

# USAID

## OFFICE OF INSPECTOR GENERAL

---

### Report on Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2004 and 2003

Audit Report No. 0-IAF-05-002-C

November 15, 2004



Washington, D.C.






November 15, 2004

**MEMORANDUM**

**FOR:** Inter-American Foundation President, David Valenzuela

**FROM:** AIG/A, Bruce N. Crandlemire 

**SUBJECT:** Report on Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2004 and 2003 (0-IAF-05-002-C)

Enclosed is the final report on the subject audit. We contracted with the independent certified public accounting firm of Gardiner, Kamy & Associates, P.C. (GKA) to audit the financial statements of the Inter-American Foundation as of September 30, 2004 and 2003 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; generally accepted auditing standards; Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the General Accounting Office/President's Council on Integrity and Efficiency Financial Audit Manual.

In its audit of the Inter-American Foundation (IAF), Gardiner, Kamy & Associates found;

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- IAF had effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- IAF's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and
- no reportable noncompliance with laws and regulations it tested.

In connection with the audit contract, we reviewed GKA's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on IAF's financial statements or internal control or on whether IAF's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. GKA is responsible for the attached auditor's report dated October 22, 2004 and the conclusions expressed in it. However, our review disclosed no instances where GKA did not comply, in all material respects, with applicable standards.

The report does not contain recommendations and IAF has elected to not formally comment on the report.

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

**INTER-AMERICAN FOUNDATION  
(IAF)**

**FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004 and 2003**

**and**

**INDEPENDENT AUDITOR'S REPORT THEREON**

## INTER-AMERICAN FOUNDATION (IAF)

### TABLE OF CONTENTS

	<b><u>Page No.</u></b>
Management's Discussion and Analysis (Overview)	8
Independent Auditor's Report on Financial Statements	28
Balance Sheet	29
Statement of Net Cost	30
Statement of Changes in Net Position	31
Statement of Budgetary Resources	32
Statement of Financing	34
Notes to Financial Statements	36
Independent Auditor's Report on Internal Control	51
Independent Auditor's Report on Compliance with Laws and Regulations	53



## Inter-American Foundation

---

### Message from the President

The Inter-American Foundation (IAF), an independent foreign assistance agency of the United States government, provides grants to grassroots organizations in Latin America and the Caribbean. Created in 1969 as an experimental program, the IAF responds to innovative, participatory and sustainable self-help development projects proposed by grassroots groups and organizations that support them. It also encourages partnerships among community organizations, businesses and local governments directed at improving the quality of life for poor people and strengthening democratic practices. To contribute to a better understanding of the development process, the IAF shares its experiences and the lessons it has learned.

The Inter-American Foundation is governed by a nine-person board of directors appointed by the president of the United States and confirmed by the U.S. Senate. Six members are drawn from the private sector and three from the federal government. The board is assisted by an advisory council. A president, appointed by the board, serves as the Inter-American Foundation's chief executive officer, managing a staff of 47 employees based in Arlington, Virginia. The IAF is organized into four offices; Executive, which houses the Office of the President and General Counsel; External Affairs; Operations, which houses Evaluation, Financial Management, General Services, Human Resources and Information Management; and the Program Office.

I would like to review the state of the Inter-American Foundation and the unique contribution we make in advancing the values and long-term foreign policy objectives of the United States in its relationship with Latin America and the Caribbean.

I begin with the Congressional Declaration of Purpose for the IAF contained in its enabling legislation dated December 30, 1969.

