

A high-angle, wide shot of a bustling outdoor market. In the center, a long passenger train with several grey and red cars is moving through the crowd. The market is filled with people, many holding colorful umbrellas in shades of yellow, blue, and white. Stalls and vendors are visible throughout the scene, creating a sense of intense activity and commerce. The overall atmosphere is one of a busy, traditional marketplace.

FORD FOUNDATION

THE
URGENCY
OF NOW

OUR MISSION

Strengthen democratic values

Reduce poverty and injustice

Promote international cooperation

Advance human achievement

FORD FOUNDATION 2007 ANNUAL REPORT

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**OUR 2007 GRANTS LIST IS AVAILABLE ONLINE AT:
WWW.FORDFOUND.ORG/IMPACT/ANNUALREPORTS/2007/GRANTS**

OUR MISSION

The Ford Foundation is a resource for innovative people and institutions worldwide. Our goals are to:

Strengthen democratic values

Reduce poverty and injustice

Promote international cooperation

Advance human achievement

THESE GOALS HAVE BEEN AT THE HEART OF OUR MISSION FOR MORE THAN HALF A CENTURY.

A FUNDAMENTAL CHALLENGE FACING EVERY SOCIETY is to create political, economic and social systems that promote peace, human welfare and the sustainability of the environment on which life depends.

WE BELIEVE THAT THE BEST WAY TO MEET THIS CHALLENGE is to encourage initiatives by those living and working closest to the problems; to promote collaboration among the nonprofit, government and business sectors; and to ensure participation by men and women from diverse communities and at all levels of society. In our experience, such activities help build understanding, enhance excellence and enable people to improve their lives and reinforce their commitment to society.

THE FORD FOUNDATION IS ONE SOURCE OF SUPPORT for these activities. We work mainly by making grants or loans that build knowledge and strengthen organizations and networks. Because our financial resources are modest in comparison with societal needs, we focus on a limited number of problem areas and program strategies within our broad goals.

CREATED WITH GIFTS AND BEQUESTS BY EDSSEL AND HENRY FORD, the foundation is an independent organization, with its own board, and is entirely separate from the Ford Motor Company. Since its inception, the Ford Foundation has been a nonprofit, nongovernmental organization. The trustees of the foundation set policy and delegate to the president and senior staff authority for the foundation's grant making and operations.

PROGRAM OFFICERS in the United States, Africa, the Middle East, Asia, Latin America and Russia explore opportunities to pursue the foundation's goals, formulate strategies and recommend proposals for funding.

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*Senior Adviser
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and Professor of Anthropology
University of California
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MAYA HARRIS

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*Assistant Secretary and
Associate General Counsel*

WE LIVE IN A TIME of challenge and complexity.

THE EROSION OF HUMAN RIGHTS and dignity, the widening of economic disparities and uncertainties, and the obstacles to creating unfettered access to education all require a vigorous response.

AT THE FORD FOUNDATION, we are committed to addressing these global issues. For more than 70 years we have sought to advance human welfare by tackling the deepest challenges of our time. Today our mission calls us to respond—to renew our focus and to reinvigorate our strategies.

FOR THOSE WITH COURAGE AND VISION, it's a time of limitless opportunity.



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THE REALITY

Forty percent of
America's poorest
citizens are not
registered to vote.

OUR QUESTION

After 200 years, why is
the basic promise of
the **right to vote** still
far from being fulfilled?





THE REALITY

The most affluent 20 percent of U.S. households has a median net worth of \$188,712, compared with \$5,466 for the least affluent 20 percent.

OUR QUESTION

If America is a land of opportunity, why do **inequity and poverty** still run so deep?





039

K55

9

THE REALITY

In India and Brazil,
less than 12 percent
of college-age youth
go to university.

In sub-Saharan Africa,
just 5 percent do.

OUR QUESTION

Why is access to higher education around the world still out of reach for so many?





THE REALITY

One out of every 34 persons worldwide is an international migrant, vulnerable to economic, social and political risk.

OUR QUESTION

Why should people who strive to better their lives face discrimination and a **loss of basic rights**?

“Our mission is based on a simple and moral principle: a commitment to achieve social change for the betterment of those who are politically, economically and educationally disenfranchised.”

LUIS A. UBINAS

Message from the President

LUIS A. UBINAS

WHY NOW? PEOPLE IN AMERICA AND AROUND THE GLOBE ARE “confronted with problems vast in number and exceedingly disturbing in significance.” Henry Ford II wrote those words in 1948. Sixty years later, his words still ring true.

It is my privilege to serve as president of the foundation he steered, to act as the steward of a great philanthropic legacy. I follow in the footsteps of some of the foundation’s greatest leaders, Frank Thomas and Susan Berresford. They, like their predecessors, dedicated the foundation to overcoming the glaring injustices of their times, including the fight for civil rights, the abolition of apartheid and the achievement of equal rights for women.

OUR MISSION AT FORD has been, and will continue to be, based on a simple moral principle: a commitment to achieve social change for the betterment of those who are politically, economically and educationally disenfranchised. This mandate remains at the center of our aspirations.

Yet today, many of the foundation’s signature accomplishments from the 1960s and 1970s are under threat. African-American enfranchisement was a battle waged, and won, with our help. Now we are witness to a subtle but steady erosion of those rights. A large proportion of African-American and Latino children attend schools that are majority African-American and Latino—and enormously underresourced.

The Ford Foundation fought hard against segregation a generation ago, yet the hard truth is that we are living in a country that is silently, yet rapidly, resegregating.

The foundation has long strived to reduce inequities in income globally, but the gap between the richest and the poorest is growing at a staggering pace. Not for four generations has income disparity been as great as it is today. Added to these dispiriting trends is the reality and complexity of vast migrations of people within and among countries worldwide. The scale of the problems we face has grown.

The landscape in which we work has also changed substantially. The ability to work on a global basis has been transformed

by technological innovation, which allows us to work seamlessly around the world. A whole new generation of foundations has emerged, creating a level of new philanthropic giving not seen since the early 1900s. These foundations have ignited new excitement and spirited dialogue about innovative approaches to philanthropy.

My arrival at the foundation is an opportunity to take stock. Given how much has changed in the last decade, how can the Ford Foundation have even greater impact? To answer this question, I believe that the rich history of the foundation is the most useful and worthy guide. Our task is not to reinvent but to renew. We will build on the great traditions of the foundation to inspire a new generation of accomplishments. The achievements of this new era at the foundation will require that we adapt how we work in order to bring greater scale to our efforts; achieving that scale will require that we work with greater focus and even greater intensity.

The work to advance human welfare that has defined our history is more important than ever. The founding documents of this institution are remarkably clear and persistently relevant. We do not exist merely to make grants. We strive to improve the lives of those in the United States and abroad who do not otherwise have access to the power and resources they need to produce large-scale change. While we recognize the long-term nature of our task, we must reinvigorate our purpose with a new sense of urgency. As Martin Luther King Jr. once demanded, we must act by confronting “the fierce urgency of now.”



LUIS A. UBIÑAS
President, Ford Foundation

ADVANCING SOCIAL CHANGE WITH RENEWED FOCUS

TENS OF MILLIONS OF PEOPLE in the United States and around the world still struggle to find opportunity, to have their voices heard, to access justice and to be treated with dignity. These are the people and these are the struggles that the Ford Foundation was founded to address.

Our mission—to promote peace and justice, equality and opportunity, knowledge and achievement—has defined this institution since its inception. Yet today’s urgent challenges demand that we intensify our focus on how we pursue this mission.

Over the course of 2008, our outstanding staff will be working together with our board, grantees and other external thought leaders to sharpen the aims of our work. We are seeking to ensure that our objectives are clear, that our grant strategies are geared to a changing world and that the work we do has true and lasting effect on people’s lives.

It is my hope, and the collective hope of the foundation’s dedicated staff, that with renewed strategic clarity, we will achieve the greatest impact in each area of our work.

We seek to build on the core strengths and values of the Ford Foundation, enabling us to broaden the scope and deepen the impact—to do more—of what we do best. We will intensify our commitment to improving the lives of the most vulnerable and marginalized; to supporting social justice and the long-term efforts that are needed to overcome the viciously persistent discrimination and intolerance that undermine the humanity of us all; and to developing leaders, organizations and networks that advance the basic objectives of fairness that have always defined our work.

We look forward to engaging our partners in this endeavor. We will be calling upon you for input, advice, suggestions and support. Working together, we can make ever greater strides toward the free, just and peaceful world that we all believe is possible and essential. — L.A.U.

Letter from the Chair

KATHRYN S. FULLER

THE PAST YEAR WAS A TIME OF TRANSITION AND renewal at the Ford Foundation. We honored Susan Berresford's extraordinary service, including her 12 years as president, and welcomed Luis Ubiñas as our ninth president.

FORD'S WORK is about giving voice, opportunity and access to the disadvantaged and marginalized. Susan brought an unshakable commitment to that work, extending its depth and reach during her distinguished tenure.

In Luis we found a successor who shares that strong commitment to the mission and values of the foundation. He brings to Ford as well a rare mix of vision, intellectual curiosity, managerial experience and deep respect for humanity—vital attributes as we seek to better lives in a world of urgent challenges and rapid change.

There are other departures to honor and another welcome to offer. Three board members concluded their service to the foundation: Wilmot James, chief executive of the Africa Genome Education Institute in South Africa, whose probing mind kept us ever mindful of injustices in countries where we work; Yolanda T. Moses, professor of anthropology at the University of California at Riverside, an unrelenting optimist who always sees the possibility of a more inclusive and tolerant society; and Carl B. Weisbrod, president of the real estate division of Trinity Church in New York City,

whose broad range of experience helped us balance the perspectives of donor and grantee. The special qualities these trustees brought to the foundation enriched us all.

