



OFFICE OF INSPECTOR GENERAL

AUDIT OF THE UNITED STATES AFRICAN DEVELOPMENT FOUNDATION'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2013 AND 2012

**AUDIT REPORT NO. 0-ADF-14-002-C
DECEMBER 16, 2013**

WASHINGTON, DC



Office of Inspector General

MEMORANDUM

TO: USADF President and CEO, Shari Berenbach
FROM: Acting AIG/A, Melinda Dempsey /s/
SUBJECT: Audit of the U.S. African Development Foundation's Financial Statements for Fiscal Years 2013 and 2012 (Audit Report No. 0-ADF-14-002-C)

With this memorandum, the Office of Inspector General (OIG) transmits the audit report prepared by the certified public accounting firm of GKA, PC, on the financial statements as of September 30, 2013 and 2012, of the U.S. African Development Foundation (ADF). OIG contracted with this independent auditor to audit the financial statements.

The independent auditor expressed an unmodified opinion on ADF's fiscal year 2013 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, 2013 and 2012, 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 noncompliance with applicable provisions of laws, regulations, contracts, and grant agreements.

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 No. 14-02, "Audit Requirements for Federal Financial Statements".

In connection with our contract, we reviewed the independent auditor's related audit documentation. Our review was different from an audit conducted in accordance with the auditing standards discussed above and was not intended to enable us to express, and we do not express, an opinion on ADF's financial statements. Also, we do not express conclusions on the effectiveness of ADF's internal control or on ADF's compliance with applicable provisions of laws, regulations, contracts, and grant agreements.

The independent auditor is responsible for the attached auditor's report dated December 2, 2013, and the conclusions 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 the staff of GKA, P.C., during the audit. If you have any questions concerning this report, please contact Rohit Chowbay at (202)712-1317.



1015 18th Street, NW
Suite 200
Washington, DC 20036
Tel: 202-857-1777
Fax: 202-857-1778
www.gkacpa.com

United States African Development Foundation
PERFORMANCE AND ACCOUNTABILITY REPORT
Fiscal Year 2013

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SECTION I

OVERVIEW

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December 2, 2013

MESSAGE FROM THE PRESIDENT

I am pleased to submit the FY 2013 Performance and Accountability Report for the United States African Development Foundation (USADF). USADF is committed to achieving significant program impact, cost-effective operations, accurate and timely financial reporting, and full compliance with all applicable laws and regulations.

USADF makes a significant contribution to both US national security and foreign assistance objectives and is the only US Governmental agency exclusively dedicated to supporting development in Africa. USADF grants support sustainable solutions to Africa's challenges – funding economic development for community-based enterprises in hard to reach rural areas across Africa. This funding results in increased food security and economic growth for more than 1.5 million people across Africa, establishing the basis for shared prosperity.

USADF is pleased to be a part of other “whole-of-government” initiatives in Africa, including, Feed the Future, Power Africa, and the President's Youth Africa's Leadership Initiative. USADF program priorities help ensure these programs reach out to those groups and communities that can be missed by the larger bilateral government to government efforts.

USADF's ‘African Lead – African Managed’ model utilizes local host country nationals to support in-country programming. Not only does this ‘country-led approach’ empower local African development practitioners, but it lowers both overhead and program costs, maximizing the amount of appropriated dollars dedicated to achieving program goals.

Our vision is to help build sustainable enterprises across Africa that would end poverty for millions of people. 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:

Shari Berenbach
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

United States African Development Foundation Mission and Organizational Structure

A Successful Model for U.S. Foreign Assistance

USADF is the only U.S. foreign assistance effort dedicated exclusively to development activities in Africa and is an important institution to further US strategic goals. During this period, USADF has worked in more than 32 countries and has invested more than \$245 million in African initiated and led development projects. USADF projects are designed to improve economic and social conditions for marginalized communities in conflict and post conflict regions. As such USADF grants are tangible expressions of the United States' goodwill towards Africa and directly support US strategic interests in the region.

USADF programs bring the whole of government programs such as Feed the Future and AGOA to life at the community and grassroots level. USADF grants help smallholder farmers groups improve food security through increased production levels, better marketing, and greater involvement in regional and international export markets. USADF's programs are fully consistent with the June 2012 President's *U.S. Strategy Toward Sub-Saharan Africa*. USADF is the only U.S. Agency exclusively dedicated to foreign assistance in Africa, as such it is uniquely positioned to provide frontline support for three of the four strategy pillars¹ (i.e. 2, 3, and 4).

USADF has pioneered a country-led strategy for development. USADF's unique development model uses only local technical services providers for grant design and implementation support work. This helps build sustainable local development expertise in each Africa country and fosters long-term sustainable development. After the local design work is complete, grant funding is used to carry out project plans and acquire other project inputs to achieve outcomes. The intent of most grants is to build up profitable organizations that create jobs and generate better incomes for their members. The benefits do not end with the grant. In FY 2012, approximately 80% of USADF funded projects completed in the past two years were continuing to operate and generate benefits for their members.

USADF achieves efficiencies in the development process by providing grants directly to local producer groups, rather than transferring funds and administration to third parties or to African governments. This approach is greatly appreciated by African governments. Some 16 African countries have believed so strongly in the USADF model that they have invested over \$25 million of their own scarce resources directly into USADF programs since 2004. These African governments recognize that USADF grants are achieving sustainable results for their people. The donated African funds are used directly in USADF's grant programs, and not for administrative expenses.

| | |
|----------------|--|
| Purpose | Fostering hope, growth and goodwill in Africa. |
| Vision | To end the poverty of millions of Africans by investing in their solutions. |
| Mission | To ensure economic growth and prosperity are shared broadly among a diverse community of marginalized populations across Africa. |

¹ I. Strengthen Democratic Institutions; II. Spur Economic Growth, Trade, and Investment; III. Advance Peace and Security; IV. Promote Opportunity and Development

Background

USADF 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 President of the United States and are confirmed by the U.S. Senate. Currently six of the seven Board positions are filled. Board members serve staggered fixed terms of six years. The Board of Directors selects and names the President and CEO of USADF. Members of the current Board of Directors may be found at www.usadf.gov. On December 17, 2012 the Board appointed Shari Berenbach as the new USADF President and CEO, succeeding Lloyd O. Pierson.

USADF is the only U.S. Agency exclusively dedicated to foreign assistance in Africa. USADF provides grants (maximum \$250,000) to African entrepreneurs, producers associations and local organizations – offering a direct approach to development assistance. This complements the work of other larger US Agencies and offers a valuable development assistance tool within the broader foreign assistance framework. The majority of the annual budget is allocated for project grants and cooperative agreements for African enterprises and organizations to increase their production and marketing capabilities that result in higher incomes, more stable jobs, and improved livelihoods.

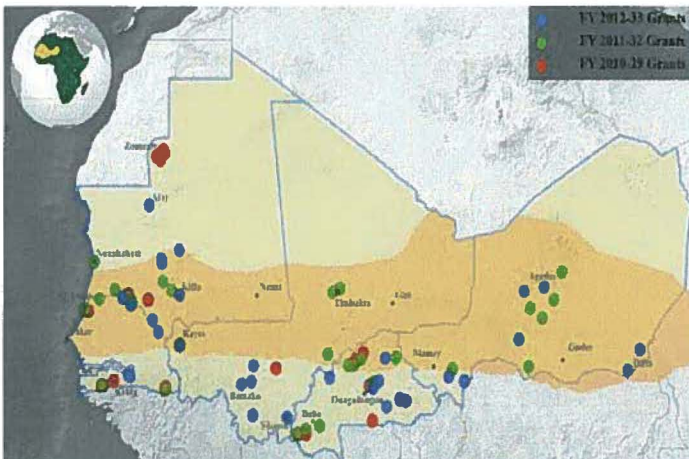
The typical USADF grant allocates resources to local groups to improve management capabilities, acquire better production equipment, set up revolving credit funds to help farmers gain inputs needed to improve production capabilities, develop and expand marketing channels, and in some cases, develop shared community resources (e.g. water wells). Cooperative Agreement Grants are used to fund local technical service providers. These grants vary in size and scope according to need and specific country and regional program objectives.

Working together, the local technical service providers and USADF grant funds catalyze participating groups to achieve more reliable business results and on-going revenue streams. The end result is a sustainable solution that generates revenues, reflows and economic impacts, that often exceed three-fold the original grant value. This direct support demonstrates the effectiveness of a Country-led development strategy.

USADF Programs Support National Security and Foreign Assistance Priorities

The Sahel and the Horn of Africa

Recent discussions with the National Counterterrorism Center and the State Department's Conflict



and Stabilization Office underscored the solid alignment between USADF programs and critical national security strategies and objectives. The USADF “Sahel Initiative” funds economic development in conflict and post-conflict areas across West Africa to address root causes associated with destabilization. Due to its size and structure, USADF can uniquely provide a rapid development response to priority areas.

Figure 1 - Active projects in the Sahel are benefiting 86,000 people

USADF programs provide the United States with a “soft” diplomacy tool in these regions by focusing on community level economic development and food security projects. Projects typically include water and irrigation, small-scale farming initiatives, and improved livestock care and management. In FY 2014, USADF will invest another \$3.2M in Sahel Initiative activities in agriculture, livestock management, and water/anti-desertification sectors, across Burkina Faso, Mali, Mauritania, Niger, and Senegal.

In 2013, USADF programs in the Horn of Africa (Somalia) have provided jobs skills training and job placement for over 1400 youth. More than 85% of participants have been placed into jobs or assisted them to start up small businesses. This program helps to create productive and long term employment opportunities for youth who are particularly vulnerable to destabilizing and extremist activities in this troubled region of Africa.

United States Development Priorities in Africa

In keeping with the United States’ foreign assistance strategy objectives, USADF programs focus on poverty reduction, improved food security, increased opportunities for women and youth, and sustainable, resilient economic development. The brief descriptions below highlight four areas where USADF programs create value and provide results at the local community and farmer level.