*“The future of freedom, security, and economic development in the Western Hemisphere rests on the realization that man is the foundation of all human progress. It is the purpose of this section to provide support for development activities designed to achieve conditions in the Western Hemisphere under which the dignity and the worth of each human person will be respected and under which all men will be afforded the opportunity to develop their potential, to seek through gainful and productive work the fulfillment of their aspirations for a better life, and to live in justice and peace. To this end, it shall be the purpose of the Foundation, primarily in cooperation with private, regional, and international organizations, to:*

- *Strengthen the bonds of friendship and understanding among the peoples of this hemisphere.*
- *Support self-help efforts designed to enlarge the opportunities for individual development.*
- *Stimulate and assist effective and ever wider participation of the people in the development process.*
- *Encourage the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere.”*

Friendship, understanding, self-help, participation, and democracy are what make the IAF a value driven organization espousing the core of what makes the United States a unique nation. In this manner, the IAF has played and continues to play a critically important role in helping Latin America and the Caribbean achieve justice and peace by encouraging its people and institutions to build democratic practice and to engage in the practice of community self-help. The IAF was charged with helping advance human progress in Latin America and the Caribbean by drawing on the experience and values that made the United States a beacon of prosperity and democracy for the world. In understanding the role of the IAF, it is important to keep perspective of the larger purpose that the IAF plays in development assistance, lending support to a proven path based on the will and determination of people at the grassroots to make a better life for themselves and future generations. The IAF’s approach to development, from the bottom up, is now recognized widely by other development practitioners, such as the World Bank, the United Nations Development Program (UNDP), USAID, and others.

The IAF, in pursuit of its mission, is clearly recognized as a leader in three strategically important areas: 1) demonstrating the relationship between grassroots self-help activities and strengthening democratic practice and local governance; 2) building bridges to the private sector and engaging its talents and resources for sustainable grassroots development; and 3) exploring the connection between the remittance flow from migrants and improving the quality of lives and opportunities for communities of origin.

The strategic nature of the IAF’s work and the high recognition and visibility it enjoys in Latin America and the Caribbean, offers it a unique opportunity to highlight new approaches to reducing poverty based on building local capacities and fostering a culture of self-help and self reliance. The IAF has been called upon by a wide range of organizations for its expertise and track record in a people-centered approach to development.

The challenge for the IAF is to continue acting as an innovator and trend-setter. As a small agency with limited resources, its creative grant-making activities must be coupled with a focus on learning and understanding the lessons learned from the projects that it supports. It must continue to strengthen its responsive approach, for the best ideas will come from the people themselves. The IAF genius is to identify innovation and opportunity, and be willing to assume the risk supporting it,



much in the way of venture capitalists. We have learned that local cooperation and partnering are critical to sustainable gains. People must take ownership of their own solutions. Democracy is built through practice and the engagement of citizens.

The IAF is probably more relevant today than at any other time. The IAF approach is most effective in a democratic environment. Yet, democratic governance can only become firmly rooted by implementing the IAF's focus on local initiative, collaborative action, and public/private partnerships.

I am pleased to introduce the IAF's Fiscal Year 2004 financial statements, which reflect the IAF's quest to become increasingly innovative and independent while adhering to its core principles.

The financial statements and performance results data are complete, reliable and in accordance with the Office of Management and Budget (OMB) requirements and in conformity with generally accepted accounting principles. The IAF has appropriate management controls in place to ensure that all internal controls are operating in accordance with applicable policies and procedures and are effective in meeting the requirements imposed by Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

Signed:



Linda B. Kolko  
Acting President

## MANAGEMENT DISCUSSION AND ANALYSIS

*The Inter-American Foundation (IAF) is a resourceful, agile, cost-effective agency efficient in its operations, innovative and effective in its grassroots and local development programs. The IAF learns from its experience, and uses the lessons learned to improve its own grantmaking decisions and to advance the knowledge and success of development practitioners, donors, and policy makers.*

### **Mission and Organizational Requirements**

Congress created the IAF in 1969 to carry out the mission set forth in the legislation quoted above on behalf of the American people.

The IAF strategic plan for 2003-2007 and the Fiscal Year 2006 presentation to the Office of Management and Budget were based on four main institutional goals derived from this statutory basis, 30 years of experience and the current context:

*Support the most promising and innovative means to foster sustainable grassroots and local development and economic independence.*

*Foster communication, learning and reflective practice.*

*Make the most of available resources (efficiency, counterpart).*

*Be the preeminent organization in the areas of grassroots development and participatory democracy in Latin America and the Caribbean.*

Central to the IAF's approach to development is its posture of responsiveness. IAF neither designs nor implements projects. Rather, it responds with attentiveness, analysis, and, when approved, grant funds for development ideas and projects designed by community level organizations and local non-governmental organizations in Latin America and the Caribbean. Listening to and supporting the best development ideas coming from the grassroots is the most important way in which IAF achieves all four of the goals assigned to it in the original legislation.