It also gives me great pleasure to welcome Narayana N.R. Murthy to the board. As co-founder, chairman of the board and chief mentor of Infosys Technologies, a leading software services firm based in Bangalore, India, he is widely respected as a leader in international business and information technology and an advocate of strong corporate governance. We look forward to benefitting from his counsel.

This is a moment to celebrate the foundation's recent past, as well as those who contributed mightily to its achievements. It is equally a moment to ask ourselves how Ford might most meaningfully build on those achievements, a challenge the board has embraced with enthusiasm, together with our new president and staff.



KATHRYN S. FULLER

Chair, Ford Foundation

FORD

FOUNDATION

NOW

OUR PROGRAMS address urgent challenges around the world.

In all 50 states and a dozen regions of the world, the Ford Foundation is working to build knowledge and strengthen organizations and networks. We work to fulfill our mission through three strategic programs: Asset Building and Community Development; Peace and Social Justice; and Knowledge, Creativity and Freedom.

Over the next few pages, you can explore some of our key values in action.

Please visit our complete list of 2007 grantees at www.fordfound.org

CLOSING THE ECONOMIC OPPORTUNITY GAP

EMPOWERING FAMILIES TO SAVE AND PLAN FOR THE FUTURE

ASSETS EMPOWER FAMILIES, enabling them to move up the economic ladder, pay for college, invest in a business, survive a financial emergency and manage retirement. To help build assets and gain economic security, we provide the resources necessary to help low-income people get and keep good jobs that pay living wages. In addition, our work promotes public policies that encourage saving and aims to connect families with affordable financial services, including home mortgages, small loans and insurance.

HOMEOWNERSHIP

\$48.2 MILLION IN GRANTS, PLUS \$27 MILLION IN LOANS, SINCE 2003

GOAL: Help low-income Americans produce, maintain and preserve assets to improve economic security and open the door to opportunity. Grant making focuses on improving access to fairly priced mortgages, preventing foreclosures, curtailing predatory lending practices and promoting alternative financial strategies such as shared home equity investments.

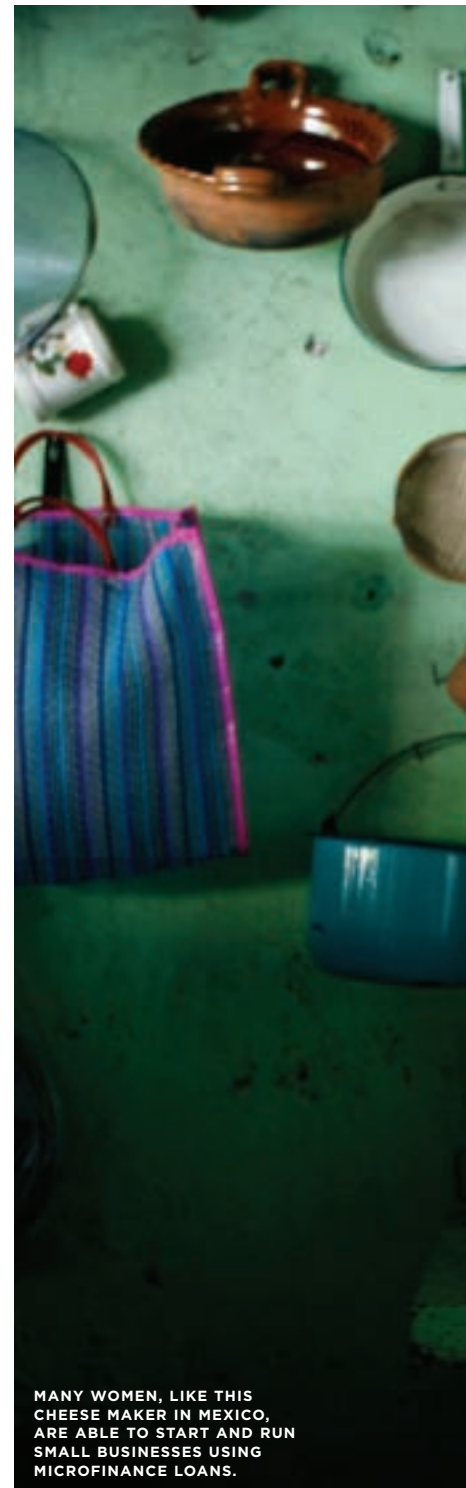


1 IN 33 U.S. HOMES WILL BE IN FORECLOSURE BY 2010 BECAUSE OF SUBPRIME LOANS MADE IN 2005 AND 2006

MICROFINANCE

\$39.4 MILLION IN GRANTS, PLUS \$12.5 MILLION IN LOANS, SINCE 2003

GOAL: Develop global financial services to bring the “unbanked” poor into the economic mainstream and strengthen micro-finance institutions in developing countries. Ford Foundation grants helped fund the first microfinance project in 1976 in Bangladesh. Ongoing foundation grants have helped expand microfinance programs worldwide, including in Mexico, India and South Africa.



MANY WOMEN, LIKE THIS CHEESE MAKER IN MEXICO, ARE ABLE TO START AND RUN SMALL BUSINESSES USING MICROFINANCE LOANS.



NATIONAL FUND FOR WORKFORCE SOLUTIONS

\$50 MILLION, 2007 THROUGH 2012

GOAL: Strengthen and expand U.S. workforce initiatives through a partnership of foundations, businesses and government. The fund supports local initiatives to train low-income workers and help them find good jobs.

WWW.NFWSOLUTIONS.ORG

2X

UNEMPLOYMENT FOR AFRICAN-AMERICANS IS NEARLY TWICE THAT OF THE NATIONAL AVERAGE FOR WHITE AMERICANS

IN THE WORLD

1 BILLION

PEOPLE LACK ACCESS TO basic financial services.

500 MILLION

PEOPLE WORLDWIDE ARE running microbusinesses.

7 PEOPLE

THE WORLD'S 7 RICHEST PEOPLE have more wealth than the economies of its 41 most heavily indebted poor countries.

SAVINGS PROGRAMS

\$46.2 MILLION SINCE 2003

GOAL: Support innovative approaches to help low-income people save and invest for a more secure future. Two key areas include Individual Development Accounts, which provide matching contributions and financial counseling to disadvantaged workers, and Children's Savings Accounts, which provide accounts to children to help them build assets and develop financial literacy at an early age.

STRENGTHENING DEMOCRATIC VALUES

MAKING GOVERNMENT MORE TRANSPARENT, INCLUSIVE AND JUST

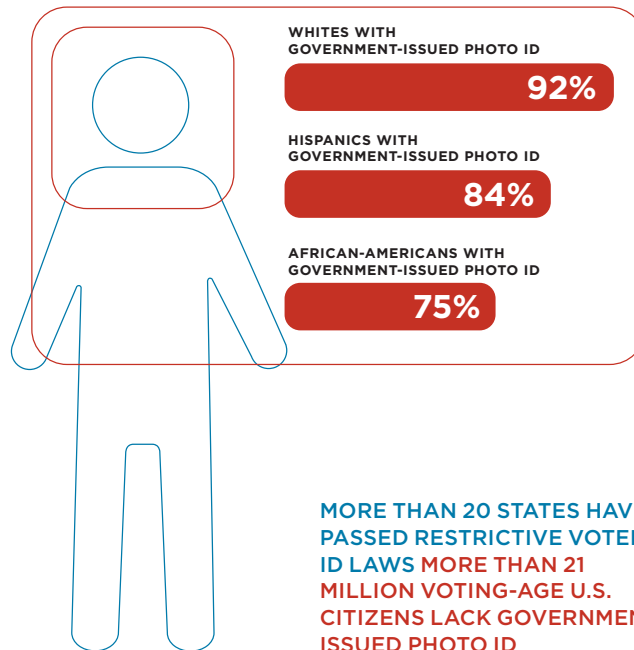
EFFECTIVE PUBLIC INSTITUTIONS ARE AN ESSENTIAL COMPONENT of safe, free and prosperous societies. Our work explores ways to make the process of governing more transparent, accountable and inclusive—and more effective in achieving peace and social justice. In the United States, our resources focus on making democratic institutions more innovative, participatory and responsive to the needs of marginalized groups. Worldwide, we believe the best hope for improving lives—and letting more people share in the benefits of prosperity—lies with an engaged populace and with public officials who are committed to building a more secure and equitable future.

STATE FISCAL ANALYSIS INITIATIVE

\$23.9 MILLION SINCE 1993

GOAL: Strengthen citizen understanding of state tax and budget policy to ensure public spending reflects public needs and priorities. Today, 29 state policy centers (representing 70 percent of the nation's population) are analyzing government decision-making, educating the public and building coalitions to strengthen programs for low-income people and the middle class.

WWW.STATEFISCAL.ORG



PARTICIPATION AND REPRESENTATION IN U.S. POLITICS

\$20 MILLION SINCE 2003

GOAL: Advance political equality in the United States through reforming the electoral system, removing social and legal barriers that keep people from voting and cultivating a culture of political participation, particularly among marginalized populations.

IN THE UNITED STATES

64%
TURNOUT RATE FOR 2004 presidential election.

37%
2006 VOTER TURNOUT IN Texas, W. Virginia, and Utah, the nation's lowest. Minnesota and S. Dakota had the highest—64%.

20/21
U.S. VOTER TURNOUT RANKING among established democracies. Only Switzerland is lower.



AN ELECTION WORKER IN LAGOS, NIGERIA, RECEIVES PRESIDENTIAL ELECTION VOTING TOTALS AT A VOTING COLLATION CENTER.

DEMOCRATIC PRINCIPLES AND THE RULE OF LAW ARE UNDER THREAT WORLDWIDE. A SURVEY BY FREEDOM HOUSE FOUND A “PROFOUNDLY DISTURBING DETERIORATION” IN DEMOCRACY AND BASIC FREEDOMS IN 2007. GOVERNMENT ACCOUNTABILITY IS A GOAL THAT REMAINS ELUSIVE IN MANY COUNTRIES.

