator discontinued	Indicator discontinued
Gross Revenues of Enterprises and credit providers[6]	$17.457 million	$53.440 million	$28.830 million	$43.485 million
Net Income Of Grantees (including credit providers)[6]	$10.528 million	$14.611 million	$6.369 million	$8.807 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]In FY 2001, the indicator tracked the number of loans, rather than the number of enterprises receiving loans. Since microfinance projects typically provide multiple loans to an enterprise, the current indicator produces lower numbers than the previous indicator and is a more meaningful measure of program outreach.

[4]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.

[5]This indicator was discontinued since it is not a measure of program results.

[6]In FY 2002, the gross and net income of the client enterprises assisted by microfinance grantees were estimated in two countries by extrapolation from sample surveys and this made a huge difference in the numbers. In FY 2003, ADF did not report the income of microcredit clients in any countries because it did not have new survey data on the grantees' client enterprises in these projects. In FY 2004, these indicators were defined more narrowly to only include the grantees and not their client enterprises.

TABLE 2. (Continued)

Performance Indicator	FY 2001	FY 2002	FY 2003	FY 2004
Trade and Investment				
Export Products Promoted[1]	4	19	Indicator discontinued	Indicator discontinued
New Production and Export Trade Arrangements Established[2]	18	Indicator discontinued	Indicator discontinued	Indicator discontinued
Gross Revenues From Export Sales	Indicator not in use	$7.594 million	$12.027 million	$21.530 million
AIDS Prevention and Mitigation				
People Receiving AIDS Prevention Training	35,483	274,041	282,089	320,509
Women as a Percent of People Receiving AIDS Prevention Training[3]	57.0%[3]	66.8%	64.9%	66.7%
Local Capacity To Promote Grassroots, Participatory Development				
Partner Development Agencies Assisted	14	13	13	13
Host Governments or Major Donors Providing Funding for Strategic Partnerships With ADF	2	4	1	6
Funds Leveraged Through Strategic Partnerships	$0.364 million	$1.104 million	$0.455 million	$2.704 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]This was discontinued as a quantitative performance measure since a larger number is not necessarily better and there were definitional issues about what constitutes a new production or export trade arrangement.

[3]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.

ADF's GOALS, OBJECTIVES, AND PERFORMANCE RESULTS BASED ON THE FY 2004 STRATEGIC PLAN

Goal 1: Advance Broad-Based, Sustainable Development and Empowerment of the Poor in Africa

Objective 1. Promote micro and small enterprise development that will generate income and employment

Increasing the productivity and profitability of micro- and small-enterprises (MSEs) is critical for broad-based economic growth and poverty alleviation. These enterprises are important sources of income, employment, and empowerment for the poor, particularly for women and other disadvantaged groups. In times of economic distress, MSEs become even more vital as a safety net for producers and an affordable supply of consumer goods for low-income people.

ADF helps transform the tremendous untapped entrepreneurial potential of Africans into fuel for economic and social development. ADF helps small African businesses overcome the common constraints MSEs face in expanding production, improving quality, and increasing value-added by:

- Providing direct capital infusions to individual enterprises and strengthening micro-finance institutions;
- Providing access to improved technologies;
- Strengthening the skills of management and workers; and
- Improving access to information on better production methods and marketing.

ADF helps applicants develop their proposals into business plans with full financial analyses, market assessments, marketing strategies, training plans, and implementation plans. ADF only funds MSEs that have good prospects for becoming profitable and sustainable by the end of the grant period. ADF can provide MSE grantees with support directly or through microfinance institutions, cooperatives, producer associations, and other intermediary organizations. Once a project is funded, ADF provides assistance in implementation, upgrading of management information systems, monitoring, and reporting through its network of non-governmental Partner Organizations in Africa. More specialized, African technical service providers are brought in where necessary. Table 3 shows the performance results for the MSE and MFI projects.

Objective 2. Increase participation of African grassroots enterprises and producer groups in trade and investment relationships with the United States and within Africa

The increasingly integrated global economy presents unprecedented opportunities for broad-based increases in incomes through greater participation in the international economy. To achieve broad-based income and employment gains at the grassroots level through trade, small-scale producers need to be actively involved in further processing and higher-level marketing of products. They often need assistance to increase their volume or quality of production and gain access to value-added processing and more profitable marketing arrangements.