Food Security

Over 80 percent of all USADF’s programming is focused on agricultural development and food security. USADF operates in ten of the twelve Feed the Future priority countries in Africa. USADF grants puts working capital into the hands of hard working smallholder farmers to develop lasting food security solutions in geographic areas of greatest need. In FY 2013, these new food security grants helped to generate more than \$30 million of new economic activities that directly benefited more 60,000 farmers. USADF projects are often highlighted in Feed the Future publications because they demonstrate program results at the community level.

The majority of USADF grants fund improved agricultural productivity by providing access to better inputs such as seeds, animal feed, fertilizer, machinery, storage facilities, and irrigation systems. These grants also provide access to improved farming knowledge, training in financial and resource management, support for improved transportation systems, enhanced product storage facilities, better approaches for distribution and marketing systems, and improved access to commercial markets and market information. These activities and investments result in people having better access to reliable food sources and a greater ability to purchase food through higher incomes and sustainable jobs.

AGOA (Trade & Investment)

USADF programs provide a pathway out of poverty by linking community producer groups and organizations to trade opportunities. For the past several years, USADF projects have been a featured part of AGOA success stories. In FY 2013, and FY 2014, USADF leverage its collective experience to help ensure that AGOA’s benefits extend beyond small and medium sized enterprises to smallholder producer associations. This important link helps close the benefit gap between rural communities and larger, more prosperous major population centers. As AGOA continues to create better access to global markets, USADF

programs will support small farmer groups with resources to develop business strategies and capabilities to actively participate in the broader trade opportunities.

YALI (Youth)

In FY 2013, USADF began initial planning to support the White House's "Young African Leaders Initiative" (YALI) by establishing the USADF-YALI Entrepreneurship Grants Program. The first awards of the Entrepreneurship Grant are expected to begin in FY 2014. YALI seeks to empower the next generation of African leadership to advance peace, spur economic growth, and promote opportunity. USADF will competitively award grants to young Africans to pursue their business or social entrepreneurship ventures in their home countries that aim to produce economic growth and development. USADF will support the young leaders with both seed capital and with technical assistance. The business know-how support will be integrated with our implementing partners and a network of other YALI participants and African entrepreneurs. This special initiative also creates an opportunity for USADF to develop additional private funding sources.

POWER AFRICA

In FY 2013, USADF piloted five small Power Africa planning grants in Malawi. In FY 2014, USADF's in partnership with GE Africa will launch an innovative Off-Grid energy challenge to support new business models for sustainable energy in rural areas. Power Africa, the Administration's new initiative, will drive growth by increasing access to reliable, affordable, and sustainable power and helping to ensure responsible, transparent and effective management of energy resources. USADF will be awarding grants to Africans developing cost effective, sustainable ways to bring power to remote underserved communities in Africa. Through a challenge grants program, USADF is financing off-grid solutions, renewable energy plans, and other innovations to address the energy gap among rural and marginalized communities in Africa. This special program initiative also creates an opportunity for USADF to develop additional private funding sources.

Leveraged Funding

Sixteen African countries have invested over \$26 million of their own scarce resources directly into local USADF programs. These governments recognize that USADF grant programs are achieving sustainable results for their people. In FY 2013, USADF applied \$1.8 million of matching donated funds for new grants in four countries including Benin, Malawi and Uganda. Additional efforts are underway to establish matching grant programs with three more countries.

Under new leadership, USADF will accelerate efforts to raise external funds, particularly from U.S. corporate and philanthropic sources. Special program initiatives such as YALI and Power Africa create an opportunity for USADF to cultivate private funding sources. In nearly all cases, external fundraising requires USADF to match resources. As such, it is absolutely critical that USADF maintains a stable funding base from the U.S. Congress. The return on this Federal commitment creates a three way benefit for both grant recipients in Africa and the U.S. public. Through USADF one dollar in USG funds may be matched by a dollar of African host government funds and a dollar of private donor funds. This leveraged model generates more grants for Africans and better utilizes the base operating costs needed to meet Federal accountability, security, and reporting procedures.

Results Focused

With a modest budget, USADF programs impact more than 1.5 million people in marginalized communities across Africa. USADF grants create a ripple effect of economic benefits to these communities as local enterprises are strengthened. Their growth drives sustainable, scalable outcomes that in turn generate ongoing economic activities that exceed the original grant value several times over.

USADF estimates that the current grant portfolio of 336 projects will stimulate over \$155 million dollars of new economic activities in areas where economic opportunities are virtually non-existent. Evidence indicates that the revenue increases and income improvements from these programs translate into better nutrition, greater access to education and health care, and improved livelihoods. USADF creates the potential for shared prosperity across populations outside the mainstream. For example, the job training and placement projects in Somalia engage youth on a productive path to gainful employment. The Turkana Initiative in Northern Kenya is supporting economic opportunities in agriculture and livestock.

The majority of USADF grants focus on economic development activities in agricultural production and other food security areas. These projects help rural farmers grow more food to feed their families and sell more of their products in commercial markets. Increased revenues generate more income that enables people to purchase other goods and services such as food, education, health care, and housing. These basic outcomes significantly improve the quality of life for individuals and communities. The following measures, based on USADF's most recent² annual assessment of program performance indicators (API), provide an overview of the positive measurable impact USADF grants are having in marginalized communities across Africa.

\$155 Million of New Economic Growth in Marginalized Communities

Improved livelihoods and well-being are often linked to access to gainful employment. And employment requires a sufficient level of long-term economic activity to be present in communities where people live. USADF grants work to increase sustainable economic growth in marginalized communities across Africa. USADF measures economic opportunity from API data that examines three factors:

- First, FY 2012 data shows that 45%³ of all USADF grants will generate an additional \$3.5 of new organizational revenues for each one dollar disbursed. If this rate is applied to USADF's current grant portfolio (\$57 million), then one may project that USADF investments help spur more than \$90 million⁴ of new economic activity over the grant period (3-5 years).
- The second growth factor comes from the grant investment itself, which results in another \$31 million of new economic activity in the grantee community.
- The third factor captures the economic growth of grants that continue to generate economic benefits after the grant expires. USADF performance measures confirm that at least 79% or more of USADF grantees continue to operate for a three year period after grant funding ends. To capture this out-year growth, USADF conservatively estimates that the 79% of the population of expansion grants will continue to perform, but at only

² Annual Performance Report for FY 2012

³ 45% of the active grant population has cumulative revenue growth that exceeds the grant value, 53% focus on capacity development and revenue growth but do not exceed the grant value, and 2% accounts for grants that may be terminated prematurely.

⁴ 45% of population are growth grants x 79% sustainability rate x additional revenue growth estimated to at least equal the half the value of the original growth \$90 Million

half of what was achieved in the active phase of the grant. This creates an additional \$37 million of long-term economic growth potential in marginalized communities. This results in a combined benefit of more than \$155⁵ million of new economic growth.

1,500,000 Beneficiaries Across Africa

Measuring actual job growth and direct economic impact is very challenging and costly for development organizations. It is particularly difficult for an agency the size of USADF, which operates in remote, conflict, and other hard to reach environments. However, based on USADF's most recent performance analysis of annual reporting data, a typical USADF grant provides a direct positive economic benefit for an average of 897 workers and/or farmers. If this rate is applied to 98% of USADF's current grant population (336 projects), then USADF can estimate that its current portfolio positively impacts nearly 300,000 people in areas of severe economic hardship. This number reasonably can be extended when accounting for the number of family members who also benefit from the increased income of the workers and farmers. Public demographic data⁶ suggests that a mean household family size in Sub-Saharan Africa is at least five people. Using this value raises the impact level of USADF's current portfolio of projects to over 1,500,000 beneficiaries. The social benefits from this increased economic activity often translate into better diets, better access to education and clean water, and better health care for those living on the edge of poverty in Africa's most marginalized and underserved communities.

Benefits of the USADF Approach

SPEED – USADF's streamlined procedures and model provide U.S. policy makers with a rapid response unit for Africa. USADF began operations in Liberia, Mauritania, and Zimbabwe in less than 100 days. The USADF model enabled it to establish funded and operational programs in Burkina Faso, Malawi, Burundi, and Kenya in less than 12 months.

COVERAGE – USADF's field model, managed on the ground by Africans, allows U.S. foreign assistance dollars to go where other programs cannot send them. This was most recently illustrated by new 2011 and 2012 program activities in conflict areas of Zimbabwe, the Sahel, and Somalia, and in the remote areas of Niger, and in the Turkana region in Kenya.

INNOVATION – USADF's small size provides flexibility for greater innovation and experimentation with new approaches to development. In FY 2013 and FY 2014, USADF will introduce new approaches to ensure that broader whole of government initiatives such as YALI (Young Africans Leaders Initiative) and Power Africa reach out to hundreds of remote and marginalized communities across Africa. Since 2011, USADF programs have been providing on the ground results for Feed the Future objectives. USADF's model focuses on responsiveness, local ownership, and greater African participation in the development process at both the design and the implementation phases. These lessons are instructive to the broader development sector as it works through reforming its current approaches.

LOWER COST /SUSTAINABLE MODEL – USADF's model of providing grants directly to marginalized groups in Africa using African technical partners and country coordinators lowers the cost to deliver program oversight and technical support and helps to create a sustainable development

⁵ New Economic Activity = (activity from income generating development projects) + (activity from standard development projects) + (revenues achieved by expansion grants in out years) i.e. $(3.5 \times \$57M \times 45\%) + (\$57M \times 53\%) + (79\% \times \$90M/2) = \$155$ Million; accounting for 2% early terminations

⁶ See USAID supported www.StatCompiler.com application for additional details.

capability within each country where it operates.

RESPONSIVENESS – USADF’s can rapidly respond to direct requests from community groups and small businesses to meet locally identified needs and opportunities. The approach is not burdened with requirements to work through inefficient centrally planned government initiatives or through large government bureaucracies. USADF’s simplified grant application and disbursement processes ensure that the grantee’s voice and urgency are not lost in overly prescriptive top-down “solutions”.