38

COUNTRIES SHOWED REVERSALS IN DEMOCRATIC PROGRESS AND BASIC FREEDOMS IN 2007 NEARLY FOUR TIMES AS MANY AS SHOWED SIGNS OF IMPROVEMENT

MOVING BACKWARD

36%

OF THE WORLD'S PEOPLE live in countries deemed 'not free' by Freedom House.

64%

GLOBAL VOTER TURNOUT rose from 61% in the 1940s to 68% in the 1980s. Since 1990, the average has fallen back to 64%.

PROMOTING CIVIC ENGAGEMENT IN GLOBAL GOVERNANCE INITIATIVE

\$16.8 MILLION SINCE 2002

GOAL: Ensure global institutions are more accountable and responsible to disadvantaged communities and protect the rights of all people to participate in global public policy debates. Additionally, seed new grassroots global networks and aid civil society groups to seek open and accountable global governance, set public priorities and empower communities.

INCREASING ACCESS TO HIGHER EDUCATION

PROVIDING KEYS TO SUCCESS FOR THE DISADVANTAGED

AT THE FORD FOUNDATION, we believe that all attempts to solve the problems of human welfare, including critically urgent ones, rely heavily on education. Increasing access for all races, ethnicities and economic classes, as well as women and girls, everywhere in the world is essential to the success of our mission.



AROUND THE WORLD, FROM ASIA TO AFRICA AND THE UNITED STATES, HIGHER EDUCATION IS INCREASINGLY ESSENTIAL TO INDIVIDUAL AND COMMUNITY SUCCESS.

INTERNATIONAL FELLOWSHIPS PROGRAM

\$355 MILLION,
2001 THROUGH 2014

GOAL: Help emerging leaders from marginalized communities around the world pursue advanced degrees and apply their expertise in their home communities. The largest single initiative of the foundation, IFP will select more than 4,300 fellows from 22 countries by 2014. Thus far, half are women; two-thirds come from outside major cities; and more than 75 percent are the first in their families to earn advanced degrees.

WWW.FORDIFP.NET

PATHWAYS TO HIGHER EDUCATION

\$50 MILLION OVER
10 YEARS, SINCE 2001

GOAL: Help higher education institutions outside the United States transform admissions policies, classroom practices and institutional climate to enable students from marginalized communities to enter college and earn degrees. So far, Pathways to Higher Education has assisted 125 colleges and universities in 22 countries.

[WWW.PATHWAYSTOHIGHER
EDUCATION.ORG](http://WWW.PATHWAYSTOHIGHEREDUCATION.ORG)

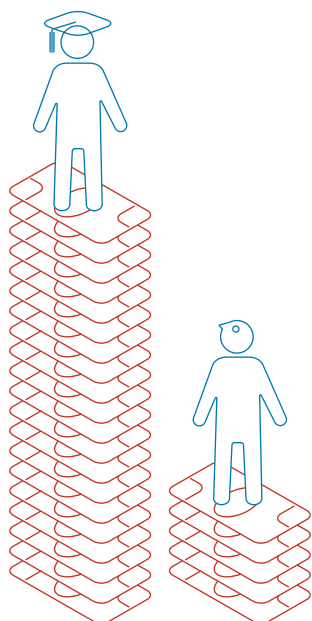
COMMUNITY COLLEGE BRIDGES TO OPPORTUNITY INITIATIVE

\$15.5 MILLION SINCE 2003

GOAL: Building on nearly three decades of support for U.S. community colleges, help two-year institutions improve outcomes for disadvantaged students. Also support work to inform new public policies that better serve these students' needs.

WWW.COMMUNITYCOLLEGECENTRAL.ORG

AMERICANS WITH ADVANCED DEGREES EARN FOUR TIMES MORE THAN THOSE WHO DID NOT GRADUATE FROM HIGH SCHOOL



IN THE UNITED STATES

5x

CHILDREN OF THE TOP FIFTH OF EARNERS graduate from college at nearly five times the rate of students from the poorest families.

3x

WHITES EARN COLLEGE DEGREES at more than three times the rate of Hispanics and nearly twice the rate of African-Americans.

51%

INCREASE IN FEES AT PUBLIC UNIVERSITIES over the past decade. Pell Grants for low-income students covered 76% of college costs in 1990-91. Now they cover only 48%.

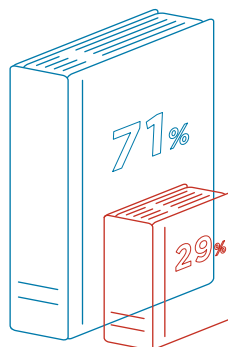
IN THE WORLD

774 MILLION

ADULTS LACK BASIC LITERACY SKILLS. 64% are women and are concentrated in the world's most populated countries, including Brazil, China, Indonesia, India and Nigeria.

2.3%

IN BRAZIL, 12% OF COLLEGE-AGE YOUTH go to university. Of graduates, just 2.3% are Afro-Brazilians, who are 47% of the population.



IN KENYA, EQUAL NUMBERS OF BOYS AND GIRLS START PRIMARY SCHOOL, BUT BY UNIVERSITY, 71% ARE MALE VS. 29% FEMALE

FORD FOUNDATION DIVERSITY FELLOWSHIPS

\$94 MILLION OVER THE LAST TWO DECADES, \$33 MILLION SINCE 2003

GOAL: Increase the diversity of U.S. college and university faculties by broadening their ethnic and racial composition and promoting the benefits of diversity as a resource for enriching student education. Through the National Academy of Sciences, 60 predoctoral, 35 dissertation and 20 postdoctoral awards are granted each year.

WWW7.NATIONALACADEMIES.ORG/FORDFELLOWSHIPS

PARTNERSHIP FOR HIGHER EDUCATION IN AFRICA

\$300 MILLION FROM ALL PARTNERS, 2000 THROUGH 2010

GOAL: In conjunction with six other U.S. foundations, help to improve universities and the field of higher education in nine African countries. Modernizing the infrastructure, and strengthening the human and organizational capacity of these institutions enhances the contributions of higher education to social and economic development.

WWW.FOUNDATION-PARTNERSHIP.ORG

FOR MILLIONS OF STUDENTS, THE HOPE OF EARNING A COLLEGE DEGREE IS OUT OF REACH. YET IN AN INCREASINGLY COMPETITIVE AND GLOBALLY INTEGRATED WORLD, HIGHER EDUCATION IS ESSENTIAL TO INDIVIDUAL SUCCESS IN SOCIETY AND THE WORKPLACE—AND TO THE ECONOMIC PROSPERITY OF COUNTRIES AS A WHOLE.

GLOBAL REACH AND IMPACT

Ford Foundation offices and partnerships around the world, including the year they were established and their grant making for 2007. For a full list of our 2007 grantees, visit www.fordfound.org

UNITED STATES AND WORLDWIDE PROGRAMS
 HEADQUARTERS: NEW YORK / EST. 1953

SPENDING (IN MILLIONS)		
\$130.2	\$143.6	\$148.3
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)
\$422.1

WEST AFRICA
 HEADQUARTERS: LAGOS / EST. 1960

SPENDING (IN MILLIONS)		
\$1.8	\$11.4	\$1.3
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)
\$14.5

MEXICO AND CENTRAL AMERICA
 HEADQUARTERS: MEXICO CITY / EST. 1962

SPENDING (IN MILLIONS)		
\$5.5	\$7.1	\$5.0
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)
\$17.6

ANDEAN REGION AND SOUTHERN CONE
 HEADQUARTERS: SANTIAGO / EST. 1963

SPENDING (IN MILLIONS)		
\$2.8	\$5.4	\$2.8
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)
\$11.0

BRAZIL
 HEADQUARTERS: RIO DE JANEIRO / EST. 1962

SPENDING (IN MILLIONS)		
\$3.2	\$9.5	\$3.4
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)
\$16.1

TOTAL PROGRAM APPROVALS, 2007

\$655.9 MILLION

ASSET BUILDING & COMMUNITY DEVELOPMENT

\$175.2 MILLION

\$80.0	\$93.2	\$2.0
ECONOMIC DEVELOPMENT	COMMUNITY & RESOURCE DEVELOPMENT	OTHER

PEACE & SOCIAL JUSTICE

\$227.9 MILLION

\$106.7	\$120.0	\$1.2
GOVERNANCE & CIVIL SOCIETY	HUMAN RIGHTS	OTHER

KNOWLEDGE, CREATIVITY & FREEDOM

\$193.3 MILLION

\$97.0	\$93.3	\$3.0
EDUCATION, SEXUALITY, RELIGION	MEDIA, ARTS & CULTURE	OTHER

OTHER GRANT ACTIONS

\$59.5 MILLION

\$34.4	\$24.0	\$1.1
FOUNDATION-WIDE ACTIONS	PROGRAM-RELATED INVESTMENTS	OTHER/GOOD NEIGHBOR COMMITTEE

■ The foundation's programs in Israel and Eastern Europe are administered by local partners funded by Ford multiyear grants (see inside back cover for contact information).