The African Growth and Opportunity Act of 2000 (AGOA) specifically noted the important role of ADF in developing and implementing strategies for promoting participation of small-scale enterprises and informal sector groups such as farmer cooperatives and artisans in trade and investment activities. ADF provides capital and technical and managerial assistance to enable small- and medium-scale producers take advantage of new opportunities for trade and investment (T&I). ADF's activities in support of AGOA include

- Promoting the adoption of high-value, non-traditional crops by small-scale farmers;
- Establishing or increasing local processing or manufacturing to add value to primary products;
- Enabling small- and medium-sized processors and manufacturers to begin or expand export production;
- Helping producers scale up the quantity and improve the quality of production to meet specifications of export buyers;
- Creating new export marketing linkages for regional or world trade; and
- Increasing their effectiveness in advocating changes in government policies that impede trade and investment, where necessary.

To make export production that benefits low-income producers more feasible, ADF often works with producer associations or cooperatives that bulk up the production of small-scale producers and carry out processing and/or marketing activities on their behalf. Producer associations and cooperatives can channel other support to small-scale producers effectively; for example lower cost production inputs through bulk purchases, extension services, market and price information, and greater bargaining power in price negotiations. Table 4 shows the performance results for the T&I projects. Table 5 lists the products that were exported by these projects.

TABLE 3 – Micro- and Small-Enterprise and Microfinance Performance Against Key Indicators (Cumulative figures for Active Projects With Significant Disbursements)[1]

Performance Indicator	**FY 2004 Performance (Planned)**	**FY 2004 Performance (Actual)**	**Percent of Target Achieved**
Enterprises assisted	70,500	95,176	135.0%
Owners and workers in assisted enterprises[2]	79,200	115,827	146.2%
Women as a percent of owners and workers[3]	Minimum of 50%	69.0%	At least 138.0%
Value of loans disbursed to MSEs	$9.194 million	$17.505 million	190.4%
Percent of loans disbursed to women[3]	Minimum of 50%	At least 73.6%	At least 147.1%
Gross revenue of assisted enterprises and organizations	$43.697 million	$43.485 million	99.5%

[1]Cumulative refers to the period from the starting date of the ADF project through the end of FY 2004.

[2]To ensure that estimates are conservative, unless there was actual data on number of owners and workers per enterprise from surveys or grantee records, only one owner/worker was assumed per enterprise. The actual number of owners and workers is likely to be substantially higher than this.

[3]To ensure conservative, lower-bound estimates of women beneficiaries e, it was assumed that all of the owners and workers were men when gender-disaggregated data were not available. The actual proportion of women among ADF's beneficiaries is higher than reported.

TABLE 4 – Trade and Investment Performance Against Key Indicators (Cumulative figures for Active Projects With Significant Disbursements)[1]

Performance Indicator	**FY 2004 Performance (Planned)**	**FY 2004 Performance (Actual)**	**Percent of Target Achieved**
Export revenues	$6.210 million	$21.530 million	347.0%

[1]Cumulative refers to the period from the starting date of the ADF project through the end of FY 2004.

TABLE 5. Products Exported by Active Projects in FY04

Beef, frozen, vacuum-packed	Fonio millet, processed with peanut butter
Behind-the-ear hearing aids	Fruit, fresh
Butter	Hides, cattle
Ceramics, decorative	Hides, ostrich
Citronella tea bags	Millet flour
Clothing, cut, measured, and trimmed	Millet, precooked
Couscous with milk	Ostrich meat
Couscous with spinach	Paprika, whole dried peppers
Djouka, dried	Pineapple, dried
Dyed bazin (tie-dyed cotton fabric)	Rock lobster, frozen tails
Dyed bazin with embroidery	Rock lobster, live
Fish, cleaned sole	Rock lobster, whole frozen
Fish, mullet roe	Salt
Fish, Nile perch, chilled fillet	Silk, reeled
Fish, Nile perch, frozen	Solar chargers for hearing aids
Fish, tilapia, chilled fillet	Sugar
Fish, tilapia, frozen fillet	Vanilla, cured
Fonio millet (*Digitaria* spp.), precooked	Vegetables, fresh (snow peas and others)

Objective 3. Promote innovative community-based interventions to remediate the economic and social impact of HIV/AIDS and reduce its spread

Sub-Saharan Africa is, by far, the region most critically affected by HIV/AIDS. At the end of 2003, between 25.0 and 28.2 million people in the region were living with HIV/AIDS (between 61 and 74 percent of the world's total). Approximately 3.2 million people in Sub-Saharan Africa were newly infected during the year. During the year, the disease killed 2.3 million people in the region. Over 11 million children below the age of 15 have lost at least one parent to AIDS and this number is expected to increase to 20 million by 2010.