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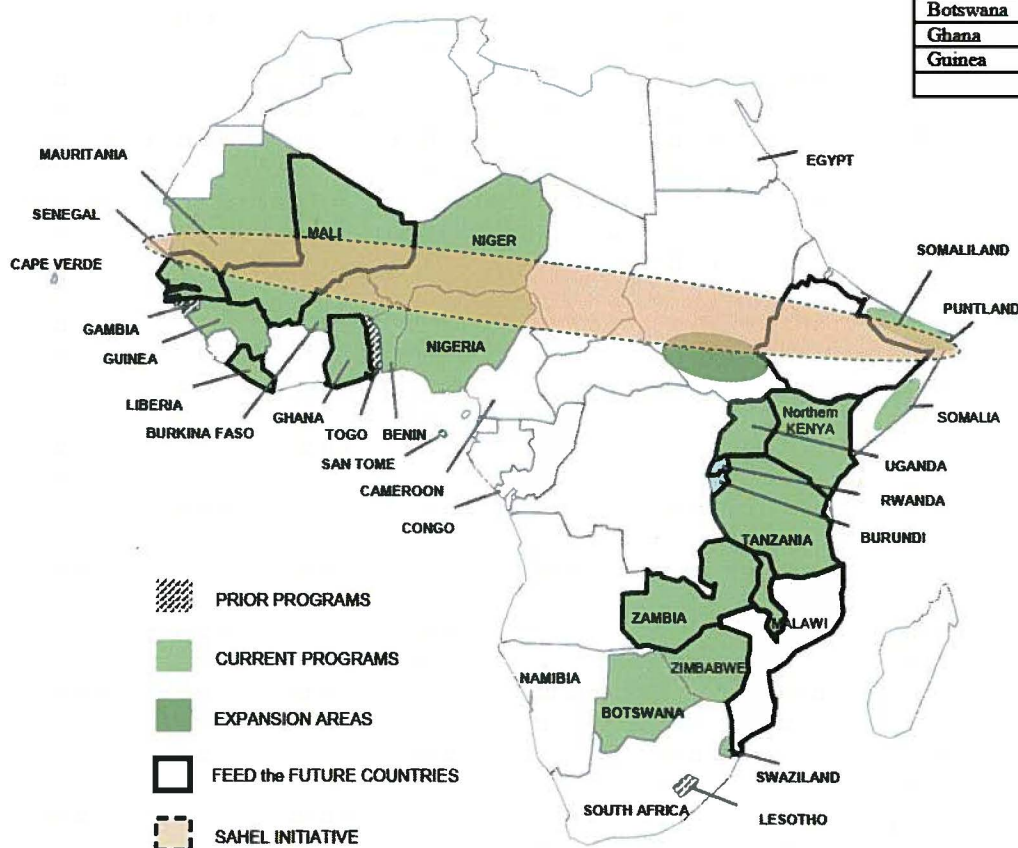
Program Locations and Funding Levels

As of March 31, 2013, USADF had over 336 active project grants in 21 countries, representing \$56.5 million invested in small enterprises, farmer associations, cooperatives, and community groups that improve food production, increase income levels, and improve social benefits in poor communities. Table 1 shows the number and value of active grants by country. Active projects are all USADF funded grants that have not expired. Figure 2 below shows areas of past, present, and planned USADF program activities. The map also shows Feed the Future priority countries, and USADF's new strategic initiative that targets marginalized groups in the Sahel region of Africa.

Table 1 - Active Grants⁷ by Country in FY 2013

| Country | Grants | Grant Value \$ |
|--------------|--------|----------------|
| Uganda | 27 | 5,618,690 |
| Rwanda | 16 | 3,526,687 |
| Zambia | 19 | 3,500,089 |
| Benin | 22 | 3,416,363 |
| Cape Verde | 21 | 3,378,784 |
| Niger | 18 | 3,337,030 |
| Zimbabwe | 16 | 3,277,585 |
| Tanzania | 19 | 3,235,848 |
| Liberia | 24 | 3,129,684 |
| Mauritania | 20 | 2,909,485 |
| Kenya | 14 | 2,837,922 |
| Nigeria | 22 | 2,748,324 |
| Burkina Faso | 19 | 2,545,288 |
| Mali | 16 | 2,437,048 |
| Malawi | 12 | 2,427,348 |
| Burundi | 16 | 2,366,128 |
| Senegal | 16 | 2,285,799 |
| Somalia | 9 | 1,436,201 |
| Botswana | 5 | 921,534 |
| Ghana | 3 | 697,613 |
| Guinea | 2 | 480,000 |
| | 336 | 56,513,450 |

Figure 2 - Past, Present, and Planned Program Areas



⁷ Counts all project grants not expired on March 31, 2013 and excludes Ambassadors Self-Help grants and Partner Cooperative Agreement Grants.

USADF Operations and Program Management

USADF takes its mission and operational management responsibilities seriously and is constantly looking for new ways to establish greater degrees of cost efficiencies and improve areas of program effectiveness. USADF management conducts biweekly reviews of department operating budgets and key grant-making activities. Program management teams utilize quarterly grantee self-reporting, in-country monitoring, and technical support from Country Program Coordinators and implementing Partner Organizations to oversee grant performance. USADF Washington program staff conducts periodic on-site visits to support the grant monitoring and the critical project selection activities. Overall operational and program performance trends have continued to be positive.

Improved Strategic Partner Funds Utilization

In 2013, USADF received \$1.3 million in Strategic Partner (SP) funds and applied \$1.8 million toward FY 2013 projects. The table below shows the progress USADF has achieved in closing the lag time between receipt and use of donated funds. USADF now fully utilize donations within 12 – 18 months of receipt.

| Strategic Partner Funds | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------------|--------|--------|--------|--------|--------|--------|
| SP Funds Collected | \$4.7M | \$3.3M | \$4.8M | \$0.8M | \$1.3M | \$1.3M |
| SP Funds Applied to Projects | \$1.0M | \$4.0M | \$2.9M | \$2.5M | \$1.6M | \$1.8M |

*Cumulative sum of all funds received to-date from 2004

Improved Internal Controls

In 2013, the USADF Internal Audit Unit continued 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. Audits are conducted by USAID Inspector General approved audit firms.

| <u>Financial Audit Types</u> | <u>FY12 Scheduled</u> | <u>FY12 Completed</u> | <u>FY13 Scheduled</u> | <u>FY13 Conducted</u> |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Projects Grants | 61 | 61 | 68 | 68 |
| Partner Grants | 19 | 19 | 15 | 15 |
| Coordinator Offices | 7 | 6 | 6 | 6 |

Program Quality Assurance through Monitoring and Evaluation

Achieving positive program results is more than a matter of program efficiencies. It also requires accountability, evidence-driven approaches, effective monitoring of grant activities, and the regular evaluation of programs. These management actions provide the information necessary to assess program effectiveness, to learn from experiences, and to plan for future programs and resource allocations.

Acting on Monitoring and Evaluation Evidence

Closely tracking the progress of grant implementation plans and budgets is an important grant management function to increase successful grant outcomes. Monitoring can identify early problems and ensure that additional support is applied, and provide necessary evidence for impact assessments. The Regional Director and Field Operations staff are responsible for ensuring Partners Organizations

provide quality technical support to Grantees consistent with the terms of their cooperative agreements. Monitoring includes regular reviews of Grantees' quarterly reports, and regular sites visits to Grantees by Partner Organizations and by USADF staff. Each project grant with a value greater than \$100,000 also receives an independent financial audit on its use of USADF grant funds. At the end of a grant, 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 on the sustainability of the project.

Every six months, Regional Directors conduct a detailed review of all active grants in their regions to monitor and assess individual project performance and to determine the overall effectiveness of grant programs within their regions. Assessments are performed based on information received from site visits and quarterly grant progress reports. The results are then summarized and presented to USADF management in a Bi-annual Program Review (BPR) meeting and report in April and October of each year. The BPR helps establish clear lines of accountability and responsibility for the overall program results and program effectiveness.

The BPR process provides for an extensive assessment of all active grants and their achievement of project specific activity, output, and outcome performance indicators. The process incorporates an evidence-based approach to monitoring. The focus of the assessment process shifts as a grant progresses through its project lifecycle. During the early stages of the grant, the grading focuses on project activities such as training, acquiring new equipment, or establishing new production capabilities. At the middle stage of the grant, the assessment model looks more closely at how output targets are being achieved against goals set at the beginning of the project.

Typical output measures include increased production targets and sales revenue goals compared to baseline values established at the beginning of the project. In the final phase of the grant, the assessment focus shifts to grant outcomes. Outcomes are typically measured in terms of increased income levels and the numbers of people directly benefiting from the project. This approach allows for USADF staff and partners to track grant progress in a near "real-time" manner so that grantees can make the adjustments to their implementation plans in order to achieve better project outcomes.

The table below is a copy of a recent bi-annual program performance review. It contains summary performance assessment information about individual grants within a particular country. The review includes evaluations from both implementing in-country partner staff and USADF Washington staff. Based on the review, grants are given a performance grade using a standard grading and assessment template. 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 review keeps USADF focused on results.