MIDDLE EAST AND NORTH AFRICA

HEADQUARTERS: CAIRO / EST. 1959

SPENDING (IN MILLIONS)

\$2.7	\$5.5	\$7.1
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)

\$15.3

RUSSIA

HEADQUARTERS: MOSCOW / EST. 1996

SPENDING (IN MILLIONS)

\$1.3	\$3.9	\$5.6
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)

\$10.8

CHINA

HEADQUARTERS: BEIJING / EST. 1988

SPENDING (IN MILLIONS)

\$2.1	\$10.2	\$2.1
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)

\$14.4

INDIA, NEPAL AND SRI LANKA

HEADQUARTERS: NEW DELHI / EST. 1952

SPENDING (IN MILLIONS)

\$10.2	\$14.4	\$2.3
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)

\$26.9

VIETNAM AND THAILAND

HEADQUARTERS: HANOI / EST. 1996

SPENDING (IN MILLIONS)

\$2.1	\$3.5	\$4.7
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)

\$10.3

SOUTHERN AFRICA

HEADQUARTERS: JOHANNESBURG / EST. 1993

SPENDING (IN MILLIONS)

\$4.9	\$5.8	\$5.1
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)

\$15.8

EASTERN AFRICA

HEADQUARTERS: NAIROBI / EST. 1963

SPENDING (IN MILLIONS)

\$1.9	\$4.4	\$4.6
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)

\$10.9

INDONESIA

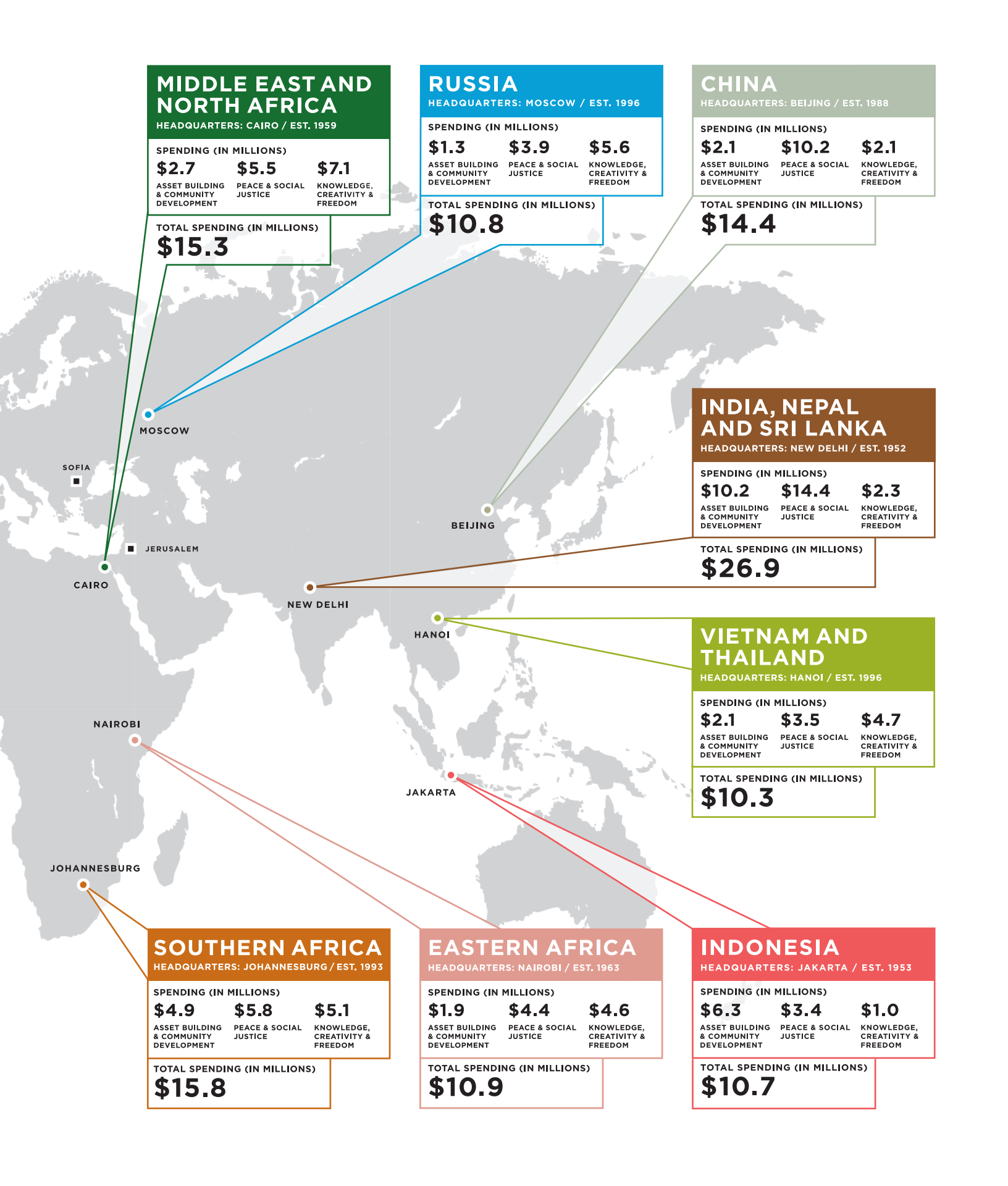
HEADQUARTERS: JAKARTA / EST. 1953

SPENDING (IN MILLIONS)

\$6.3	\$3.4	\$1.0
ASSET BUILDING & COMMUNITY DEVELOPMENT	PEACE & SOCIAL JUSTICE	KNOWLEDGE, CREATIVITY & FREEDOM

TOTAL SPENDING (IN MILLIONS)

\$10.7



FORD

FOUNDATIO

GOVERNAN

OUR GOVERNANCE and budget policies are designed to help fulfill our mission. We strive to make our grant making and financial information transparent and accessible. The governance policies adopted by the board of trustees are developed to adhere to this standard.

ON
NCE

GOVERNANCE

The Ford Foundation is governed by a 13-member board of trustees that includes the foundation president. The governance practices of the foundation adhere to a set of policies—including bylaws, committee charters, standards of independence and a code of ethics—adopted by the board of trustees.

THE BOARD OF TRUSTEES

Ford's board of trustees sets policies relating to grant making, geographic focus, spending, investment, management, governance and professional standards, and also oversees internal and independent audits. It sets compensation and reviews the performance of the president and all foundation officers. The board of trustees is currently composed of 13 members, including the president. Nominated by a trustee committee and appointed by the full board, trustees generally serve two six-year terms. The board, board committees and individual trustees are evaluated on an annual basis. Ford trustees bring a vast range of knowledge and experience to the task of governing the foundation. They come from four continents and have extensive experience in the worlds of academia, business, law, government and nonprofit management.

THE TRUSTEES COME FROM FOUR CONTINENTS AND HAVE EXTENSIVE EXPERIENCE IN THE WORLDS OF ACADEMIA, BUSINESS, LAW, GOVERNMENT AND NONPROFIT MANAGEMENT.

THE PRESIDENT

The trustees select the president, who implements board policies and oversees Ford's programs and operations on a day-to-day basis. The trustees and the president share the responsibility of representing the foundation in the public sphere along with other senior staff. The president continually re-examines Ford's work, looking for opportunities to hone our strategies and improve our effectiveness. The president meets with people around the world to discuss the issues the foundation works on to deepen the foundation's grasp of different perspectives on how to solve problems. In addition to overseeing the foundation's operations, the president works to communicate what Ford has learned to a broad array of audiences and also strives to strengthen the philanthropic sector's performance, legal compliance and transparency.

THE BOARD'S OVERSIGHT OF GRANT MAKING

The board of trustees determines the substantive areas and geographic focus of the foundation's grant making. Within the budget approved by the board, the foundation makes about 2,000 grants throughout the year. The board has delegated authority for approving these grants to the president and senior staff. However, all trustees serve on one of the board's three program committees that help design program strategy. Membership on those committees rotates so that trustees serving 12 years become steeped in the work of Ford's three program areas and contribute to their development and assessment. The trustees review approved grants at their regular board meetings, which take place three times a year. At those meetings, and during annual board visits to grantees worldwide, trustees meet grant recipients and learn about their work.

BOARD COMMITTEES

A five-person Executive Committee, comprising the board chair, the president and three trustees, works with the foundation's executive officers and acts for the board between board meetings. Trustee committees dedicated to management and governance, audits and compensation, investment, trustee nominations, transactions and proxy votes meet regularly and guide foundation activities throughout the year.

The foundation's Web site makes available to the public documents that describe Ford's governance practices. The foundation's bylaws and articles of incorporation and the board's committee charters and code of ethics are among the documents posted at www.fordfound.org/about/governance.

EXECUTIVE COMMITTEE

Kathryn S. Fuller (*chair*)
Luis A. Ubiñas
Anke A. Ehrhardt
Richard Moe
W. Richard West Jr.

AUDIT COMMITTEE

Irene Y. Hirano (*chair*)
Juliet V. García
Thurgood Marshall Jr.
Narayana N.R. Murthy

INVESTMENT COMMITTEE

Afsaneh M. Beschloss (*chair*)
Luis A. Ubiñas
Kathryn S. Fuller
J. Clifford Hudson
Yolanda Kakabadse
W. Richard West Jr.

**TRANSACTIONS
SUBCOMMITTEE**

Afsaneh M. Beschloss
J. Clifford Hudson
Yolanda Kakabadse

**MANAGEMENT AND
GOVERNANCE COMMITTEE**

Richard Moe (*chair*)
Luis A. Ubiñas
Kofi Appenteng
Anke A. Ehrhardt
Kathryn S. Fuller
Irene Y. Hirano
Yolanda Kakabadse
Thurgood Marshall Jr.

MEMBERSHIP COMMITTEE

Kathryn S. Fuller (*chair*)
Anke A. Ehrhardt
Richard Moe

PROGRAM COMMITTEES**ASSET BUILDING AND
COMMUNITY DEVELOPMENT**

Juliet V. García (*chair*)
Afsaneh M. Beschloss
Thurgood Marshall Jr.
Narayana N.R. Murthy

PEACE AND SOCIAL JUSTICE

W. Richard West Jr. (*chair*)
Kofi Appenteng
Irene Y. Hirano
Richard Moe

**KNOWLEDGE, CREATIVITY
AND FREEDOM**

Anke A. Ehrhardt (*chair*)
Kathryn S. Fuller
J. Clifford Hudson
Yolanda Kakabadse

PROXY COMMITTEE

Juliet V. García (*chair*)
Kathryn S. Fuller
Richard Moe

TRUSTEE INDEPENDENCE

The Ford Foundation places high value on the independence of its board members; it requires that a majority of its trustees be independent, that all trustees serving on the audit and membership (nominating) committees be independent and that trustees on the audit committee satisfy additional standards of independence. When the staff proposes that the foundation fund an organization with which a trustee is affiliated as an employee, officer or trustee, that grant must be reviewed and approved by the Audit Committee. The grant action document, which is reviewed and approved by management before submission to the audit committee, discloses the nature of the trustee affiliation and confirms that the trustee played no role in the initiation or negotiation of the grant.