Since AIDS prevention is more cost effective than treatment and mitigation, educational efforts to reduce the spread of the disease are important in all countries. Most efforts by donors, governments, and NGOs have focused on prevention activities in large urban areas. By contrast, most of ADF's support for AIDS prevention is concentrated on rural areas and small towns that have been underserved.

ADF began including a small HIV/AIDS education and prevention component in many of its MSE and micro-credit projects around the beginning of the decade. Then in FY 2002, the Foundation initiated a pilot program of small grants to support innovative, community-based activities for AIDS prevention and mitigation of the social and economic impact of the disease. Table 6 shows the performance results for the AIDS prevention and mitigation projects.

TABLE 6 – HIV/AIDS Program Performance Against Key Indicators (Cumulative figures for Active Projects With Significant Disbursements)[1]

Performance Indicator	FY 2004 Performance (Planned)	FY 2004 Performance (Actual)	Percent of Target Achieved
People receiving HIV/AIDS prevention training	224,100	320,509	143.0%
Women as a percent of those receiving HIV/AIDS training	Minimum of 50%	66.7%[2]	133.4%[2]
People receiving HIV testing services	-	8,167	N/A
Women as a percent of those receiving HIV/AIDS training	-	90.8%	N/A
People receiving AIDS counseling services	-	15,545	N/A
Women as a percent of those receiving AIDS counseling services	-	50.3%	N/A
People receiving AIDS-related medical services	-	6,390	N/A
Women as a percent of those receiving AIDS-related medical services	-	18.1%	N/A
People receiving AIDS-related financial or social services	-	17,236	N/A
Women as a percent of those receiving AIDS-related financial or social services	-	8.1%	N/A

[1]Cumulative refers to the period from the starting date of the ADF project through the end of FY 2004.

GOAL 2: EXPAND LOCAL CAPACITY TO PROMOTE AND SUPPORT GRASSROOTS, PARTICIPATORY DEVELOPMENT

Objective 1. Build self-supporting, sustainable, local community development agencies that provide technical assistance and support to grassroots groups

In FY 2004, ADF continued the efforts it began in the previous year to develop the capacity of its "Partner Organizations," nongovernmental organizations (NGOs) dedicated to participatory approaches to community economic and social development in each of the countries where the Foundation operates. The cooperative agreements with Partner Organizations are performance-based and renewable annually for up to five years. The Foundation is systematically building the capacity of these organizations so that they can become sustainable and have diversified funding sources.

The Partner Organizations help applicants that have passed the initial screening done by ADF's Country Representative to develop their project ideas into business plans with rigorous financial analyses. After ADF awards a project grant, the Partner Organizations train the grantees in financial management and participatory monitoring, and visit them regularly to monitor progress and help rectify any implementation problems. The partner organizations also provide assistance in procurement and preparation of quarterly financial and performance reports.

ADF transfers U.S. development expertise to its African Partner Organizations through training and technical and managerial assistance to build their institutional capacity. It also monitors the quality of their services and helps them plan and develop systems for attracting future funding from other sources.

In FY 2004, ADF helped to build the capacity of Partner Organizations in 13 countries (Benin, Botswana, Ghana, Guinea, Mali, Namibia, Niger, Nigeria, Senegal, Tanzania, Uganda, Zambia, and Zimbabwe). ADF did not have a partner organization in Cape Verde (ADF had terminated its relationship with a previous partner organization) or in the new program country of Swaziland.

Objective 2. Promote community resource mobilization and reinvestment

In FY 2004, ADF continued its community reinvestment policy to mobilize local capital for grassroots development projects and foster a culture of social responsibility. Although ADF provides grants rather than loans, it encourages profitable business grantees to ultimately donate the inflation-adjusted value of their grants to a development trust ADF helped to establish in their country. The Community Reinvestment Grant (CRG) policy broadens and multiplies the impact of ADF's investment, builds business goodwill, and fosters the development of business social responsibility.

Objective 3. Establish strategic partnerships with national and local governments, other donor agencies, and the private sector to support sustainable grassroots development

Strategic partnerships with African governments, other donors, and the private sector leverage additional funds for ADF programs, demonstrate that the added value of ADF's work is recognized externally, and expand the influence of ADF's strategies and program approaches.

- ***Strategic partnerships with African governments and other donors.*** In these strategic partnerships, government or donors match ADF's contribution to an ADF project, usually on a 1 to 1 basis.

- ***Partnerships with the private sector in the U.S. and Africa.*** ADF consults with the private sector in Africa and the United States and to identify investment opportunities. ADF then helps develop market linkages between African producers and importers, particularly in the United States and other countries.