Table 2 - Portfolio Performance Status for Period through 3/31/13

| | *Active Projects | Active Value (USD) | % Value Disb TD | FY12 Days 2 nd Disb ¹ | Date of Last Project Review | GPA | Project GRADES (see note 6) | | | | |
|--------------|------------------|--------------------|-----------------|---|-----------------------------|------|-----------------------------|----|----|----|----|
| | | | | | | | A | B | C | D | F |
| Benin | 22 | 3,416,363 | 70% | 78 | Mar 2013 | 3.3↑ | 11 | 6 | 1 | 2 | 0 |
| Burkina Faso | 19 | 2,545,288 | 32% | 154 | Apr 2013 | 2.4↓ | 2 | 3 | 7 | 2 | 0 |
| Burundi | 16 | 2,366,128 | 61% | 129 | Mar 2013 | 2.8↑ | 5 | 4 | 2 | 3 | 0 |
| Guinea | 2 | 480,000 | 12% | N/A | Oct 2012 | N/A | - | - | - | - | - |
| Liberia | 24 | 3,129,684 | 54% | 130 | Mar 2013 | 2.7↑ | 5 | 11 | 2 | 3 | 1 |
| Mali | 16 | 2,437,048 | 52% | 127 | Mar 2013 | 3.5↑ | 7 | 3 | 1 | 0 | 0 |
| Mauritania | 20 | 2,909,485 | 46% | 122 | Apr 2013 | 2.9↑ | 3 | 10 | 2 | 1 | 0 |
| Niger | 18 | 3,337,030 | 74% | 119 | Mar 2013 | 3.3↓ | 7 | 8 | 2 | 0 | 0 |
| Rwanda | 16 | 3,526,687 | 74% | 98 | Mar 2013 | 3.3↓ | 7 | 4 | 3 | 0 | 0 |
| Senegal | 16 | 2,285,799 | 69% | 86 | Apr 2013 | 3.4 | 7 | 4 | 0 | 1 | 0 |
| Kenya | 14 | 2,837,922 | 37% | 130 | Apr 2013 | 2.2↓ | 3 | 2 | 2 | 6 | 0 |
| Malawi | 12 | 2,427,348 | 70% | 105 | Apr 2013 | 2.9↓ | 4 | 4 | 3 | 1 | 0 |
| Tanzania | 19 | 3,235,848 | 82% | 81 | Apr 2013 | 3.1↑ | 11 | 1 | 3 | 2 | 1 |
| Uganda | 27 | 5,618,690 | 70% | 110 | Apr 2013 | 2.9↓ | 12 | 6 | 2 | 3 | 2 |
| Zimbabwe | 16 | 3,277,585 | 73% | 96 | Apr 2013 | 2.7↓ | 5 | 6 | 2 | 1 | 2 |
| Somalia | 9 | 1,436,201 | 74% | 142 | Apr 2013 | 3.9↓ | 8 | 1 | 0 | 0 | 0 |
| Botswana | 5 | 921,534 | 87% | N/A | Apr 2013 | 1.8↓ | 1 | 1 | 0 | 2 | 1 |
| Cape Verde | 21 | 3,378,784 | 77% | N/A | Apr 2013 | 2.8 | 4 | 11 | 5 | 0 | 1 |
| Ghana | 3 | 697,613 | 100% | N/A | Apr 2013 | 3.3↓ | 1 | 2 | 0 | 0 | 0 |
| Nigeria | 22 | 2,748,324 | 54% | 176 | Apr 2013 | 2.9↑ | 6 | 7 | 3 | 1 | 1 |
| Zambia | 19 | 3,500,089 | 72% | 160 | Apr 2013 | 2.9↓ | 9 | 3 | 3 | 2 | 1 |
| Total | 336 | 56,513,450 | 65% | 120↑ | | 2.9 | 118 | 97 | 43 | 30 | 10 |
| Small Grants | 97 | 786,047 | 86% | | | | | | | | |

- 1 Active Projects = any grant that expires after 3/31/13, (not Partner CAs or Self Help Small Grants)
- 2 Active Value = sum of obligated USD amount for all active grants, (not Partner CAs or Self Help Small Grants)
- 3 % Disb = sum of all disbursement for active grants through 3/31/13 in USD / Active Value
- 4 Avg Days to 2nd Disbursement equals the average days from obligation date to 2nd disbursement date for FY12 projects disbursed in FY12 and FY13 - the goal is 135 days. (Note, in April 2014, the review period will shift to disbursement of FY13 grants.)
- 5 Date when last Comprehensive Portfolio Review was conducted by Regional Director and field team.
- 6 Grades of projects that were active on March 31, 2013 and are at least six months old with one QR submitted.
A = 80% or better project achievement levels, and meets disbursement plans, and provides quality quarterly reports on time.
B = 50% or better project achievement levels, and meets disbursement plans, or provides quality quarterly reports on time.
C = 50% or better project achievement levels, or meets disbursement plans, or provides quality quarterly reports on time.
D= meets none of the performance categories, or two consecutive "C".
F= after two consecutive "D" grades.
- 7 Percent Projects graded 89%↑ = 298 / 336; (40% A, 33% B, 14% C, 10% D, 3% F)

Evaluation

In addition to extensive internal and field based monitoring of grants, USADF also uses external, independent program evaluations to understand overall program effectiveness and impact. Such evaluations are time consuming and costly and are therefore conducted on a strategic basis and to meet specific and targeted programmatic goals. For example, an independent in-country program evaluation was conducted in Benin in FY 2012 for the Government of Benin (GOB) to assess the impact of the USADF grant program in Benin. The GOB has a particular interest in the USADF program because it co-funds all USADF development projects in Benin. The evaluation report was

very positive about the impact of USADF grants and resulted in a GOB decision to continue to provide matching funds for USADF program grants for another five years. (The GOB contributes about \$500,000 per year to USADF to support the Benin grant program). In FY 2014, \$80,000 is allocated to conduct additional external program evaluations.

Other program evaluation efforts include feedback from external audit activities conducted by the Office of the Inspector General (OIG) based in Dakar Senegal. Over a recent five year period, program audits have been done in Ghana (2008), Senegal (2008), Nigeria (2011), and Cape Verde (2012). With each audit and resulting recommendations, USADF is able to improve its operations and program initiatives to improve the effectiveness of achieving its mission.

A recent OIG program evaluation report in Cape Verde (2012) underscored the progress USADF has made in using assessments to improve their program effectiveness. The report stated,

“The audit team found that USADF’s activities were expanding local capacity to promote and support grassroots participatory development. Estrategos and nine of the ten grantees had accomplished or were on track to accomplish their project goals, which were general objectives like improving beneficiaries’ quality of life. (The tenth grantee’s project had not been active long enough for the auditors to make a judgment.) To date, the program has led to new jobs, increased incomes, improved living standards, and less reliance on imported goods for USADF beneficiaries. Perhaps even more notable was that the grantees demonstrated increased managerial and technical capacity to conduct development activities—an improvement that should help sustain the program’s impact.”⁸

Building Agency Capacity

In FY 2012, USADF continued to take steps to improve its ability to gather and utilize evaluation information to improve program effectiveness and cost efficiencies. Actions in FY 2012 included a transition to a more integrated grant, contract, and financial accounting system that provides better financial tracking information and reporting capabilities for improved management and analysis. USADF’s bi-weekly program status meetings and its bi-annual program reviews create an opportunity for Field Operations staff and USADF management to access what is working and what areas require adjustments. USADF is refining its internal annual budgeting processes to ensure a greater linkage between strategic program priorities and resource allocations. The improvements also include a higher degree of participation by budget managers that in turn leads to greater ownership and accountability for results. USADF will be conducting a series of FY 2013 program funding reviews with Field Operations to evaluate areas where it can improve on grant design processes, lower grant management transactions costs, and consolidate monitoring and performance management practices.

⁸ AUDIT REPORT NO. 7-ADF-12-008-P page 1

Analysis of Financial Statements

USADF is pleased to report that in FY 2013 the Foundation continued to receive an unqualified opinion on all financial statements from its independent auditors, GKA, P.C. Since FY 2009, 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* increased, from \$32.6 million at the end of FY 2012 to \$33.9 million at the end of FY 2013. The increase of \$1.3 million can be attributed to an increase of unobligated funds carried forward from FY 2012.

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 strategic partnership is in effect. These assets decreased, from \$4.9 million at the end of FY 2012 to \$4.1 million at the end of FY 2013. Pledges remained consistent from FY 2012, however, disbursements continue to be made.

Other decreased from \$3.2 million at the end of FY 2012 to \$2.3 million at the end of FY 2013. In the third Quarter of FY 2013, grantees were found to have expensed 60% of the funds disbursed, resulting in a grant advance entry recorded at 40%.

Liabilities and Net Position

Liabilities did not change significantly from FY 2012 to FY 2013. USADF's *Net Position* (the sum of the Unexpended Appropriations and Cumulative Results of Operations) at the end of 2013 as shown on the Balance Sheet and the Statement of Changes in Net Position was \$39.7 million, a \$700,000 decrease from the previous fiscal year's balance of \$40.4 million. *Unexpended Appropriations* of \$35.6 million represent funds appropriated by the Congress for use over multiple years that were not expended by the end of FY 2013.

Net Cost of Operations

The *Net Cost of Operations* is defined as the gross (i.e., total) cost incurred by the Agency, less any exchange (i.e., earned) revenue. Program costs assigned to program activities, such as grants and cooperative agreements, decreased from \$23.8 million in FY 2012 to \$21.5 million in FY 2013, due primarily to a decrease in overall funding. Costs not assigned to programs, such as office expenses, staff salaries, and other administrative costs, continued to decrease from the previous year as a result of the priority set by USADF management to move toward achieving the lowest overhead rate in the Federal government.

Forty-three percent of USADF's non-program expenses are related to payroll. Forty-one percent relates to rent, travel, supplies, publications, training, contractual services, and information technology; the remaining sixteen percent relates to the on-the-ground presence that USADF maintains in African countries with the field coordinator offices.

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 2012 appropriations were \$30 million; its FY 2013 appropriations are \$30 million, of which \$1.5 million was reduced by sequestration ordered by the President. USADF received \$1.5 million in donations from strategic partners, representing a decrease of approximately \$100,000 from the \$1.6 million received in FY 2012.

Unobligated Balances increased from \$5.7 million at the end of FY 2012 to \$7.5 million at the end of FY 2013. The *Obligations Incurred* line decreased from \$39.5 million in FY 2012 to \$28.9 million in FY 2013. The decrease of \$10.6 million is due to multiple factors among which are foreign currency adjustments, an across-the-board cut of appropriations, and the reduction of costs associated with administration and grant programming.