EVALUATION AND IMPACT

For more than 70 years the Ford Foundation and its grantees have taken on enduring problems that require sustained effort and resolve. Our work to improve lives and create opportunity has generated a broad range of knowledge and given us new insights into how we can do our work more effectively. We are eager to share what we have learned with other grant makers, experts in the field, the media and the general public. Toward this end, the foundation regularly reviews program initiatives to understand what has worked, what hasn't and how we can broaden the impact of our grant making. Evaluations summarizing some of these reviews are available on our Web site at www.fordfound.org/impact/learning.

FINANCIAL STATEMENTS

Ford Foundation grants are designed to address societal issues worldwide, requiring sustained engagement to effect change and periodic adjustments to ensure goals are met. In order to pursue consistent, multiyear programming and strategies, the foundation tries to invest and budget in ways that produce consistent patterns while preserving the value of the investment portfolio.

Ford's board of trustees approves program and operational budgets on a two-year basis, appropriating one year's funding at a time. This enables program, administrative and investment staff to plan ahead with a reasonable degree of certainty. The size of the two-year budget takes into account three considerations: the need to satisfy the U.S. federal payout requirement (the obligation to disburse annually about 5 percent of the average value of the investment portfolio); the objective of preserving the value of the endowment for long-term charitable funding; and program needs and opportunities. Because the budget is based on several considerations, the foundation does not restrict its spending to the amount needed to meet the payout requirement. In fact, as Chart 2 shows, the foundation generally exceeds these requirements. In the last six years, the foundation's payout has averaged 5.8 percent, well above requirements.

Program spending, shown in Chart 1, reflects the grants and program-related investments made in all Ford offices during the fiscal year. Funds are drawn on allocations made at the outset of the budget period, as well as from the general reserve, an annual set-aside of a portion of the budget. This reserve is controlled by the trustees. It is used for grants when markets are steady or rising but held (in whole or part) and not used in declining markets. The general reserve serves as a hedge in case of a downturn in foundation portfolio values in order to protect foundation grantees from market fluctuations.

Since the early 1970s it has been the policy of the foundation to try to preserve the real (inflation-adjusted) value of the endowment, as the level of program spending by the foundation is related to the value of the endowment (Chart 1 shows this relationship starting in 1970). The difficulty of achieving this—particularly if spending exceeds the payout requirement on a regular basis—is reflected in Chart 3. This chart shows the value of the endowment since 1970 in both real and nominal terms. As indicated, even with the bull market of the 1980s and 1990s, the foundation has not made up for the erosion of the investment portfolio in the 1970s. Importantly, over the 38-year period covered by the chart, the foundation has disbursed \$13.5 billion, more than four times the value of the endowment at the beginning of the period.

**FROM TIME TO TIME, DRIVEN BY
AN OPPORTUNITY FOR IMPACT, THE
FOUNDATION WILL FUND GRANTS WELL
ABOVE REQUIRED LIMITS.**

CHART 1

AVERAGE INVESTMENT PORTFOLIO VALUES

\$ Billions

PROGRAM SPENDING

\$ Millions

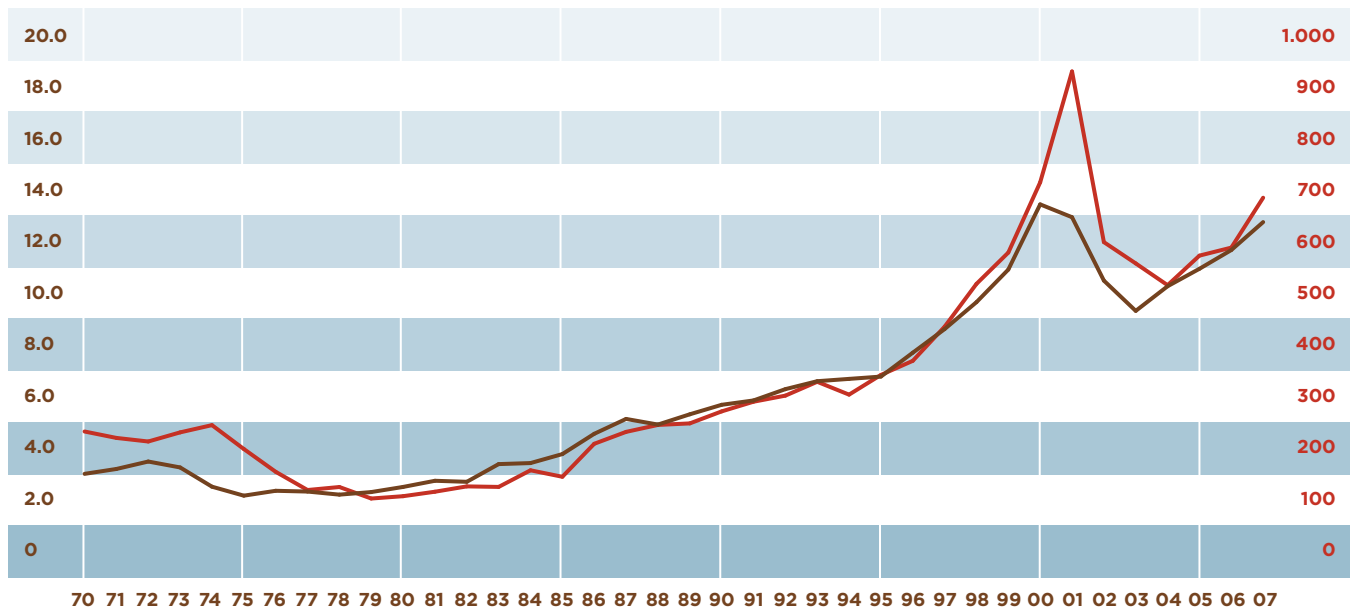


CHART 2 — PAYOUT RATE

DISTRIBUTION AS A PERCENTAGE OF AVERAGE INVESTMENT PORTFOLIO VALUES

%

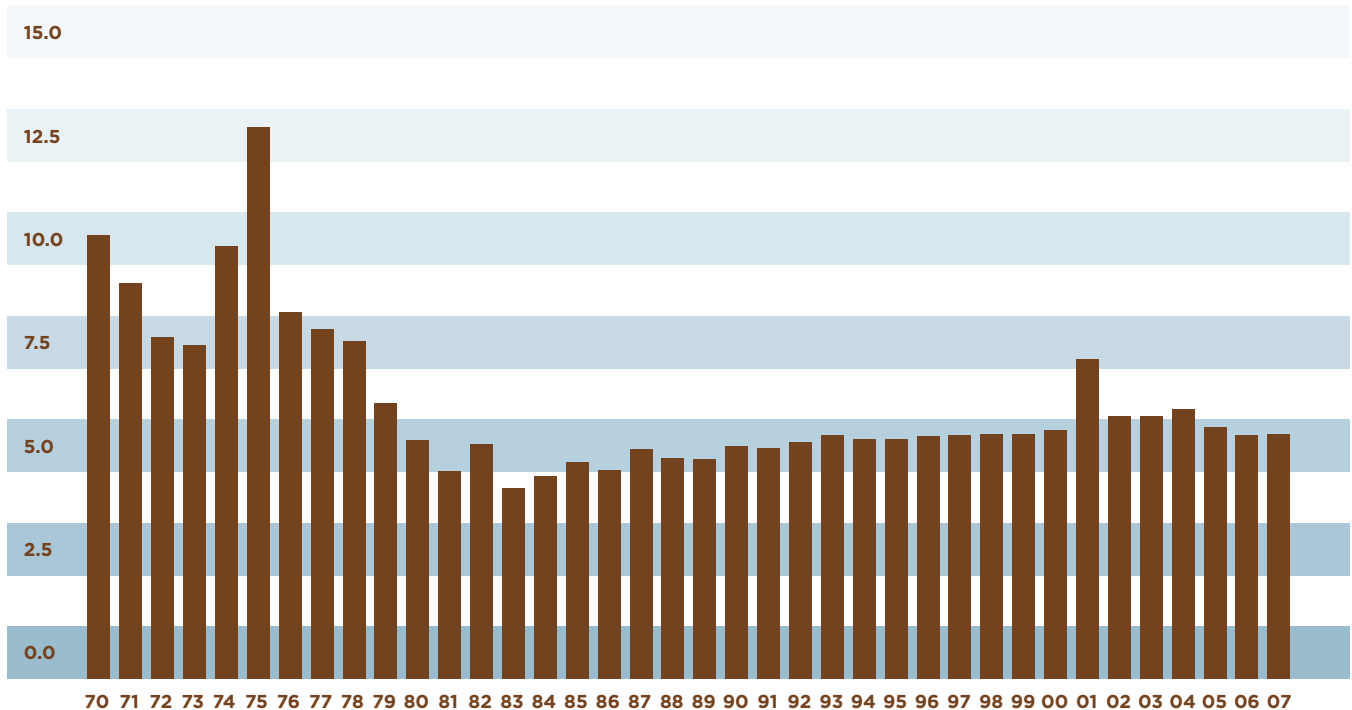
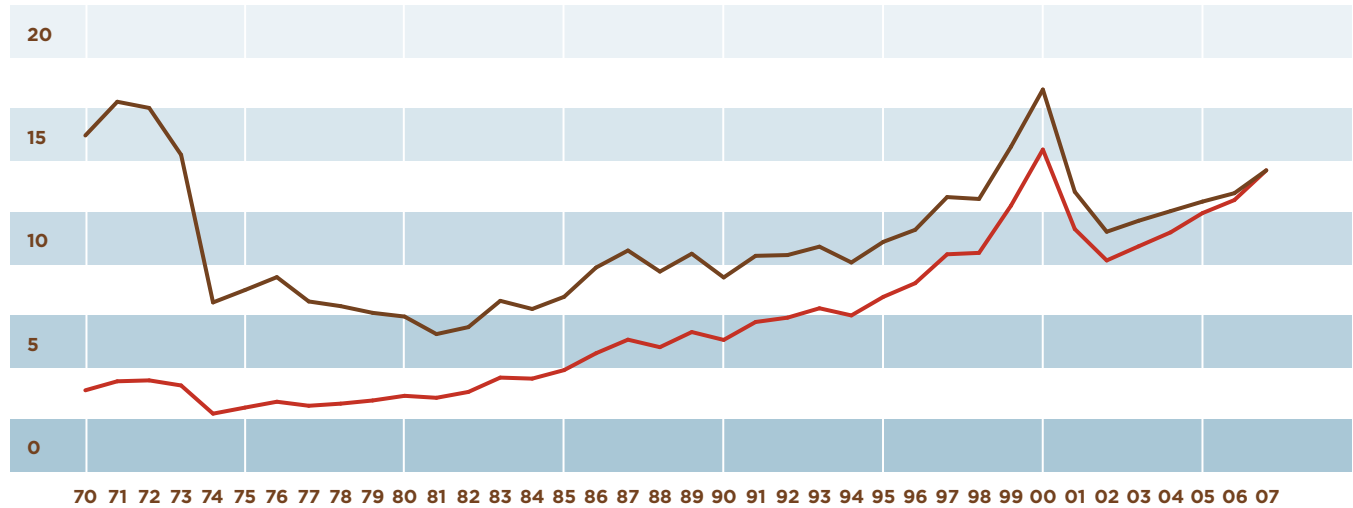