In FY 2004, ADF had active strategic partnerships that leveraged contributions in six African countries -- Botswana, Cape Verde, Ghana, Mali, Nigeria (Jigawa State), and Swaziland that leveraged funding contributions of $2,704,024. During the year, ADF obtained new strategic partnership agreements in three other countries that will leverage funding contributions in future years (Benin, Senegal, and Sao Tome).

Objective 4. Encourage African governments and other donors to increase utilization of participatory development "best practices"

African governments are usually very interested in adopting new ways of fostering broad-based, cost-effective, and sustainable economic development at the local community level. However, there is often a gap between the desire and commitment of government agencies to implement new approaches and the organizational capabilities and resources needed to carry them out.

ADF's participatory development methods (PDM) actively involve all major stakeholders at each stage of a project from conceptualization through development, implementation, and monitoring. In addition, participants develop and implement systems that ensure transparency and accountability in the use of resources and attainment of program objectives. As a result, PDM empowers stakeholders while fostering more effective programs.

- ***Application of PDM in ADF-funded projects.*** ADF helps African governments and local development organizations develop, coordinate, and implement participatory development strategies. The strategic partnerships that ADF develops with African governments and other donors have increased funding for the use of participatory development methods in grassroots development activities. While participatory development methods are a common element throughout ADF's programs, they are the primary strategic objective in a subset of projects that have emphasized participation in setting priorities for local infrastructure construction and implementing them.

  In Guinea and Niger, ADF helped the World Bank and government successfully demonstrate that PDM can play a vital role in developing local capacity to set priorities for investments in rural community infrastructure and fostering local ownership in construction and maintenance of the infrastructure. These projects have developed or maintained secondary roads, bridges, classrooms, and health facilities for rural people.

In Nigeria, ADF and the Government of Jigawa State used PDM to help communities reach consensus on who should benefit from housing units built after a major flood and test different designs and low-cost construction methods for the houses.

- ***Development communications.*** ADF also encourages use of participatory development methods and appropriate development strategies for underserved and disadvantaged populations through its learning and information dissemination activities. These include ADF publications and a website. ADF/W and Partner Organization staff also participated in various conferences.

REVISED STRATEGIC PLAN

In early FY 2005, ADF established new strategic goals and objectives based on guidance from its reconfigured Board of Directors headed by a new chairman. Building on ADF's proven program model, the Board directed ADF to refocus its efforts on the sectors and project structures that have the greatest impact on the poor of Africa. This new focus resulted in a revised Strategic Plan:

ADF'S Strategic Goals and Objectives for FY 2005

Goal I: Stimulate economic growth, job creation and higher incomes and improve the lives of the poor by supporting innovation, entrepreneurship and ownership, at the business and community level (Business Growth and Expansion)

Objective 1: Trade and Investment – Enhance the growth of African-owned small and medium sized enterprises, improve their access to investment, and increase their participation in regional and international trade.

Objective 2: Market Access for Agricultural Producers – Expand small farmer production of high-value crops, value-added processing of agricultural goods, and access to local and global markets.

Objective 3: Social Enterprises – Promote innovative community-based solutions to critical social and economic needs of marginalized communities and peoples.

Objective 4: Access to Capital – Create renewable pools of local capital to fund small businesses and community initiatives

Goal II: Expand local institutional and financial capacities to support and sustain grassroots development (Resource Mobilization)

Objective 1: Business Advisory Services - Build sustainable development organizations and business advisory services that provide technical assistance and training to enterprises and community groups

Objective 2: Business Leaders Forum – Strengthen the capacity of African business and community leaders to foster entrepreneurship and social philanthropy and to model transparency and accountability

Objective 3: Strategic Partnerships – Forge strategic partnerships with African governments, other donor agencies, and the private sector, to fund ADF programs that support enterprise and community development

Objective 4: Learning and Dissemination – Promote and disseminate international and ADF best practices, lesions learned and successful models for African-driven development

Goal III: Ensure that ADF obtains and maintains resources necessary to deliver pre-eminent program performance in Africa and in all its operational functions and responsibilities (Performance Efficiency)

Objective 1: Outreach and Communications – Build a broad base of diverse, long-term loyalty and support from African grassroots communities, African businesses and entrepreneurs, African governments, USG agencies, development practitioners, corporations, foundations and other organizations

Objective 2: Fundraising – Increase Congressional appropriations and leveraged contributions by 20 percent annually for the FY 2006 – 2010 planning period, resulting in an annual operating budget of $50 million by 2010

Objective 3: Financial Administration and Compliance – Ensure ADF appropriated funds, nonappropriated funds and other contributed resources are managed judiciously, effectively and efficiently in compliance with ADF, USG and other contributors' policies, regulations and requirements

Objective 4: Internal Operations Support – Significantly enhance and streamline ADF's customer service practices, human resource management, technology support services, workflow, facilities and equipment, to increase efficiency and effectiveness and further the mission and goals of ADF.