USADF Internal Controls, and Legal Compliance



December 2, 2013

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 make a statement of unqualified assurance (no material weaknesses reported) to the adequacy and effectiveness of USADF internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

Shari Berenbach, President and CEO



December 2, 2013

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's 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 a statement of unqualified assurance that internal control over financial reporting as of September 30, 2013 is operating effectively and that no material weaknesses have been found in the design or operation of the internal controls over financial reporting.

Shari Berenbach, President and CEO



December 2, 2013

Annual Assurance Statement on Financial Management System

The United States African Development Foundation has been using the Oracle Federal Financial System hosted by the Administrative Resource Center of the Bureau of Public Debt (ARC/BPD), Department of Treasury since October 1, 2011. Previously, from FY 2004 to the end of FY 2011 USADF used the Oracle Federal Financial System hosted by the National Business Center (NBC) under Department of Interior. Based on the results provided in the FY 2013 Statements on Standards for Attestation Engagements (SSAE) 16 Report on ARC/BPD's Oracle Federal Financial System, and the related complementary controls in place at USADF, I am able to provide a statement of substantial compliance that the USADF's Financial Management Systems conform to government-wide requirements mandated by the FFMIA and OMB Circular No. A-127, Financial Management Systems, section 7.

Shari Berenbach, President and CEO

OMB Circular A-123 Compliance Progress

In 2011-12, 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 in 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 approved by the President.

The Internal Control Assessment Committee (ICAC) conducted two meetings in FY 2012 to review and update as necessary the prior committee's Risk Assessment matrix and risk ranking. The ICAC recommended proceeding with the prior committee ranking and with the next risk category to be assessed – Field Offices – particularly in light of recent events concerning Field Office activities in Senegal. Action was taken to proceed with an assessment of Field Office five control categories (origination, budget, obligation, disbursement, and usage). The assessment would involve collecting relevant control information and documentation related to each control category, reviewing the data, and making recommendations to address areas of weakness.

During the remaining period of calendar year 2012 and the beginning period of fiscal year 2013 USADF completed a detailed assessment of Field Office financial management and reporting as a component of its broader Financial Policy and Procedures review and update processes. Specifically this review resulted in the development of modified accounting, reporting and monitoring procedures as identified in the revised *Manual Section 582 Funds Held Outside Treasury – Field Offices*.

A component of USADF the broader Financial Policy and Procedures review and update processes also has implications for the role and practices of the ICAC. When completed the

Financial Policy and Procedures review and update processes will contain some new policies and practices on internal controls, internal control evaluation standards, and risk assessment guidelines in order to further strengthen USADF capacities to adhere to the principles outlined in the OMB circular A-123 -*Management's Responsibility for Internal Control*. These policies and procedures will be a part of the revised USADF Financial Policy and Procedures manual sections on Internal Controls which will include details on internal control definitions, management responsibilities for internal controls, and the role of senior management advisory committee on internal controls and risk assessment. Implementation of enhanced ICAC operations is expected to begin in FY 2014.

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 2013, the USADF Internal Audit unit continued implementing a systematic plan to review the financial management and accounting for USADF funds provided to project grants, partner grants, and country coordinator offices. During FY 2013, USADF oversaw field audits for 68 grants, 6 Country Coordinator offices, and 15 Partner Cooperative Agreement grants.

Integrated Contracting and Financial Management Practices

In FY 2012, USADF outsourced financial management, contracting, and travel management functions to the Bureau of Public Debt's Administrative Resource Center. In FY 2013, the transition mode shifted to a stable operational phase. The transition now provides an integrated Grant Making, Grant Disbursement, Contracting, and Financial Accounting capability to improve the reporting and control process through online records management, timelier reporting, greater standardization of policy practices, and increased assurances of compliance with the Federal Acquisition regulations. USADF also expanded its inter agency agreement with the National Business Center to take on expanded Human Resource management functions.

Improper Payments Elimination and Recovery Act (IPERA) Reporting Detail

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires agencies to review their programs and activities increasing efforts to recapture Improper payments by intensifying and expanding payment recapture audits. All agencies are required to develop a method of reviewing all programs to identify those that are susceptible to significant erroneous payments. "Significant" means that an estimated error rate and a dollar amount exceed the threshold of 2.5 percent of programs outlays and \$10 million of total program or activity payments made during the fiscal year reported or \$100,000,000 regardless of the improper payment percentage of total program outlays.

During FY 2013, USADF reports no IPERA reportable improper payments.

Overpayments to Zambia Grantees

The Administrative Resource Center (ARC), a shared service federal government agency and component of the U.S. Department of Treasury's Bureau of the Fiscal Service, provides Financial Management Services for the United States African Development Foundation (USADF). The service includes processing of authorized foreign currency payments to USADF's grant recipients in Africa. On January 4, 2013, USADF requested that ARC make two payment transactions in Zambian currency, ZMK, totaling approximately \$22,000. Due to a currency rebasing in Zambia, the ZMK was no longer an available currency on currency conversion tables at the time the payment transaction was scheduled for processing by ARC. A new Zambian currency ZMW was in use at the time. ARC overpaid amounts due in Zambian currency to a USADF contractor and a USADF grantee.

Specifically, ARC processed two improper payments in the new currency in an amount equivalent to approximately one thousand times larger than the \$22,000 amount originally authorized by USADF. These transactions and the full recovery of the overpaid foreign currency resulted in a foreign currency exchange loss paid by the Treasury's "Gains and Deficiencies on Exchange Transactions" account. In summary, the two improper payments, the full recovery of Zambian foreign currencies, and the charge to the Treasury's account resulted in no loss of USADF funds. It should be noted that this improper payment was the result of ARC's error.

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

USADF achieved several significant steps forward in 2013 programs. Working from a base budget of \$29 million, dealing with several continuing resolutions (CRs), and undertaking a major outsourcing effort USADF was able to provide over \$18.5 million of quality grants and technical resources to improve food security, income levels, and job opportunities for more than 125,000 members from rural and underserved community enterprises in Africa. Recent improvements in critical grant activities and process we maintained. Quality control, implementation monitoring and reporting are a critical priority for all program outputs and activities.

In 2013, USADF used over \$1.8 million of African host government strategic partner matching funds to stretch U.S. tax dollars further in reaching under-served communities.

Operational priorities are guided by seven operational priorities to ensure that USADF is effectively meeting its obligations to the United States taxpayer and making a positive impact in Africa. In FY 2013 the newly install USADF President and CEO launched an extensive strategic planning process to better position USADF for increased impact in a climate of uncertain U. S. government funding priorities.

2009 – 2013 Operational Priorities

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

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 2008 through 2013.

Comparative Performance Table:

| Measure | FY 2008 Results | FY 2009 Results | FY 2010 Results | FY 2011 Results | FY 2012 Results | FY2013 Target | FY 2013 Results |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|--------------------|
| Development Grant Funding Levels ¹ | \$18 million | \$25 million | \$22 million | \$26 million | \$20 million | \$19 million | \$18.5 million |
| Grant 1 st Disbursement Timing | 146 days | 78 days | 57 days | 53 days | 48 days | 45 days | 49 days |
| Operating Expense Ratio ² | 36% | 35% | 34% | 28% | 30% | <32% | 31% |

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 \$20 million in 2012 to \$18.5 million in 2013 due to a lower Congressional appropriation budget level and the FY 2013 sequester actions. The target of \$19 million in grant funding was missed primarily because of a time extension for a Partner grant in Burundi and delays in starting up several new program initiatives.

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 the first installment of funds were released for use by the grantee. Over the five year period USADF has made significant improvements in disbursement cycle time for both first and second disbursements.

Operating Expense (OE) levels declined over a five year period from a high of \$11.3 million FY2009 to \$8.9 million in FY 2013, a reduction of more than 21%. Despite the efforts in lowering administrative expenses the OE ratio fluctuates with the varying amount of the Congressional appropriation. USADF management will continue to look for additional ways to streamline internal processes to add efficiencies and lower overall program to expense ratios.

Other Program Performance Indicators

A detailed set of USADF performance indicators are displayed in the table below. All performance indicators, but one, showed some improvements in FY 2012 due to the effect of a larger active portfolio (introduced in FY 2009). The “investment multiplier” (IM) is ‘leveling-out’ at 3.5 and accounts for the active grant portfolio shift from the small and medium sized enterprise emphasis pre-2007 to the greater program emphasis on marginalized community based grant.. The IM tracks the net increase in sales revenues for the grant organization for each USADF dollar provided to that enterprise. Other measures increased as well. The increase in OE is attributable to the decrease amount of funds available for program activities.

Key Performance Indicators FY 2012

(FY 2013 Indicators are still being finalized at the time of this report. We expect the final report to be completed by the end of March, 2014)

| Indicator | FY08 Actual | FY09 Actual | FY10 Actual | FY11 Actual | FY12 Actual |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Cumulative Revenue Growth, active and recently expired (USD thousands) | \$112,355 | \$106,498 | \$47,863 | \$70,315 | \$96,007 |
| Investment Multiplier, active and recently expired | 6.3 | 3.7 | 3.5 | 3.5 | 3.5 |
| Owners, Full-Time Workers, and Principal Raw Material Suppliers or Farms, active | 106,814 | 129,400 | 185,901 | 230,000 | 336,623 |
| Women As Percent of Owners, Workers, Members and Suppliers | 32%* | 34%* | 35%* | 38% | 42% |
| Sustainability, expired grants | 79% | 70% | 77%* | 78% | 79% |
| Countries with active EEG and OAGs | 19 | 19 | 19 | 19 | 21 |
| Funds received from Strategic Partner countries (USD) | 4,713,823 | 3,809,552 | 4,864,273 | 756,244 | 1,327,383 |

| Indicator | FY08 Actual | FY09 Actual | FY10 Actual | FY11 Actual | FY12 Actual |
|--|-------------|-------------|-------------|-------------|-------------|
| Average days from obligation to 1 st disbursement | 146 | 76 | 55* | 56 | 48 |
| Overhead (\$000) | 10,604 | 11,334 | 10,320 | 8,314 | 9,096 |
| O/E (Operating Expense to Total Funds Available) | 26% | 25% | 24% | 21% | 26% |

*typographical updates to FY2012 reported values



December 2, 2013

UNITED STATES AFRICAN DEVELOPMENT FOUNDATION

MESSAGE FROM THE CFO

I am pleased to present the fiscal year 2013 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, 2013 are in substantial compliance with the requirements of the Federal Financial Management Improvement Act (FFMIA).