CHART 3 — INVESTMENT PORTFOLIO VALUES
REAL (2007) DOLLARS / NOMINAL VALUE

\$ Billions



INVESTMENTS

The foundation’s investment portfolio was valued at \$13.5 billion at the end of fiscal 2007, versus \$12.1 billion at the close of 2006. The portfolio rate of return was 18.7 percent for the fiscal year, 15.3 percent annualized for the three-year period and 9.9 percent annualized for the 10-year period. The foundation’s primary investment objective is to generate an inflation-adjusted return in excess of our mandated minimum 5 percent payout requirement.

International equity markets had outstanding returns for the fiscal year, with our managers’ rate of return at 33.0 percent for the year. U.S. equities returned 16.9 percent and private equity returned 24.1 percent for the year. Fixed-income markets were volatile throughout the year, but our fixed-income portfolio returned 4.7 percent for the year.

The foundation’s asset allocation policy reflects our grantees’ diversity, with a focus on stable, long-term growth. Comparing the asset allocation from the end of fiscal 2006 to fiscal 2007 shows that fixed-income exposure declined, while international and private equity exposure increased. As markets become more turbulent in 2008, we will continue to adjust the portfolio mix.

THE FOUNDATION’S PRIMARY INVESTMENT OBJECTIVE IS TO GENERATE AN INFLATION-ADJUSTED RETURN IN EXCESS OF OUR MANDATED MINIMUM 5 PERCENT PAYOUT REQUIREMENT.

PORTFOLIO COMPONENTS

As of September 30

	2007		2006	
	Market value <i>in millions</i>	Percent of total	Market value <i>in millions</i>	Percent of total
MARKETABLE SECURITIES				
U.S. EQUITIES	\$ 5,065.4	37.5	\$ 4,757.7	39.5
INTERNATIONAL EQUITIES	3,562.2	26.5	2,904.1	24.1
TOTAL PUBLIC EQUITIES	8,627.6	64.0	7,661.8	63.6
PRIVATE EQUITIES	1,568.3	11.6	1,199.4	9.9
TOTAL EQUITIES	10,195.9	75.6	8,861.2	73.5
U.S. FIXED INCOME	2,694.0	20.0	2,587.8	21.5
INTERNATIONAL FIXED INCOME	124.3	0.9	205.8	1.7
SHORT-TERM INVESTMENTS	479.9	3.5	400.6	3.3
TOTAL FIXED INCOME	3,298.2	24.4	3,194.2	26.5
	\$ 13,494.1	100.0	\$ 12,055.4	100.0

INCOME AND EXPENDITURES

Total realized income, including capital gains, amounted to \$1.438 billion in fiscal year 2007, compared with \$1.089 billion in fiscal 2006. Dividends and interest income totaled \$364 million, or \$27 million above fiscal 2006. Total program activities (primarily grants to organizations and individuals, direct charitable activities and program support) were \$683 million, representing an increase of \$94 million over the previous year. General management expenditures were \$30 million, representing \$0.1 million over the previous year. Expenses incurred in the production of income were \$39 million, a \$3.1 million increase over fiscal year 2006.

PROGRAM-RELATED INVESTMENTS (PRIs)

Each year the foundation invests a portion of its endowment in projects that advance philanthropic purposes in various areas of the foundation's interest. The trustees have earmarked up to \$280 million of the corpus for these investments. The investments are in the form of debt or equity financing or loan guarantees. As of September 30, 2007, the foundation had \$142.3 million in investments and \$23.7 million in funding commitments.

During the fiscal year, new PRI loan commitments of \$24 million were made and \$26.2 million were disbursed. Principal repayments of \$14.7 million were received. The following table summarizes the PRI program for fiscal years 2007 and 2006.

PROGRAM-RELATED INVESTMENTS SUMMARY*As of September 30*

	2007 <i>in thousands</i>	2006 <i>in thousands</i>
INVESTMENTS OUTSTANDING, BEGINNING OF FISCAL YEAR	\$132,163	\$127,845
ACTIVITY DURING YEAR:		
— INVESTMENTS DISBURSED	26,184	18,749
— PRINCIPAL REPAID	(14,671)	(14,431)
— INVESTMENTS WRITTEN OFF	(1,365)	
INVESTMENTS OUTSTANDING, END OF FISCAL YEAR	142,311	132,163
COMMITMENTS FOR INVESTMENTS	23,717	30,276
TOTAL INVESTMENTS AND COMMITMENTS OUTSTANDING	\$166,028	\$162,439
ALLOWANCE FOR POSSIBLE LOSSES	\$23,826	\$23,143
PROGRAM DEVELOPMENT AND SUPPORT*	\$3,039	\$2,647
INVESTMENT INCOME RECEIVED	\$1,274	\$994

*Includes the cost of providing technical assistance to develop new PRIs and evaluate ongoing investments.

FEDERAL REQUIREMENTS

The Internal Revenue Code imposes an excise tax on private foundations equal to 2 percent of net investment income, which is defined as interest, dividends and net realized gains less expenses incurred in the production of income. For fiscal year 2007, the tax is estimated to be \$27 million, excluding the deferred portion of excise taxes resulting from unrealized appreciation/depreciation on investments. Since fiscal year 1971 the foundation has incurred federal excise taxes of \$304 million.

The Internal Revenue Code also requires private foundations annually to disburse approximately 5 percent of the market value of investment assets, less the federal excise tax. The payout requirement may be satisfied by payments for grants, program-related investments, direct conduct of charitable activities and certain administrative expenses. The foundation had qualifying distributions of \$708 million in fiscal year 2007, exceeding the federally mandated payout requirement by \$72 million. During the past five years, the foundation has made \$3.1 billion in qualifying distributions, exceeding the federally mandated payout requirement by \$386 million.

REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF TRUSTEES OF THE FORD FOUNDATION:

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of the Ford Foundation at September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Ford Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers LLP
New York, New York
December 4, 2007

PRICEWATERHOUSECOOPERS 

STATEMENTS OF FINANCIAL POSITION

As of September 30

ASSETS

	2007 <i>in thousands</i>	2006 <i>in thousands</i>
INVESTMENTS, AT FAIR VALUE	\$ 13,293,577	\$ 11,889,880
ACCRUED INTEREST AND DIVIDENDS RECEIVABLE	35,200	32,712
PENDING SECURITIES, NET	165,296	132,791
	13,494,073	12,055,383
CASH	1,047	537
FEDERAL EXCISE TAX RECEIVABLE	2,605	2,300
OTHER RECEIVABLES AND ASSETS	14,813	9,902
PROGRAM-RELATED INVESTMENTS, NET OF ALLOWANCES FOR POSSIBLE LOSSES OF \$23,826 (\$23,143 AT SEPTEMBER 30, 2006)	118,485	109,019
FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION OF \$87,531 (\$82,924 AT SEPTEMBER 30, 2006)	28,708	30,359
TOTAL ASSETS	\$ 13,659,731	\$ 12,207,500
LIABILITIES AND UNRESTRICTED NET ASSETS		
UNPAID GRANTS	\$ 247,845	\$ 211,453
PAYABLES AND OTHER LIABILITIES	82,308	74,306
DEFERRED FEDERAL EXCISE TAX LIABILITY	53,663	38,470
TOTAL LIABILITIES	383,816	324,229
CONTINGENCIES, COMMITMENTS AND GUARANTEES		
UNRESTRICTED NET ASSETS		
APPROPRIATED	43,421	71,837
UNAPPROPRIATED	13,232,494	11,811,434
TOTAL UNRESTRICTED NET ASSETS	13,275,915	11,883,271
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 13,659,731	\$ 12,207,500