The three goals can be summarized as business growth and expansion, resource mobilization and performance efficiency. While ADF has been measuring its performance in all these areas over the past several years, the new plan concentrates ADF's measurement efforts more specifically.

The new plan was also instrumental in developing performance measures for ADF's first Program Assessment Rating Tool (PART) exercise. ADF's rating and performance measures will be presented in the FY 2007 President's Budget. ADF has significantly revised both its annual and long-term performance goals to better reflect its new focus.

The 2005 PART exercise has helped ADF refine its program performance metrics to make it easier to report to ADF stakeholders long-term program results and progress. Baselines for new performance measures have been established with FY04 data. This will provide ADF management and stakeholders with a clear picture of ADF's progress in achieving its mission and strategic goals.

ADF's programs have a significant and measurable impact on improving the lives of Africa's poorest communities. Indeed, during the past four years, more rigorous efforts to enhance the screening, design and monitoring of projects have helped the Foundation significantly improve its performance measures.

FUTURE ACTIVITIES

ADF's FY 2006 request will allow the Foundation to initiate program operations in two new countries where the Foundation can make a significant contribution to broad-based economic and social development by funding projects that follow a grassroots, participatory approach. New countries currently under consideration include Kenya, Liberia, Sierra Leone, and the Sudan in the first priority tier and Angola, Eritrea, and Mozambique in the second priority tier. At the lower request level for FY 2005, ADF would not be able to begin operations in any new countries.

The requested appropriation would be used to:

- Increase the access of micro- and small- enterprises to credit, improved technologies, training and technical assistance, and other business development services;

- Promote new export trade and investment opportunities (T&I) for African enterprises, especially those involving U.S. businesses and small-scale producers in Africa. The African Growth and Opportunity Act of 2000 (AGOA), which was passed with strong bipartisan support, specifically recognizes the important role of ADF in helping to integrate small-scale producers at the grassroots level into the global economy;

- Support innovative, indigenous approaches to AIDS prevention and to mitigating the catastrophic financial, economic, and social problems that the epidemic causes in families and communities;

- Build, sustainable local community development agencies that support participatory grassroots development;

- Promote community reinvestment;

- Establish additional strategic partnerships with national and local governments, donors, and the private sector; and

- Encourage African governments and major development assistance organizations to increase use of participatory development methods.

ANALYSIS OF THE FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

ADF Quality Assurance, Internal Controls and Legal Compliance

During 2005, ADF underwent a thorough review of its grantee and cooperative agreement audit program. Field audit guidelines were updated and clarified to ensure that audits of both ADF funds and general purpose financial statements, in the case of ADF partners, are audited according to U.S. Government Auditing Standards.

ADF has a full-time auditor on staff, who 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.

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.

Despite receiving clean opinions on all five financial statements over the past several years, ADF has been cited as having a material weakness with regards to its financial system. Specifically, the material weakness cited inadequacies related to the entering of transactions into the core financial system and the lack of the U. S. Standard General Ledger at the transaction level. In FY 2005, both issues have been fully resolved with the implementation of Oracle Federal Financials as ADF's core financial system.

Comments on Financial Statements

ADF is pleased to report that in FY 2005 the Foundation continued to receive an unqualified opinion on all five financial comparative 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.

In total, ADF's financial statements indicate growth in programmatic activities from FY 2004. The balance sheet shows that cash and other monetary assets have increased by more than 100 percent in the past year. This increase represents the substantial growth in ADF’s strategic partnerships with host country governments, a cornerstone of ADF’s program. The commitment of African governments to provide up to 50 percent of grant funding is an indication that ADF’s programs are effective. These donations, in turn, expand ADF’s ability to fund new grants, and the $700 thousand increase in grant advances is evidence of such growth. Disbursements are also up, increasing more than $5 million over the previous year, with the increase is related primarily to grant disbursements. The increase can be attributed to both program growth and efficiencies in the disbursement process.

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.

LEONARD G. BIRNBAUM AND COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
WASHINGTON OFFICE
6285 FRANCONIA ROAD
ALEXANDRIA, VA 22310-2510

703-922-7622
FAX: 703-922-8256

LESLIE A. LEIPER
LEONARD G. BIRNBAUM
DAVID SAKOFS
CAROL A. SCHNEIDER
DORA M. CLARKE

WASHINGTON, DC
SUMMIT, NEW JERSEY
REDWOOD CITY, CALIFORNIA

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, Statements of Budgetary Resources and Statements of Financing (Principal Financial Statements) as of, and for the years ended, September 30, 2005 and 2004; we have examined internal control over financial reporting in place as of September 30, 2005; and we have examined compliance with laws and regulations.