The IAF seeks to reflect the values it fosters. In both the programs it supports and its internal processes, the following principles are essential: innovation, partnership, self-sufficiency, democratic practices, and social responsibility.

The IAF carries out its work based on three main instruments: grant-making, results measurement and dissemination, and learning activities.

## **The Fiscal Year 2004 Accomplishments**

More than just another donor, the IAF sees itself as an innovator in fostering effective self-governance and sustainable grassroots development. Throughout Fiscal Year 2004 the IAF continued to refine its contribution to development assistance by, for example, identifying and disseminating best practices for promoting grassroots development; by serving as expert grant-maker with the architects of the Millennium Challenge Corporation (MCC); by leveraging the financial and technical resources of other donors through creative initiatives; by examining the financial, technical and cultural flows from transnational communities as well as their impact in the communities of origin; and by developing the funding and learning potential of RedEAmérica, the Inter-American Network of Corporate Foundations.

The IAF neither designs nor implements projects. Rather, it responds to the best development proposals it receives. It carefully selects from its very large pool of proposals those with the greatest potential for lessons. The IAF is instituting mechanisms for harvesting those lessons. In-depth evaluations of selected projects will complement normal reporting with information to be incorporated into the IAF's criteria and procedures and made available to the development community.

### **Public Diplomacy**

The IAF had its most active year to date representing the United States and projecting its work in myriad ways. The IAF was a featured speaker in more than a dozen conferences, seminars and round table discussions in the United States and in Latin America and the Caribbean. The IAF has also organized conferences on topics dealing with Latin Americans of African descent, corporate social responsibility, local economic development, and municipal management. On two occasions, the IAF was included in the official delegation at summit follow-up conferences dealing with decentralization and local government, and social development. The IAF joined other organizations in organizing events, such as the World Bank's Global Conference on Local Development. The IAF played a major role in the 2004 Inter-American Conference of Mayors, hosted by Miami-Dade County by sponsoring five simultaneous training workshops for over 500 mayors during the second day of the conference. The IAF helped sponsor the world conference of the Institute for Cultural Affairs held this year in Guatemala.

In addition to the Grassroots Development Journal, the IAF launched its first book of photographs of its beneficiaries in conjunction with the United States Mission to the Organization of American States (OAS). As part of the book launching, the IAF organized a seminar in the Hall of the Americas and invited selected grantees to talk about their experience with local development, corporate outreach, and use of remittances for economic development in home communities.

## **Inter-Agency Cooperation**

The IAF is a regular member of the Inter-Agency Summit follow-up, which is chaired by Assistant Secretary for Western Hemisphere Affairs, Amb. Roger Noriega and co-chaired by Amb. John Maisto, U.S. Permanent Representative to the OAS. The IAF contributes on several of the 18 topics which are tracked by the Summit process and which form the framework for U.S. policy in this Hemisphere. These include issues such as poverty reduction, small business, decentralization, indigenous populations, remittances, and corporate social responsibility.

As mentioned earlier, the IAF sponsored a joint event with the U.S. Mission to the OAS to illustrate U.S. Government programs dealing with social and economic development. The IAF was also invited to form part of the U.S. delegation at OAS conferences in Mexico and Chile.