See notes to financial statements

STATEMENTS OF ACTIVITIES

For the year ended September 30

	2007 <i>in thousands</i>	2006 <i>in thousands</i>
INCOME		
DIVIDENDS	\$ 195,722	\$ 178,940
INTEREST	167,938	158,210
REALIZED APPRECIATION ON INVESTMENTS, NET	1,074,777	752,051
UNREALIZED APPRECIATION ON INVESTMENTS, NET	759,677	223,131
TOTAL INCOME	2,198,114	1,312,332
EXPENDITURES		
PROGRAM ACTIVITIES:		
GRANTS APPROVED	617,072	529,820
DIRECT CONDUCT OF CHARITABLE ACTIVITIES	9,753	8,432
PROGRAM SUPPORT	55,787	50,356
PROVISION (BENEFIT) FOR POSSIBLE LOSSES ON PROGRAM-RELATED INVESTMENTS	2,048	(1,137)
	684,660	587,471
GENERAL MANAGEMENT	30,085	30,000
EXPENSES INCURRED IN THE PRODUCTION OF INCOME	39,391	36,315
PROVISION FOR FEDERAL EXCISE TAX		
CURRENT	26,700	19,000
DEFERRED	15,193	4,463
DEPRECIATION	6,234	6,730
TOTAL EXPENDITURES	802,263	683,979
CHANGE IN UNRESTRICTED NET ASSETS BEFORE		
CHANGE IN ACCOUNTING PRINCIPLE	1,395,851	628,353
ADOPTION OF FAS 158	(3,207)	
ADOPTION OF FIN 47		(4,987)
CHANGE IN UNRESTRICTED NET ASSETS	1,392,644	623,366
UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR	11,883,271	11,259,905
UNRESTRICTED NET ASSETS AT END OF YEAR	\$ 13,275,915	\$ 11,883,271

See notes to financial statements

STATEMENTS OF CASH FLOWS

For the year ended September 30

	2007 <i>in thousands</i>	2006 <i>in thousands</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
CHANGE IN UNRESTRICTED NET ASSETS	\$ 1,392,644	\$ 623,366
ADJUSTMENTS TO RECONCILE CHANGE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
UNREALIZED APPRECIATION ON INVESTMENTS	(759,677)	(223,131)
DEPRECIATION	6,234	6,730
ADOPTION OF FAS 158	3,207	
ADOPTION OF FIN 47		4,987
PROVISION (BENEFIT) FOR POSSIBLE LOSSES ON PROGRAM-RELATED INVESTMENTS	2,048	(1,137)
DEFERRED PROVISION FOR FEDERAL EXCISE TAXES	15,193	4,463
INCREASE IN CURRENT FEDERAL EXCISE TAX RECEIVABLE	(305)	(1,800)
INCREASE IN OTHER RECEIVABLES AND ASSETS	(4,662)	(767)
LOANS DISBURSED FOR PROGRAM-RELATED INVESTMENTS	(26,185)	(18,748)
REPAYMENTS OF PROGRAM-RELATED INVESTMENTS	14,671	14,431
GRANT APPROVALS	617,072	529,820
GRANT PAYMENTS	(580,680)	(529,625)
INCREASE IN PAYABLES AND OTHER LIABILITIES	4,546	4,276
NET CASH PROVIDED BY OPERATIONS	684,106	412,865
CASH FLOWS FROM INVESTING ACTIVITIES:		
PROCEEDS FROM SALE OF INVESTMENTS	5,854,129	5,741,430
PURCHASE OF INVESTMENTS	(6,533,142)	(6,149,391)
PURCHASE OF FIXED ASSETS	(4,583)	(5,585)
NET CASH USED BY INVESTING ACTIVITIES	(683,596)	(413,546)
NET INCREASE (DECREASE) IN CASH	510	(681)
CASH AT BEGINNING OF YEAR	537	1,218
CASH AT END OF YEAR	\$ 1,047	\$ 537

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Ford Foundation (the Foundation) are prepared on the accrual basis which is in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are set forth below:

INVESTMENTS

Equity and fixed income investments are generally valued based upon the final sales price as quoted on major exchanges. However, certain fixed income securities are valued based upon yields or prices of securities of comparable quality, coupon, maturity and type as well as indications as to values from brokers and dealers. Short-term investments generally represent securities with maturity of 1 year or less and are valued at amortized cost. Limited marketability investments, representing amounts in venture capital and equity partnerships, are valued at the quoted market price for securities for which market quotations are readily available or an estimate of value (fair value) as determined in good faith by the general partner. Significant changes affecting the values of these limited marketability investments that occur between the time net asset values are last communicated by the general partner and the close of the Foundation's fiscal year are reflected in the fair value recorded in the financial statements.

Transactions are recorded on a trade date basis. Realized and unrealized gains or losses on investments are determined by comparison of specific costs of acquisition (identified lot basis) to proceeds at the time of disposal, or market values at the last day of the fiscal year, respectively, and include the effects of currency translation with respect to transactions and holdings of foreign securities. Dividends and interest are recognized when earned.

CASH

Consists of cash on hand and operating bank deposits.

PROGRAM-RELATED INVESTMENTS

The Foundation invests in projects that advance philanthropic purposes. These program-related investments are mainly loans outstanding for up to 10 years bearing interest at 1%. These loans are treated as qualifying distributions for tax reporting purposes. Loans are monitored to determine net realizable value based on an evaluation of recoverability that utilizes experience and may reflect periodic adjustments to terms as deemed appropriate.

FIXED ASSETS

Land, buildings, furniture, equipment and leasehold improvements owned by the Foundation are recorded at cost. Depreciation is charged using the straight-line method based on estimated useful lives of the particular assets generally estimated as follows: buildings, principally 50 years, furniture and equipment 3 to 15 years, and leasehold improvements over the lesser of the term of the lease or the life of the asset.

EXPENDITURES AND APPROPRIATIONS

Grant expenditures are considered incurred at the time of approval. Uncommitted appropriations that have been approved by the Board of Trustees are included in appropriated unrestricted net assets.

TAXES

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. However, the Foundation is subject to a federal excise tax.

The Foundation follows the policy of providing for federal excise taxes on net appreciation (both realized and unrealized) on investments. The deferred provision for federal excise tax represents taxes provided on net unrealized appreciation (depreciation) on investments.

RISKS AND UNCERTAINTIES

The Foundation uses estimates in preparing the financial statements which require management to make estimates and assumptions. These affect the reported amounts of assets and

liabilities at the date of the Statement of Financial Position and the reported amounts of income and expenditures during the reporting period. Actual results may differ from these estimates. The most significant estimates and assumptions relate to valuation of limited marketable securities, allowances for possible losses on program-related investments and employee benefit plans.

**ACCOUNTING FOR DERIVATIVE INSTRUMENTS
AND HEDGING ACTIVITIES**

The Foundation records all derivative instruments in accordance with Financial Accounting Standards (FAS) No. 133 “Accounting for Derivative Instruments and Hedging Activities” at fair value. The fair value adjustment is recorded directly to the invested asset and recognized as an unrealized gain or loss in the Statements of Activities.

**ACCOUNTING FOR CONDITIONAL ASSET
RETIREMENT OBLIGATION**

The Foundation adopted FAS Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligation” (FIN 47) effective September 30, 2006. FIN 47 provides clarification with respect to the timing of liability recognition for legal obligations to perform asset retirement activity when the timing and/or method of settlement of the obligation are conditional on a future event. Upon adoption of FIN 47, on September 30, 2006, the Foundation recognized a non-cash cumulative effect charge of \$4.987 million associated with the estimated cost of removal and disposal of known asbestos in the Foundation’s headquarters building. Had the Foundation adopted FIN 47 prior to fiscal year 2006, the change in net assets for the fiscal year ending September 30, 2006 would not have changed materially.

RECLASSIFICATIONS

Certain amounts from the Foundation’s fiscal year 2006 financial statements have been reclassified to conform to the fiscal year 2007 presentation.

NOTE 2 INVESTMENTS

Investments held consisted of the following at September 30:

	2007		2006	
	Fair value <i>in thousands</i>	Cost <i>in thousands</i>	Fair value <i>in thousands</i>	Cost <i>in thousands</i>
EQUITIES	\$ 8,781,934	\$ 5,441,958	\$ 7,721,518	\$ 5,015,441
FIXED INCOME	2,635,319	2,638,654	2,737,212	2,745,912
SHORT-TERM INVESTMENTS	293,194	293,147	257,757	254,760
LIMITED MARKETABILITY	1,583,130	2,236,649	1,173,393	1,950,275
TOTAL INVESTMENTS, AT FAIR VALUE	13,293,577	10,610,408	11,889,880	9,966,388
ACCRUED INTEREST AND DIVIDENDS RECEIVABLE	35,200	35,200	32,712	32,712
PENDING SECURITIES, NET	165,296	165,296	132,791	132,791
	\$ 13,494,073	\$ 10,810,904	\$ 12,055,383	\$ 10,131,891

The Foundation purchases and sells forward currency contracts whereby the Foundation agrees to exchange one currency for another on an agreed-upon date at an agreed-upon exchange rate to minimize the exposure of certain of its investments to adverse fluctuations in currency markets. As of September 30, 2007 and 2006, the Foundation had foreign currency contracts with notional amounts totaling \$114.6 million and \$170.7 million, respectively. Such contracts involve, to varying degrees, risks of loss from the possible inability of counterparties to meet the terms of their contracts. Changes in the value of forward currency contracts are recognized as unrealized gains or losses until such contracts are closed.

NOTE 3**FIXED ASSETS**

At September 30, fixed assets are comprised of:

	2007 <i>in thousands</i>	2006 <i>in thousands</i>
LAND	\$ 4,686	\$ 4,473
BUILDINGS, NET OF ACCUMULATED DEPRECIATION OF \$26,140 IN 2007 AND \$25,308 IN 2006	10,247	10,433
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET OF ACCUMULATED DEPRECIATION OF \$61,391 IN 2007 AND \$57,616 IN 2006	13,775	15,453
	\$ 28,708	\$ 30,359

NOTE 4**PROVISION FOR FEDERAL EXCISE TAX**

The Internal Revenue Code imposes an excise tax on private foundations equal to 2 percent of net investment income, which is defined as interest, dividends and net realized gains less operating and capital losses on partnership investments and expenses incurred in the production of income. The tax is reduced to 1 percent for foundations that meet certain distribution requirements. The provision for federal excise tax based on a 2 percent rate in fiscal years 2007 and 2006 consists of a current provision on net investment income and a deferred provision on current net unrealized gains on investments.