In our opinion, ADF's 2005 and 2004 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 2005 and 2004 Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, and Statements of Financing, including the notes thereto, present fairly, in all material respects, ADF's financial position as of September 30, 2005 and 2004, and the net cost of operations, the changes in net position, and use of budgetary resources, and the use of financing, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

<u>INTERNAL CONTROL</u>

We considered ADF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 01-02 as amended, *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 reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect ADF's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts, which would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance 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 01-02 as amended. 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 01-02 as amended, 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 01-02 as amended.

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.

We noted one instance in which ADF did not fully comply with the requirements of the Federal Information Security Management Act of 2002 (FISMA). We have communicated this to the ADF's management in a separate letter dated November 4, 2005.

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 01-02 as amended. 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.

Leonard G. Birnbaum and Company, LLP

Alexandria, Virginia
November 4, 2005

AFRICAN DEVELOPMENT FOUNDATION
Fiscal Year Ended September 30, 2005

Status of Prior Year Audit Finding

FY 2004 Audit Findings	**Current Status**
1. The United States Standard General Ledger has not been implemented at the transaction level.	1. The United States Standard General Ledger was implemented at the transaction level by ADF as of March 31, 2005. This finding is considered closed.
2. Because of inadequacies in the system used by the General Services Administration to process ADF's Transactions, significant elements of the financial statements including, but not limited to, grant advances, prepayments franchise fund, accounts payable, undelivered orders, unexpended appropriations, and expenses; were developed from sources other than general ledger.	2. ADF contracted with the Department of Interiors' National Business Center in FY 2004 to correct this issue. The prior year's finding did not have to do with ADF's internal record keeping. During FY 2005, substantially all of the financial statement items that previously used sources other than the general ledger are now taken directly from the general ledger. This finding is considered closed.

African Development Foundation
BALANCE SHEETS
As of September 30, 2005 and 2004

	FY 2005	As Restated FY2004
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$23,953,010	$25,073,947
Total Intragovernmental	23,953,010	25,073,947
Cash and Other Monetary Assets (Note 2)	3,851,678	1,254,368
General Property, Plant and Equipment – Net (Note 4)	436,535	497,932
Advances and Prepayments(Note 3)	3,847,050	3,615,081
TOTAL ASSETS	$32,088,273	$30,441,328
LIABILITIES		
Accounts Payable (Note 5)	$ 284,769	$ 1,320,267
Accrued Payroll (Note 5)	107,869	101,954
Accrued Leave (Note 5)	193,158	207,309
Other Liabilities (Note 5)	-	133,578
TOTAL LIABILITIES	$ 585,796	$ 1,763,108
NET POSITION		
Unexpended Appropriations	27,204,690	27,379,686
Cumulative Results of Operations	4,297,787	1,298,534
TOTAL NET POSITION	31,502,477	$28,678,220
TOTAL LIABILITIES AND NET POSITION	$32,088,273	$30,441,328

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENTS OF NET COST
For the Years Ended September 30, 2005 and 2004

	FY 2005 Grant Program	As Restated FY2004 Grant Program
PROGRAM COSTS		
Program Expenses	$12,074,695	$ 8,265,392
Operating Expenses – Public	7,439,268	7,686,746
Operating Expenses – Intragovernmental	140,630	177,003
TOTAL PROGRAM COSTS	19,654,593	16,129,141
NET PROGRAM COSTS	19,654,593	16,129,141
NET COST OF OPERATIONS	$19,654,593	$16,129,141

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, 2005 and 2004

	FY 2005		As Restated FY 2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ 1,298,534	$27,379,686	$829,156	$25,349,986
Budgetary Financing Sources				
Appropriations Received		19,000,000		18,689,000
Rescission & Cancelled Resources		(156,189)		(1,053,888)
Appropriations Used	19,018,807	(19,018,807)	15,605,411	(15,605,412)
Nonexchange Revenue	3,494,409		816,105	
Other Financial Services				
Imputed Financing	140,630		177,003	
Total Financing Sources	22,653,846	(174,996)	16,598,519	2,029,700
Net Cost of Operations	(19,654,593)		(16,129,141)	
Net Change	2,999,253	(174,996)	469,378	2,029,700
Ending Balances	$ 4,297,787	$27,204,690	$ 1,298,534	$27,379,686

The accompanying notes are an integral part of these statements.