The IAF assisted the World Bank in organizing a global conference on local development with over 500 delegates. The IAF joined the Inter-American Development Bank (IDB) in sponsoring, for the third time, a hemispheric conference on corporate social responsibility, which was held in Mexico in September, 2004. The IAF also plays a leadership role in the Inter-Agency Working Group on Race and Ethnicity, in conjunction with the World Bank, the Inter-American Dialogue, the Pan American Health Organization, and the IDB. The IAF coordinates and consults with a broad range of other international organizations, such as the United Nations Development Program, the Andean Development Corporation, the International Youth Foundation, the Ford Foundation, and others. The IAF president also serves as Board Chair of Hispanics in Philanthropy (HIP), a network of several hundred persons of Hispanic origin who work in grant making. HIP is also a major grant maker supporting Hispanic organizations in the U.S.

## **Corporate Outreach**

The IAF manages its corporate outreach program separately, but in close coordination with the regular grant program. The main thrust of the corporate program involves cooperation with a hemispheric network of corporate foundations known as RedEAmérica. What distinguishes RedEAmérica, which has doubled in membership to 55 over a two-year period, is its commitment to funding grassroots self-help programs using the IAF as a model. Through RedEAmérica, the IAF has literally doubled its capacity to reach poor people using a sustainable development approach. Over 900 grants were made to community organizations in the ten countries with RedEAmérica membership. Our corporate foundation partners match IAF resources dollar for dollar. In Fiscal Year 2004, six cooperative agreements with new corporate partners and six amendments to existing corporate partnerships were awarded.

RedEAmérica continues to grow and is devising new programs to help its membership and increase the flow of resources. An ambitious initiative involves establishing a global fund that will raise resources from multinational corporations, foundations and international development banks to increase the stream of resources for poverty reduction and local development.

The IAF is also assisting a new network of 20 institutions and organizations from throughout Latin America and the Caribbean that specialize in promoting corporate social responsibility.

## **Evaluation Program**

In September 2003, the IAF began an annual evaluation of 10 projects randomly selected from the IAF's projects that expired in the previous year. The evaluation focuses on changes, expected and unexpected, that the projects generated on various levels; the processes and development strategies that achieved the observed changes; and the projects' responsiveness to community needs. The Getulio Vargas Foundation (FGV) of Brazil was awarded a five-year contract and already submitted the first 10 reports. FGV will present a comparative analysis of the 10 evaluations and guidance on how to improve the IAF grant-making process to IAF staff in October 2004.

The 10 new projects for the second round of evaluations have been selected randomly out of a list of 57 projects that ended in Fiscal Year 2003. Field work and analysis is scheduled to start in October 2004.

The annual IAF Grant Auditors Training Workshop was held in Argentina May 3-7, 2004. The Office of the Inspector General of USAID provided training on quality assessment, internal controls and detection of fraud. The conference was very successful, with active participation of the 15 field contract auditors, the USAID Regional Inspector General (RIG) and IAF staff. The field auditors especially appreciated the technical training they received from the RIG, who was quite impressed with the IAF's audit team and its grant audit program.

## **Internal Operations**

The Information Technology Group (ITG) of the Bureau of the Public Debt (BPD) completed a year-long security review initiated in July 2003 of the IAF enterprise network system and Grant Evaluation and Management System (GEMS). In July 2004, the security certification and accreditation of the agency's systems was completed in accordance with the Office of Management and Budget Circular A-130, Appendix III; NIST Special Publication 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems*; and IAF policy on system accreditation.

Over the past month, the OIG/USAID conducted a review of the IAF's compliance with Federal Information Security Management Act (FISMA) reporting requirements. The audit report states that the IAF is in compliance with FISMA requirements. The only finding was the need to test the IT continuity of operations plan for which the IAF already is scheduled to do so within the next three months once new hardware is in place. The IAF IT staff were impressed with the level of knowledge and professionalism of the OIG audit team, and very pleased with the opportunities afforded through this inter-agency relationship to learn from and continue to exchange ideas with OIG staff to further enhance the IAF's security program.

## The Grant Program

The IAF completed its Fiscal Year 2004 grant program by obligating close to one hundred percent of available resources authorized for Fiscal Year 2004. The more than 1200 proposals received from throughout Latin America and the Caribbean were reviewed on a competitive basis resulting in 60 new grants and 40 grant supplements. This brought the portfolio of active grants up to 253.