USADF offers a statement of unqualified assurance for the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). 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.

William E. Schuerch, Chief Financial Officer

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SECTION II

INDEPENDENT AUDITOR'S REPORTS

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Certified Public Accountants
& Consultants

www.gkacpa.com

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:

Report on the Financial Statements

We have audited the accompanying financial statements of the United States African Development Foundation (USADF), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

1015 18th Street, NW
Suite 200
Washington, DC 20036
Tel: 202-857-1777
Fax: 202-857-1778

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to USADF's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of USADF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States African Development Foundation as of September 30, 2013 and 2012, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis be presented to supplement the basic financial statements referred to in the first paragraph of this report. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

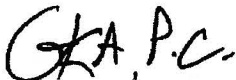
Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the *Message from the President, Message*

from the CFO, and Section IV: Other Accompanying Information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 2, 2013, on our consideration of USADF's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USADF's internal control over financial reporting and compliance.



Washington, DC
December 2, 2013

Independent Auditor's Report on Internal Control over Financial Reporting

www.gkacpa.com

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

We have audited, 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 (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the United States African Development Foundation (USADF), which comprise the balance sheet as of September 30, 2013, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2013.

In planning and performing our audit of the financial statements, we considered USADF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USADF's internal control. Accordingly, we do not express an opinion on the effectiveness of USADF's internal control.

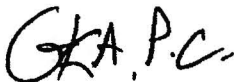
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We noted a certain matter involving internal control and its operation that we reported to management of USADF in a separate letter dated December 2, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of USADF's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USADF's internal control. Accordingly, this communication is not suitable for any other purpose.



Washington, DC
December 2, 2013



www.gkacpa.com

Independent Auditor's Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

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

We have audited, 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 (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the United States African Development Foundation (USADF), which comprise the balance sheet as of September 30, 2013, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2013.

As part of obtaining reasonable assurance about whether USADF's financial statements are free from material misstatement, we performed tests of USADF's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on USADF's compliance.

1015 18th Street, NW
Suite 200
Washington, DC 20036
Tel: 202-857-1777
Fax: 202-857-1778

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USADF's compliance. Accordingly, this communication is not suitable for any other purpose.

GKA, P.C.

Washington, DC
December 2, 2013

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SECTION III
FINANCIAL STATEMENTS AND NOTES

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U.S. AFRICAN DEVELOPMENT FOUNDATION
BALANCE SHEET
AS OF SEPTEMBER 30, 2013 AND 2012
(In Dollars)

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Assets: | | |
| Intragovernmental | | |
| Fund Balance With Treasury (Note 2) | \$ 33,876,612 | \$ 32,559,397 |
| Total Intragovernmental | 33,876,612 | 32,559,397 |
| Cash, and Other Monetary Assets (Note 3) | 4,135,650 | 4,934,940 |
| Accounts Receivable, Net (Note 4) | 16,962 | 400,853 |
| Property, Equipment, and Software, Net (Note 5) | 343,744 | 361,330 |
| Other (Note 6) | 2,346,286 | 3,153,764 |
| Total Assets | \$ 40,719,254 | \$ 41,410,284 |
| Liabilities: | | |
| Intragovernmental | | |
| Other (Note 8) | \$ 435,690 | \$ 409,134 |
| Total Intragovernmental | 435,690 | 409,134 |
| Accounts Payable | 71,263 | 44,948 |
| Other (Note 8) | 543,317 | 551,136 |
| Total Liabilities | \$ 1,050,270 | \$ 1,005,218 |
| Net Position: | | |
| Unexpended Appropriations | \$ 35,558,076 | \$ 35,008,410 |
| Cumulative Results of Operations | 4,110,908 | 5,396,656 |
| Total Net Position | \$ 39,668,984 | \$ 40,405,066 |
| Total Liabilities and Net Position | \$ 40,719,254 | \$ 41,410,284 |

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

U.S. AFRICAN DEVELOPMENT FOUNDATION
STATEMENT OF NET COST
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Dollars)

| | 2013 | 2012 |
|----------------------------------|---------------|---------------|
| Program Costs: | | |
| Foreign Grant Program: | | |
| Gross Costs (Note 11) | \$ 21,538,941 | \$ 23,846,812 |
| Less: Earned Revenue | (10,225) | - |
| Net Program Costs | \$ 21,528,716 | \$ 23,846,812 |
| Costs Not Assigned To Programs | \$ 9,160,571 | \$ 9,219,652 |
| Net Cost of Operations (Note 10) | \$ 30,689,287 | \$ 33,066,464 |

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

U.S. AFRICAN DEVELOPMENT FOUNDATION
STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Dollars)

| | 2013 | 2012 |
|--|---------------|---------------|
| Cumulative Results of Operations: | | |
| Beginning Balances | \$ 5,396,656 | \$ 6,735,729 |
| Budgetary Financing Sources: | | |
| Appropriations Used | 27,343,694 | 29,639,694 |
| Donations and Forfeitures of Cash and Cash Equivalents | 1,530,719 | 1,554,104 |
| Other Financing Sources (Non-Exchange): | | |
| Imputed Financing Sources (Note 12) | 529,126 | 533,593 |
| Total Financing Sources | 29,403,539 | 31,727,391 |
| Net Cost of Operations | (30,689,287) | (33,066,464) |
| Net Change | (1,285,748) | (1,339,073) |
| Cumulative Results of Operations | \$ 4,110,908 | \$ 5,396,656 |
| Unexpended Appropriations: | | |
| Beginning Balances | \$ 35,008,410 | \$ 35,085,681 |
| Budgetary Financing Sources: | | |
| Appropriations Received | 30,000,000 | 30,000,000 |
| Other Adjustments | (2,106,640) | (437,577) |
| Appropriations Used | (27,343,694) | (29,639,694) |
| Total Budgetary Financing Sources | 549,666 | (77,271) |
| Total Unexpended Appropriations | \$ 35,558,076 | \$ 35,008,410 |
| Net Position | \$ 39,668,984 | \$ 40,405,066 |

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

U.S. AFRICAN DEVELOPMENT FOUNDATION
STATEMENT OF BUDGETARY RESOURCES
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Dollars)

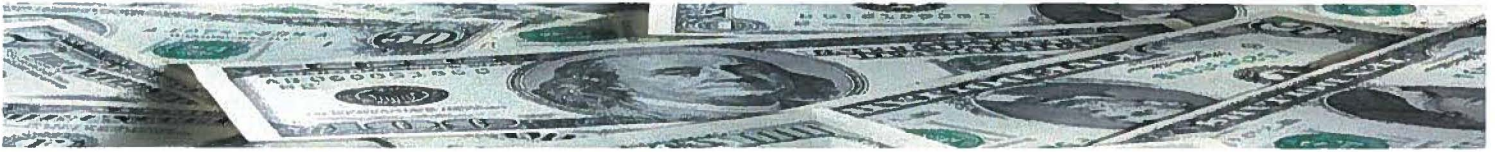
| | 2013 | 2012 |
|---|----------------------|----------------------|
| Budgetary Resources: | | |
| Unobligated Balance Brought Forward, October 1 | \$ 5,747,831 | \$ 10,465,456 |
| Recoveries of Prior Year Unpaid Obligations | 1,230,437 | 3,691,672 |
| Other changes in unobligated balance | (587,860) | (437,577) |
| Unobligated balance from prior year budget authority, net | 6,390,408 | 13,719,551 |
| Appropriations | 30,011,939 | 31,554,104 |
| Spending authority from offsetting collections | 41,845 | - |
| Total Budgetary Resources | \$ 36,444,192 | \$ 45,273,655 |
| Status of Budgetary Resources: | | |
| Obligations Incurred (Note 14) | \$ 28,899,900 | \$ 39,525,824 |
| Unobligated balance, end of year: | | |
| Apportioned (Note 2) | 3,143,307 | 2,161,564 |
| Exempt from apportionment | 1,558,742 | 1,319,247 |
| Unapportioned (Note 2) | 2,842,243 | 2,267,020 |
| Total unobligated balance, end of year | 7,544,292 | 5,747,831 |
| Total Budgetary Resources | \$ 36,444,192 | \$ 45,273,655 |
| Change in Obligated Balance | | |
| Unpaid Obligations: | | |
| Unpaid Obligations, Brought Forward, October 1 | \$ 31,746,506 | \$ 28,128,722 |
| Obligations Incurred | 28,899,900 | 39,525,824 |
| Outlays (gross) | (28,947,998) | (32,216,368) |
| Recoveries of Prior Year Unpaid Obligations | (1,230,437) | (3,691,672) |
| Unpaid Obligations, End of Year (Gross) | 30,467,971 | 31,746,506 |
| Obligated Balance, End of Year | \$ 30,467,971 | \$ 31,746,506 |
| Budget Authority and Outlays, Net: | | |
| Budget authority, gross | \$ 30,053,784 | \$ 31,554,104 |
| Actual offsetting collections | (41,845) | - |
| Budget Authority, net | \$ 30,011,939 | \$ 31,554,104 |
| Outlays, gross | \$ 28,947,998 | \$ 32,216,368 |
| Actual offsetting collections | (41,845) | - |
| Outlays, net | 28,906,153 | 32,216,368 |
| Agency outlays, net | \$ 28,906,153 | \$ 32,216,368 |

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

U.S. AFRICAN DEVELOPMENT FOUNDATION
STATEMENT OF CUSTODIAL ACTIVITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012
(In Dollars)

| | 2013 | 2012 |
|--|-----------|---------|
| Revenue Activity: | | |
| Sources of Cash Collections: | | |
| Miscellaneous | \$ 9,329 | \$ - |
| Total Cash Collections (Note 16) | 9,329 | - |
| Accrual Adjustments | (358,844) | 364,317 |
| Total Custodial Revenue (Note 16) | (349,515) | 364,317 |
| Disposition of Collections: | | |
| Transferred to Others (by Recipient) | 9,329 | - |
| Increase/(Decrease) in Amounts Yet to be Transferred | (358,844) | 364,317 |
| Net Custodial Activity | \$ - | \$ - |

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



U.S. AFRICAN DEVELOPMENT FOUNDATION NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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, bypassing 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. The Foundation reporting entity is comprised of Trust Funds and General Funds.