African Development Foundation
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2005 and 2004

	FY 2005	As Restated FY2004
BUDGETARY RESOURCES		
Budget Authority – Appropriation	$22,494,462	$19,505,104
Unobligated Balance Brought Forward, October 1	5,669,528	6,126,195
Adjustments:		
Recoveries of Prior Years' Obligations	2,595,184	1,534,345
Rescission Current Year	(152,000)	(110,265)
Permanently not Available	(4,189)	(759,840)
TOTAL BUDGETARY RESOURCES	$30,602,985	$26,295,539
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred – Current Period	24,803,215	20,626,011
Unobligated Balances – Available (Note 2)	4,645,506	306,298
Unobligated Balances – Unavailable (Note 2)	1,154,264	5,363,230
TOTAL STATUS OF BUDGETARY RESOURCES	$30,602,985	$26,295,539
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Obligated Balance, Net – Beginning of Period	20,525,209	17,115,085
Obligated Balance, Net – End of Period		
Accounts Payable	392,638	1,422,221
Undelivered Orders	21,611,780	19,102,988
Outlays:		
Disbursements	20,728,822	15,498,797
Collections	(500)	-
Net Outlays	$20,728,322	$15,498,797

The accompanying notes are an integral part of these statements.

African Development Foundation
STATEMENTS OF FINANCING
For the Years Ended September 30, 2005 and 2004

	FY 2005	As Restated FY2004
RESOURCES USED TO FINANCE ACTIVITIES		
Obligations Incurred	$24,803,215	$20,626,011
Less: Downward Adjustments of Prior Years' Obligations	(2,595,184)	(1,534,344)
Net Obligations	22,208,031	19,091,667
Financing Imputed for Cost Subsidies	140,630	177,003
Net Other Resources Used to Finance Activities	140,630	177,003
Total Resources Used to Finance Activities	22,348,661	19,268,670
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS		
Change in Budgetary Resources not yet Provided (Increase)	(2,740,128)	(3,036,341)
Resources that Finance the Acquisition of Assets	(72,630)	(239,924)
Total Resources that do not Fund Net Costs	(2,812,758)	(3,276,265)
Total Resources Used to Finance Net Cost of Operations	19,535,903	15,992,405
Costs that will not Require Resources in this Period:		
Increase (decrease) in Accrued Annual Leave Liability	(14,151)	23,906
Total Costs that will Not Require Resources in this Period	(14,151)	23,906
Components not Requiring Resources		
Loss/Gains on the Disposal of Assets	-	(41,404)
Depreciation	132,841	154,234
Total Costs that do not Require Resources	132,841	112,830
NET COST OF OPERATIONS	$19,654,593	$16,129,141

The accompanying notes are an integral part of these statements.

African Development Foundation
Notes to the Financial Statements
As of September 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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 21 years, the Foundation has funded more than 1600 projects in 34 African countries.

B. 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*, and the Foundation's accounting policies, which are summarized in this note.

C. 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.

D. 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, and Standard Chartered Bank in Zambia to process grant funds for those countries. Governments with whom ADF has entered Strategic Partnerships deposit donations into these accounts. In general, grants are funded equally with appropriated funds and donated funds. ADF controls all disbursements from these accounts. During FY 2005, an account at Ecobank in Guinea was closed, and all remaining funds were returned to the U.S. Treasury. Similarly a dollar account held at Deutsche was closed with remaining funds returned to the Treasury.

E. 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.

F. 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.

G. Travel Advances

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

H. 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.

I. Accounts Payable

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

J. 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.

K. 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.

L. 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.

M. Trust Fund

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

N. Restatement

Fiscal year 2004 statements have been restated to reflect the effect of a prior period adjustment. See Note 8.

Note 2. Fund Balance with Treasury

A. Fund Balances and Funds Held Outside Treasury

ADF's Fund Balance with Treasury and Funds Held Outside Treasury as of September 30, 2005 and 2004 are summarized below:

	FY 2005	FY 2004
Appropriated Funds	$ 23,936,136	$ 25,057,584
Trust Fund	16,874	16,363
Total Fund Balance with Treasury	$ 23,953,010	$ 25,073,947
Deutsche Bank Trust Company	-	96,952
Ecobank of Guinea	-	133,578
Barclays Bank of Botswana	1,066,426	740,773
Standard Chartered Ghana	1,891,050	-
Citibank Nigeria	39,013	39,013
First National Bank Swaziland	193,407	-
Zenith Bank Nigeria	151,515	-
Standard Chartered Zambia	152,869	-
Cape Verde	357,398	244,052
Total Funds Held Outside Treasury	$3,851,678	$ 1,254,368
Total	$ 27,804,688	$ 26,328,315