The Foundation has strengthened its procedures for awarding grants, monitoring progress and measuring results. A competitive grants program ensures transparency in the awards process and equal opportunity for prospective grantees. The proposal review system rewards innovation, local cooperation, and beneficiary ownership. U.S. Embassy vetting for all grants helps protect the Foundation from inadvertently funding inappropriate groups or activities. The Foundation is continually perfecting its results measurement framework. In Fiscal Year 2004, the IAF received results information on 97 percent of active grants, and performed 10 full evaluations of randomly selected grants that expired that year. All grants over \$35,000 are audited by IAF contracted and trained local auditors.

### Grants Funded in Fiscal Year 2004

In Fiscal Year 2004, the IAF funded 60 new grants and 40 grant supplements for a total obligation of \$14,263,790, of which \$5,716,346 was in appropriated funds and \$8,547,444 in SPTF Funds. These funding actions are divided among primary program areas as follows:

<b>Primary Program Area</b>	<b>Number of New Grants &amp; Grant Supplements</b>	<b>Amount</b>
Corporate Social Investment	12	1,671,780
Business Development and Management	24	4,332,454
Food Production and Agriculture	28	3,382,919
Education and Training	27	3,422,559
Research and Dissemination	5	681,150
Cultural Expression	2	577,908
Community Services (Housing)	1	155,500
Ecodevelopment	1	39,520
<b>TOTAL</b>	<b>100</b>	<b>\$14,263,790</b>

We detail below our accomplishments of IAF's objectives for Fiscal Year 2004. For ease of reference the objectives are listed below the relevant goal from the Strategic Plan, and the accomplishments follow the corresponding objective.

## Accomplishment of Goals and Objectives of the Fiscal Year 2004 Program

### *Strategic Plan Goal I:*

*Support the most promising and innovative means to foster sustainable grassroots and local development and economic independence.*

**Performance Goal 1.1:** Adopt a broader, more competitive and transparent selection process which takes full advantage of internal sectoral expertise (to be refined from pilot exercise in Fiscal Year 2003).

**Performance Measure:** The changes introduced in Fiscal Year 2003 were implemented in Fiscal Year 2004 when proposals received totaled almost 1200, exceeding all expectations.

Eighty-five percent of the submissions were from organizations with no previous IAF support. The influx taxed the staff's administrative and processing capabilities, but all proposals were reviewed and rated against established criteria in the time allotted. Proposals, rated as A, B or C, were reviewed by one country expert and by at least one other staff member with subject-matter expertise. More than 80 percent were rated by a second subject-matter expert. Proposals that "failed" were charity-oriented or lacked any indication they would become self-sustaining.

Some 300 proposals were judged to merit further consideration by sub-regional staff "teams" for their potential contribution to learning, their technical feasibility, and for thematic and geographic coherence. Almost 100 proposals emerged from this culling for field visits and ranking by Foundation representatives during November and December. The top-ranked 50 to 55 were presented and discussed at Foundation-wide sessions; representatives took the questions, critiques and suggestions back to the prospective grantees for clarification. Several proposals required a second visit. By early summer, documentation was being processed and submitted to senior management for approval and to Congress and the respective U.S. Embassies for clearance. The process satisfied the goal as stated.

**Performance Goal 1.2:** Use results of feasibility study on non-grant financing mechanisms to initiate select activities.

**Performance Measure:** Beginning this year, the IAF and the International Guarantee Fund (IGF) will support a joint loan guarantee fund that helps qualifying organizations obtain commercial loans for productive projects. The guarantee fund totaling \$400,000 (of which \$200,000 is IAF funding) will leverage \$1.5 million in loans from local banks.

**Performance Goal 1.3:** Continue to help and to draw attention to African descendant communities - who comprise half the population living below the poverty line in Latin America and the Caribbean and indigenous peoples.