The Foundation maintains a Trust Fund with the U.S. Treasury in accordance with its gift authority. Trust Funds are credited with receipts that are generated by terms of a trust agreement or statute.

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. The Foundation provides grants and program support to community groups and small

enterprises that benefit under served and marginalized groups in Africa.

The Foundation holds custodial receivables that are non-entity assets and, if collected, will be transferred to Treasury at fiscal year-end.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the Foundation. The Balance Sheet presents the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. They have been prepared from, and are fully supported by, the books and records of the Foundation in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, *Financial Reporting Requirements* and the Foundation's accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the Foundation's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

D. Fund Balance with Treasury and Cash

Fund Balance with Treasury is the aggregate amount of the Foundation's funds with Treasury in expenditure, receipt, and deposit fund accounts. Appropriated funds recorded in expenditure accounts are available to pay current liabilities and finance authorized purchases. The U.S. Treasury processes cash receipts and disbursements of appropriated funds. Funds held with/outside the Treasury are available to pay agency liabilities. Funds held outside U.S. Treasury are maintained in accounts in each country with which the Foundation has a Strategic Partnership Agreement. Strategic Partner Governments deposit donations into these in-country accounts. In general, grants are funded equally with appropriated funds and donated funds (funds held outside U.S. Treasury). USADF controls all disbursements from these accounts. Following is a list of banks where the funds are maintained and where grant funds are processed: Bank Gaborone of Botswana, 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, Stanbic Bank of Uganda, Banque Commerciale du Rwanda, National Bank of Malawi, and EcoBank Senegal.

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. 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 both funds held outside of treasury and obligations 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. 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. Obligations in the appropriated multi-year funds will not be adjusted based on the foreign exchange rate until they are paid out.

F. Grant Accounting

The Foundation disburses funds to grantees to cover their projected expenses over a three-month period. Grantees report to the Foundation quarterly on the actual utilization of these funds. For purposes of these financial statements, the Foundation treats disbursements to grantees as advances. The total grant advance is forty percent of the amount disbursed to the grantee during the quarter. In order to ensure timeliness in reporting grantee expenditures, the Foundation will use estimates to calculate the last quarter's grantee expenditures, based on historical expenditure trends over a five year period, and disbursement activity funding that quarter's activity. The advance will be reversed 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. Accounts Receivable

Accounts receivable consists of amounts owed to the Foundation by other Federal agencies and the general public. Amounts due from Federal agencies are considered fully

collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when, based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay.

H. Property, Equipment, and Software

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. USADF's capitalization threshold is \$20,000 for individual purchases. Vehicle purchases will automatically be capitalized regardless of the cost. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

| <u>Description</u> | <u>Useful Life (years)</u> |
|------------------------|----------------------------|
| Leasehold Improvements | 5 |
| Office Furniture | 5 |
| Computer Equipment | 5 |
| Office Equipment | 5 |
| Software | 5 |

I. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are exceptions, such as some reimbursable agreements, subscriptions and payments to contractors and employees. Advances may be given to USADF employees for official travel. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as

expenses when the related goods and services are received. Grant advances are discussed under Section "F. Grant Accounting."

J. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by the USADF as a result of transactions or events that have already occurred.

USADF reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities With the Public represents funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave, FECA, and unemployment insurance.

K. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and

unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to the Office of Personnel Management (OPM) upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees effective at 50% beginning FY2010 and 100% in 2014.

L. Accrued and Actuarial Workers' Compensation

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) addresses all claims brought by the USADF employees for on-the-job injuries. The DOL bills each agency annually as its claims are paid, but payment of these bills is deferred for two years to allow for funding through the budget process. Similarly, employees that the USADF terminates without cause may receive unemployment compensation benefits under the unemployment insurance program also administered by the DOL, which bills each agency quarterly for paid claims. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

M. Retirement Plans

USADF employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of USADF's matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to one percent of pay and USADF matches any employee contribution up to an additional four percent of pay. For FERS participants, USADF also contributes the employer's matching share of Social Security.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, USADF remits the employer's share of the required contribution.

USADF recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the USADF for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The USADF recognized the offsetting revenue as imputed financing sources to the extent these expenses will be paid by OPM.

The USADF does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the OPM, as the administrator.

N. Other Post-Employment Benefits

USADF employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGSLIP) may continue to participate in these programs after their retirement. The OPM has provided the USADF with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The USADF recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the USADF through the recognition of an imputed financing source.

O. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and in the note disclosures. Actual results could differ from those estimates.

P. 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 2013 and 2012 to the extent directed by accounting standards.

Q. Reclassification

Certain fiscal year 2012 balances may have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|-----------------------|----------------------|----------------------|
| Fund Balances: | | |
| Trust Funds | \$ 36,154 | \$ 36,154 |
| Appropriated Funds | 33,840,458 | 32,523,243 |
| Total | \$ 33,876,612 | \$ 32,559,397 |

Status of Fund Balance with Treasury:

Unobligated Balance

| | | |
|-------------------------------------|----------------------|----------------------|
| Available | \$ 3,143,307 | \$ 2,161,564 |
| Exempt from Apportionment | 36,154 | 36,154 |
| Unavailable | 2,842,243 | 2,267,020 |
| Obligated Balance Not Yet Disbursed | 27,854,908 | 28,094,659 |
| Total | \$ 33,876,612 | \$ 32,559,397 |

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand.

NOTE 3. 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.

Cash and other monetary assets balances as of September 30, 2013 and 2012, totaled \$4,135,650 and \$4,934,940, respectively. The comparative balances are summarized below:

| | 2013 | 2012 |
|--|---------------------|---------------------|
| EcoBank Mali | \$ 678,117 | \$ 823,627 |
| Stanbic Bank of Uganda | 1,008,406 | 778,956 |
| Banque Commerciale du Rwanda | 147,102 | 312,180 |
| Bank Gaborone of Botswana | 215,839 | 498,661 |
| EcoBank Benin | 868,707 | 941,854 |
| EcoBank Senegal | 102,068 | 161,967 |
| Banco Comercial do Atlantico, Cape Verde | 196,401 | 269,401 |
| EcoBank Guinea | 100,867 | 229,102 |
| Zenith Bank Nigeria-Kaduna | 102,357 | 135,447 |
| Zenith Bank Nigeria-Kano | 160,589 | 135,447 |
| Citibank Nigeria-Abuja | 30,895 | 31,872 |
| National Bank of Malawi | 507,083 | 566,743 |
| Standard Chartered, Ghana | 2,203 | 2,582 |
| First National Bank Swaziland | 15,580 | 18,754 |
| Standard Chartered Bank, Zambia | -564 * | 28,347 |
| Total Funds Held Outside Treasury | \$ 4,135,650 | \$ 4,934,940 |

* The disbursements for September are included in the above balances, however, due to the one month delay in receiving the bank statements, the Foreign Currency Adjustment for the September period is not included. If the September Foreign Currency Adjustment had been included, the Zambia balance would reflect positive.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable balances as of September 30, 2013 and 2012, were as follows:

| | 2013 | 2012 |
|----------------------------------|------------|------------|
| With the Public | | |
| Accounts Receivable | \$ 684,426 | \$ 513,217 |
| Allowance | (667,464) | (112,364) |
| Total Public Accounts Receivable | \$ 16,962 | \$ 400,853 |
| Total Accounts Receivable | \$ 16,962 | \$ 400,853 |

The accounts receivable is made up of a small amount of employee receivables and also includes terminated grants. Historical experience has indicated that a portion of the receivables will not be collectible.

Accounts receivable from the public, shown net of allowances for uncollectible amounts, as of September 30, 2013 and 2012, were \$16,962 and \$400,853, respectively.

NOTE 5. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2013:

| Major Class | Acquisition Cost | Accumulated Amortization/Depreciation | Net Book Value |
|-----------------------|------------------|---------------------------------------|----------------|
| Furniture & Equipment | \$ 1,655,369 | \$ 1,311,625 | \$ 343,744 |
| Total | \$ 1,655,369 | \$ 1,311,625 | \$ 343,744 |

Schedule of Property, Equipment, and Software as of September 30, 2012:

| Major Class | Acquisition Cost | Accumulated Amortization/Depreciation | Net Book Value |
|-----------------------|------------------|---------------------------------------|----------------|
| Furniture & Equipment | \$ 1,642,322 | \$ 1,280,992 | \$ 361,330 |
| Total | \$ 1,642,322 | \$ 1,280,992 | \$ 361,330 |

NOTE 6. OTHER ASSETS

Other assets account balances as of September 30, 2013 and 2012, were as follows:

| | 2013 | 2012 |
|---------------------------|--------------|--------------|
| With the Public | | |
| Grant Advances | \$ 2,339,024 | \$ 3,141,045 |
| Travel Advances | 7,262 | 12,719 |
| Total Public Other Assets | \$ 2,346,286 | \$ 3,153,764 |

NOTE 7. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for USADF as of September 30, 2013 and 2012 include liabilities not covered by budgetary resources. 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.

| | 2013 | 2012 |
|--|--------------|--------------|
| Intragovernmental – FECA | \$ 2,344 | \$ 2,344 |
| Unfunded Leave | 298,466 | 316,230 |
| Total Liabilities Not Covered by Budgetary Resources | \$ 300,810 | \$ 318,574 |
| Total Liabilities Covered by Budgetary Resources | 749,460 | 686,644 |
| Total Liabilities | \$ 1,050,270 | \$ 1,005,218 |