B. Status of Fund Balance With and Outside Treasury

	FY 2005	FY 2004
Unobligated Balance		
Available	$ 4,645,506	306,298
Unavailable	1,154,264	5,363,230
Obligated Balance not yet Disbursed	$22,004,918	20,658,787
Total	$ 27,804,688	$ 26,328,315

Note 3. Advances and Prepayments

ADF's advances (see Note 1F and 1G) and prepayments as of September 30, 2005 and 2004 are summarized below:

	FY 2005	FY2004
Grants	$ 3,471,739	$ 2,804,388
Travel	42,323	98,130
Prepayments	332,988	712,563
Total	$ 3,847,050	$ 3,615,081

Note 4. 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, 2005 and 2004

	FY 2005	FY 2004
Equipment, at cost	$ 1,365,114	$ 1,290,086
Accumulated Depreciation	(928,579)	(792,154)
Equipment, net	$ 436,535	$ 497,932

Note 5. 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 2005	FY 2004
Commercial vendors	$ 284,769	$ 1,320,267
Government of Republic of Guinea	-	133,578
Accrued employee payroll and leave	301,027	309,263
Total	$ 585,796	$ 1,763,108

Note 6. 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, 2005 – September 30, 2006	$384,159
Year 2	October 1, 2006 – September 30, 2007	$391,842
Year 3	October 1, 2007 – April 30, 2008	$232,874
TOTAL		$1,008,875

Note 7. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government.

The 2007 Budget of the United States Government, with the Actual Column completed for fiscal year 2005, 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 2006. The 2006 Budget of the United States Government, with the Actual Column completed for fiscal year 2004, has been reconciled.

Note 8. Restatements.

The financial statements for FY 2004 have been restated to reflect material corrections made in FY 2005. ADF completed the implementation of a new, fully compliant core financial system in FY 2005. The implementation not only eliminated a material weakness in internal controls that ADF's auditors have cited over previous years, but it also indicated account balances that needed to be corrected. Certain balances in all five statements have been restated. The restatement had an immaterial effect on both the Balance Sheet and the Statement of Net Cost. Regarding overall net position, cumulative results of operations were decreased by $1.7 million while unexpended appropriations increased by $800 thousand. The need for the restatement resulted from the lack of a core financial system. Because of inadequacies in the financial systems previously used to process ADF's transactions, significant elements of the financial statements including, but not limited to, grant advances, prepayments franchise fund, accounts payable, undelivered orders, unexpended appropriations, and expenses; were developed from sources other than general ledger. Over the years, material errors in account balances accumulated and restatement became necessary.

Management Comments

November 15, 2005
Mr. Joe Farinella
Acting Assistant Inspector General for Audit
Office of the Inspector General, U.S.A.I.D.
1300 Pennsylvania Avenue
Washington, D.C. 20523-8100

Re: Audit Report of the 2005 Financial Statement

Dear Mr. Farinella:

We have received the audit report supplied by Leonard G. Birnbaum and Company, including the opinion of the African Development Foundation's (ADF) fiscal years 2004 and 2005 comparative financial statements, internal controls status, and compliance with applicable laws and regulations. We are pleased to note that all five comparative financial statements (Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing) 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 are especially pleased to note that the instance of weakness in the internal controls over financial reporting and three related instances of non-compliance with selected provisions of applicable laws and regulations that you reported last year and in FY 2003 have been completely cleared. Last year, we committed to you that we would fully implement Oracle Federal Financials, through a cross-servicing agreement with US Department of Interior, National Business Center, by March 31, 2005. We met that goal, and the FY 2005 financial statements have been prepared entirely from the Oracle system. This marks the completion of a major milestone in ADF's quality improvement program regarding financial management.

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 great strides we have made to date but also to continue looking for ways to improve the efficiency and effectiveness of our financial management systems. We look forward to working with you and your staff on the 2005 audit. Any questions may be addressed to Marti Edmondson, Chief Financial Officer at ADF or to me.

Sincerely,

Nathaniel Fields

Nathaniel Fields
President

1400 Eye Street, N.W. • Tenth Floor • Washington, D.C. 20005 • (202) 673-3916 • fax: (202) 673-3810 • email: info@adf.gov

U.S. Agency for International Development
Office of Inspector General
1300 Pennsylvania Ave, NW
Washington, DC 20523
Tel: (202) 712-1150
Fax: (202) 216-3047
www.usaid.gov/oig