The amount of excise taxes paid were \$29.3 million and \$21.3 million in fiscal years 2007 and 2006, respectively.

NOTE 5 RETIREMENT PLANS

The Foundation's defined benefit pension plans and the defined contribution plans cover substantially all New York appointed employees (staff who are locally appointed by overseas offices are covered by other retirement arrangements). Pension benefits generally depend upon age, length of service and salary level. The Foundation also provides retirees with at least five years of service and who are at least age 55 with nonpension other postretirement benefits which include medical, dental and life insurance. The defined benefit pension plans are annually funded in accordance with the minimum funding requirements of the Employee Retirement Income Security Act. The non-pension other postretirement benefits are not funded by the Foundation.

In 2007, the Foundation adopted FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," which requires unrecognized amounts (e.g. net actuarial gains or losses and prior service cost or credits) to be recognized as changes to unrestricted net assets and that those amounts be adjusted as they are subsequently recognized as components of net periodic pension cost. FAS 158 resulted in the recognition of a \$3.2 million loss reported on the Statement of Activities as a change in accounting principle. The loss reflected amounts not previously recognized in periodic benefit costs as follows (in thousands):

PRIOR SERVICE CREDIT	\$ (511)
NET ACTUARIAL LOSS	3,718
	\$ 3,207

The incremental effect of applying the provisions of FAS 158 on individual line items on the Statement of Financial Position was:

	BEFORE APPLICATION OF FAS 158	INCREMENTAL EFFECT OF FAS 158	AFTER APPLICATION OF FAS 158
OTHER RECEIVABLES AND ASSETS	\$ 14,564	\$ 249	\$ 14,813
PAYABLES AND OTHER LIABILITIES	\$ (78,852)	\$ (3,456)	\$ (82,308)
UNRESTRICTED NET ASSETS		\$ 3,207	

	PENSION PLAN BENEFITS	OTHER POST- RETIREMENT BENEFITS
AMOUNTS IN UNRESTRICTED NET ASSETS EXPECTED TO BE RECOGNIZED IN NET PERIODIC PENSION COST IN FISCAL 2008		
ACTUARIAL (GAIN)/LOSS	\$ 61	\$ -
PRIOR SERVICE (CREDIT)/COST	(126)	-
	\$ (65)	\$ -

	PENSION BENEFITS <i>in thousands at September 30</i>		OTHER POSTRETIREMENT BENEFITS <i>in thousands at September 30</i>	
	2007	2006	2007	2006
BENEFIT OBLIGATION	\$ 22,725	\$ 22,058	\$ 47,623	\$ 47,679
FAIR VALUE OF PLAN ASSETS	29,971	24,381	-	-
FUNDED STATUS	\$ 7,246	\$ 2,323	\$ (47,623)	\$ (47,679)
ACCUMULATED BENEFIT OBLIGATION	\$ 22,348	\$ 21,625	N/A	N/A
PREPAID (ACCRUED) BENEFIT COST RECOGNIZED IN THE STATEMENTS OF FINANCIAL POSITION	\$ 7,246	\$ 3,260	\$ (47,623)	\$ (41,734)
WEIGHTED AVERAGE ASSUMPTIONS (USED TO DETERMINE BENEFIT OBLIGATIONS AND NET PERIODIC COSTS):				
DISCOUNT RATE (BENEFIT OBLIGATION)	6.30%	6.00%	6.30%	6.00%
DISCOUNT RATE (NET PERIODIC COSTS)	6.00%	5.75%	6.00%	5.75%
EXPECTED RETURN ON PLAN ASSETS	7.00%	7.00%	N/A	N/A
RATE OF COMPENSATION INCREASE	4.00%	4.00%	N/A	N/A

For measurement purposes, a healthcare cost trend rate of 6% and 7% was used to measure the other postretirement benefit obligation at September 30, 2007 and 2006, respectively. The healthcare cost trend rate is assumed to be 5% in fiscal year 2008 and thereafter. A 1% point change in assumed healthcare cost trend rates would have the following effects:

	1% INCREASE	1% DECREASE
EFFECT ON TOTAL OF SERVICE AND INTEREST COST COMPONENTS	\$ 500,000	\$ 854,000
EFFECT ON OTHER POSTRETIREMENT BENEFIT OBLIGATION	3,824,000	3,166,000

	PENSION BENEFITS <i>in thousands at September 30</i>		OTHER POSTRETIREMENT BENEFITS <i>in thousands at September 30</i>	
	2007	2006	2007	2006
NET PERIODIC BENEFIT COST RECOGNIZED	\$ 264	\$ 287	\$ 4,622	\$ 4,784
EMPLOYER CONTRIBUTION	4,000	302	-	-
BENEFITS PAID	1,402	1,910	2,189	2,066

The expense recorded by the Foundation related to contributions to the defined contribution plan aggregated \$5,565,000 and \$5,135,000 for the years ended September 30, 2007 and 2006, respectively.

The combined weighted-average asset allocation for the Foundation's defined benefit pension plans at September 30 is as follows:

	PENSION BENEFITS	
	2007	2006
TIAA-CREF GROUP ANNUITY CONTRACT	29.8%	43.9%
CREF STOCK VARIABLE ANNUITY	50.6	41.8
CREF INFLATION-LINKED BOND VARIABLE ANNUITY	8.7	6.2
CREF MONEY MARKET	3.4	-
TIAA REAL ESTATE VARIABLE ANNUITY	7.5	8.1
	100.0%	100.0%

The investment strategy is to manage investment risk through prudent asset allocation that will produce a rate of return commensurate with the plans' obligations. The Foundation expects to continue the investment target allocations as noted above in fiscal year 2008. The Foundation's overall expected long-term rate of return on plan assets is based upon historical long-term returns of the investment performance adjusted to reflect expectations of future long-term returns by asset class. The Foundation does not expect to have a contribution requirement to the pension plans in fiscal year 2008.

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

	PENSION BENEFITS	OTHER POST- RETIREMENT BENEFITS
	<i>in thousands at September 30</i>	
2008	\$ 1,762	\$ 2,341
2009	1,690	2,359
2010	1,571	2,514
2011	1,606	2,687
2012	1,647	2,824
2013 - 2017	8,550	15,837

NOTE 6
CONTINGENCIES, COMMITMENTS
AND GUARANTEES

The Foundation is involved in several legal actions. The Foundation believes it has defenses for all such claims, believes the claims are substantially without merit, and is vigorously defending the actions. In the opinion of management, the final disposition of these matters will not have a material effect on the Foundation's financial position.

As part of its program-related investment activities, the Foundation is committed to provide \$23.7 million of loans to not-for-profit organizations once certain conditions are met. Further, as part of its investment management activity, the Foundation is committed to additional funding of \$1.2 billion in private equity and other investment commitments.

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office-secretary@fordfound.org

OUR OFFICES WORLDWIDE

OFFICES

UNITED STATES

Headquarters

320 East 43rd Street
New York, N.Y. 10017

AFRICA AND MIDDLE EAST

Eastern Africa

P.O. Box 41081, 00100
Nairobi, Kenya

Middle East and North Africa

P.O. Box 2344
Cairo, Egypt

Southern Africa

P.O. Box 30953
Braamfontein 2017
Johannesburg, South Africa

West Africa

P.O. Box 2368 Marina
Lagos, Nigeria

ASIA

China

International Club
Office Building
Suite 501
Jianguomenwai Dajie No. 21
Beijing, China 100020

India, Nepal and Sri Lanka

55 Lodi Estate
New Delhi 110 003, India

Indonesia

P.O. Box 2030
Jakarta 10020, Indonesia

Vietnam and Thailand

Pacific Place
14th Floor
83B Ly Thuong Kiet Street
Hoan Kiem District
Hanoi, Vietnam

LATIN AMERICA AND CARIBBEAN

Andean Region and Southern Cone

Mariano Sánchez
Fontecilla 310
Piso 14
Las Condes
Santiago, Chile

Brazil

Praia do Flamengo 154
8° Andar
CEP 22210-030
Rio de Janeiro, R.J.
Brazil

Mexico and Central America

Apartado Postal 105-71
11560 Mexico, D.F.

RUSSIA

Tverskaya Ulitsa 16/2
5th floor
125009 Moscow, Russia

PARTNERSHIPS

EASTERN EUROPE

Trust for Civil Society in Central & Eastern Europe

22A San Stefano Str.
1000 Sofia, Bulgaria

ISRAEL

New Israel Fund

1101 14th Street, N.W.
6th floor
Washington, D.C. 20005

P.O. Box 53410
Jerusalem, Israel 91534

◀ **OUR OFFICES WORLDWIDE**

FORD FOUNDATION

320 East 43rd Street
New York, NY 10017
United States of America

(+1) 212-573-5000
www.fordfound.org

CREDITS

PHOTOGRAPHY

Cover

George Osodi/Panos Pictures

Pages 2-3

Jacob Silberberg/Panos Pictures

Pages 6-7

Aaron Huey/Polaris

Pages 10-11

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Opto Design

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“WE ARE NOW FACED WITH THE FACT, MY FRIENDS,
THAT TOMORROW IS TODAY. WE ARE CONFRONTED WITH
THE FIERCE URGENCY OF NOW. IN THIS UNFOLDING
CONUNDRUM OF LIFE AND HISTORY, THERE IS SUCH A
THING AS BEING TOO LATE. ... WE MAY CRY OUT
DESPERATELY FOR TIME TO PAUSE IN HER PASSAGE,
BUT TIME IS ADAMANT TO EVERY PLEA AND RUSHES ON. ...
THERE IS AN INVISIBLE BOOK OF LIFE THAT FAITHFULLY
RECORDS OUR VIGILANCE OR OUR NEGLECT.”

MARTIN LUTHER KING JR.