FECA liability represents the unfunded liability for actual workers compensation claims paid on USADF's behalf and payable to the DOL.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

NOTE 8. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2013 were as follows:

| | Current | Non Current | Total |
|--|-------------------|-------------------|-------------------|
| Intragovernmental | | | |
| FECA Liability | \$ 2,344 | \$ - | \$ 2,344 |
| Payroll Taxes Payable | 45,772 | - | 45,772 |
| Custodial Liability | - | 387,574 | 387,574 |
| Total Intragovernmental Other Liabilities | \$ 48,116 | \$ 387,574 | \$ 435,690 |
| With the Public | | | |
| Payroll Taxes Payable | \$ 7,311 | \$ - | \$ 7,311 |
| Accrued Funded Payroll and Leave | 221,628 | - | 221,628 |
| Unfunded Leave | 298,466 | - | 298,466 |
| Other Liabilities | 15,912 | - | 15,912 |
| Total Public Other Liabilities | \$ 543,317 | \$ - | \$ 543,317 |

Other liabilities account balances as of September 30, 2012 were as follows:

| | Current | Non Current | Total |
|--|-------------------|-------------------|-------------------|
| Intragovernmental | | | |
| FECA Liability | \$ 2,344 | \$ - | \$ 2,344 |
| Payroll Taxes Payable | 42,473 | - | 42,473 |
| Custodial Liability | - | 364,317 | 364,317 |
| Total Intragovernmental Other Liabilities | \$ 44,817 | \$ 364,317 | \$ 409,134 |
| With the Public | | | |
| Payroll Taxes Payable | \$ 5,262 | \$ - | \$ 5,262 |
| Accrued Funded Payroll and Leave | 229,644 | - | 229,644 |
| Unfunded Leave | 316,230 | - | 316,230 |
| Total Public Other Liabilities | \$ 551,136 | \$ - | \$ 551,136 |

NOTE 9. LEASES

Operating Leases

USADF occupies office space in Washington, DC under a lease agreement that is accounted for as an operating lease. The lease term is for a period of ten years and commenced on May 1, 2008 and expires on April 30, 2018. Lease payments are increased annually based on the adjustments for operating cost and real estate tax escalations. Below is a schedule of future payments for the term of the lease.

| Fiscal Year | Building |
|------------------------------|---------------------|
| 2014 | \$ 815,142 |
| 2015 | 835,506 |
| 2016 | 856,433 |
| 2017 | 877,831 |
| Thereafter | 519,443 |
| Total Future Payments | \$ 3,904,355 |

The operating lease amount does not include estimated payments for leases with annual renewal options. USADF enters into year-to-year leases in the countries with established Country Representative Offices.

NOTE 10. NET COST OF OPERATIONS

Costs by major budget object classification as of September 30, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Personnel compensation | \$ 4,094,760 | \$ 3,989,675 |
| Personnel benefits | 1,439,408 | 1,357,299 |
| Benefits to former employees | - | 20,168 |
| Travel and transportation of persons | 425,444 | 625,906 |
| Rent, communications, and utilities, etc. | 941,187 | 978,404 |
| Printing | 16,126 | 15,512 |
| Other services | 2,891,975 | 2,792,894 |
| Supplies and materials | 124,941 | 135,685 |
| Equipment | 136,173 | 82,430 |
| Land & structures | 13,122 | 15,106 |
| Grants, subsidies & contributions | 20,606,151 | 23,053,385 |
| Total Net Cost of Operations | \$ 30,689,287 | \$ 33,066,464 |

NOTE 11. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and revenue represent exchange transactions between USADF and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

| | 2013 | 2012 |
|--------------------------------|---------------|---------------|
| Foreign Grant Program | | |
| Public Costs | \$ 21,538,941 | \$ 23,846,812 |
| Total Program Costs | 21,538,941 | 23,846,812 |
| Public Earned Revenue | (10,225) | - |
| Net Program Costs | 21,528,716 | 23,846,812 |
| Costs Not Assigned to Programs | 9,160,571 | 9,219,652 |
| Total Net Cost | \$ 30,689,287 | \$ 33,066,464 |

NOTE 12. IMPUTED FINANCING SOURCES

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, OPM. For the periods ended September 30, 2013 and 2012, respectively, imputed financing was as follows:

| | 2013 | 2012 |
|---------------------------------|------------|------------|
| Office of Personnel Management | \$ 529,126 | \$ 533,593 |
| Total Imputed Financing Sources | \$ 529,126 | \$ 533,593 |

NOTE 13. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2013 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2014 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2014 Budget of the United States Government, with the "Actual" column completed for 2012, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources in 2013 consisted of the following:

| | 2013 | 2012 |
|-----------------------------------|----------------------|----------------------|
| Direct Obligations, Category A | \$ 8,949,787 | \$ 9,089,678 |
| Direct Obligations, Category B | 18,559,556 | 27,162,527 |
| Direct Obligations, Category C | 1,390,557 | 3,273,619 |
| Total Obligations Incurred | \$ 28,899,900 | \$ 39,525,824 |

Category A apportionments distribute budgetary resources by fiscal quarters.

Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

Category C apportionments may be used to apportion funds into future fiscal years.

NOTE 15. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the periods ended September 30, 2013 and 2012, undelivered orders amounted to the following:

| | 2013 | 2012 |
|---------------------------------|----------------------|----------------------|
| Undelivered Orders | \$ 32,452,369 | \$ 34,577,943 |
| Total Undelivered Orders | \$ 32,452,369 | \$ 34,577,943 |

NOTE 16. CUSTODIAL ACTIVITY

The USADF is an administrative agency collecting for the General Fund. In the current fiscal year, collections totaled \$9,329 and accrual adjustments were (\$358,844). The accrual adjustments represent an allowance recorded in FY2013 against the accounts receivable balance, the majority of accounts receivable being recorded in a previous fiscal year. The accounts receivable due to the USADF is associated with cancelled funds and, if collected, will be returned to Treasury.

NOTE 17. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

USADF has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Resources Used to Finance Activities: | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | \$ 28,899,900 | \$ 39,525,824 |
| Spending Authority From Offsetting Collections and Recoveries | (1,272,282) | (3,691,672) |
| Obligations Net of Offsetting Collections and Recoveries | 27,627,618 | 35,834,152 |
| Other Resources | | |
| Imputed Financing From Costs Absorbed By Others | 529,126 | 533,593 |
| Total Resources Used to Finance Activities | 28,156,744 | 36,367,745 |
| Resources Used to Finance Items Not Part of the Net Cost of Operations: | | |
| Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided | 2,125,574 | (3,126,479) |
| Resources That Fund Expenses Recognized In Prior Periods | (17,764) | (9,858) |
| Resources That Finance the Acquisition of Assets | (128,812) | (397,955) |
| Total Resources Used to Finance Items Not Part of Net Cost of Operations | 1,978,998 | (3,534,292) |
| Total Resources Used to Finance the Net Cost of Operations | 30,135,742 | 32,833,453 |
| 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 In Annual Leave Liability | - | 31,736 |
| Total Components of Net Cost of Operations That Will Require or Generate Resources In Future Periods | - | 31,736 |
| Components Not Requiring or Generating Resources | | |
| Depreciation and Amortization | 146,398 | 236,943 |
| Revaluation of Assets or Liabilities | (10,225) | - |
| Other | 417,372 | (35,668) |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources | 553,545 | 201,275 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period | 553,545 | 233,011 |
| Net Cost of Operations | \$ 30,689,287 | \$ 33,066,464 |

NOTE 18. CONTINGENT LIABILITIES

USADF records commitments and contingent liabilities for legal cases in which payment has been deemed probable and for which the amount of potential liability has been estimated. There were no contingent liabilities as of September 30, 2013. According to the USADF's legal counsel, the likelihood of unfavorable outcomes for any legal actions and claims is remote. In the opinion of the USADF's management, the ultimate resolution of any proceedings, actions, and claims will not materially affect the financial position or results of operations of the USADF.

SECTION IV
OTHER ACCOMPANYING INFORMATION

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U.S. AFRICAN DEVELOPMENT FOUNDATION
SCHEDULE OF SPENDING
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012 (In Dollars)

| | 2013 | 2012 |
|--|----------------------|----------------------|
| What Money is Available to Spend? | | |
| Total Resources | \$ 36,444,192 | \$ 45,273,655 |
| Less Amount Not Agreed to be Spent | (4,702,049) | (3,480,811) |
| Less Amount Not Available to be Spent | (2,842,243) | (2,267,020) |
| Total Amounts Agreed to be Spent | \$ 28,899,900 | \$ 39,525,824 |
| How was the Money Spent? | | |
| Personnel Compensation | \$ 4,125,565 | \$ 3,896,153 |
| Personnel Benefits | 906,709 | 822,665 |
| Benefits for Former Personnel | - | 30,026 |
| Travel and transportation of persons | 373,942 | 633,485 |
| Transportation of things | - | 1,733 |
| Rent, Communications, and utilities | 940,383 | 978,208 |
| Printing and reproduction | 16,126 | 15,512 |
| Other contractual services | 2,962,264 | 2,808,376 |
| Supplies and materials | 114,488 | 126,356 |
| Equipment | 77,220 | 194,758 |
| Land and structures | 13,122 | 15,106 |
| Grants, subsidies and contributions | 19,418,179 | 22,693,990 |
| Total Spending | 28,947,998 | 32,216,368 |
| Amounts Remaining to be Spent | (48,098) | 7,309,456 |
| Total Amounts Agreed to be Spent | \$ 28,899,900 | \$ 39,525,824 |
| Who did the Money go to? | | |
| Federal | \$ 2,318,160 | \$ 2,044,293 |
| Non-Federal | 26,581,740 | 37,481,531 |
| Total Amounts Agreed to be Spent | \$ 28,899,900 | \$ 39,525,824 |