**Performance Measure:** The Inter-American Foundation continues to be one of the leading development institutions working with communities of African descent in the Americas. In Fiscal Year 2004 the Inter-American Foundation served as the sponsoring agency for the first regional capacity-building workshop on socio-economic development for African-descendant communities. This historic event, held in La Ceiba, Honduras, February 1-4, 2004, was attended by representatives of the World Bank, Inter-American Development Bank, Inter-American Dialogue, Pan-American Health Organization, Ford Foundation and the Department for International Development (DFID-UK) and by 160 community leaders from 18 countries. President Ricardo Maduro of Honduras closed the interactive workshop that included visits to two Garifuna communities. Plenary sessions were attended by U.S. Ambassador to Honduras Larry Palmer; Representative Epsy Campbell of Costa Rica; Edgar Torres, vice president of Colombia's House of Representatives, Elías Lizaro, Honduras' Minister of Health; and other community leaders and technical specialists.

Additionally, the IAF's grassroots approach to African descendant communities was explained at several important development meetings including the prestigious Allied Social Science Associations' gathering of economists and the Inter-American Development Bank Sustainable Development Program. In Fiscal Year 2004 the IAF supported four projects with African descendant communities with grants totaling more than \$580,000. The IAF has initiated several proposal identification mechanisms and partnerships which will potentially double funding for communities of African descent in Fiscal Year 2005.

The IAF continued its emphasis on incorporating indigenous peoples and other disadvantaged ethnic groups into the public life of their societies through improved economic opportunities, public-private partnerships and recognition of their rights. Initiatives with indigenous communities include the construction of community museums to heighten community identity and increase income; the development of leadership and weaving skills; and improved product development among indigenous artisans, especially women. In September 2004, the IAF will bring 45 representatives of eight indigenous communities to participate in the festivities celebrating the opening of the Smithsonian's National Museum of the American Indian in Washington D.C. A goal of the museum is to build networks among indigenous peoples and highlight their accomplishments.

These efforts have been illustrated and disseminated in publications. The IAF journal *Grassroots Development* reported in 2004 on the above-mentioned Inter-American Consultation event, "Leadership and Socioeconomic Development for Communities of African Descent in Latin America and the Caribbean," hosted in La Ceiba by Organización de Desarrollo Étnico Comunitario, a former IAF grantee. The same issue covered IAF grantee CRIOLA's seminar in Rio de Janeiro on the challenges Afro-Brazilians must overcome to improve their standard of living. The 2004 journal also reviewed Thomas Carroll's book, *Construyendo Capacidades Colectivas*, which examines the organizational capacities of indigenous federations in the Andean highlands; an excerpt from the book accompanied the review. The journal also contains an article from Peru on how a traditional Andean self-help mechanism escalated into a project to build a drivable road linking isolated communities.

IAF representative Kevin Healy's *Llamas, Weavings, and Organic Chocolate: Multicultural Grassroots Development in the Andes and Amazon of Bolivia* (Notre Dame Press: 2001) continues to



generate dialogue in academic and policy circles. In its September issue *The American Anthropologist* reviewed the book on IAF's pioneering work with indigenous projects in Bolivia. Healy was the luncheon speaker at the Conference on Indigenous Leadership Challenges to the Old Guard in Bolivia, Ecuador and Peru, featuring Andean academic specialists and held May 21 by the Office of External Research of the U.S. Department of State's Bureau of Intelligence and Research.

In March Healy spoke on IAF-supported mapping projects at the Forum on Indigenous Community Mapping in Vancouver, Canada. In February he spoke on Latin American indigenous movements to the FLAG-Latin America Group of retired Foreign Service Officers. Later in the month, he oriented Foreign Service Officers assigned to Latin America and shared lessons learned from IAF's experiences with staff from the World Bank and Inter-American Development Bank. Healy also spoke about the IAF at Eastern Mennonite University and The Washington Center for Internships and Academic Seminars.

The following grants funded in Fiscal Year 2004 relate to Performance Goal 1.3:

**Associação das Comunidades Negras Rurais Quilombolas do Maranhão (ACONERQ)** in Brazil was awarded \$25,000 to plan to build the capacity of more than 80 rural community associations through access to information and opportunities for dialogue on local development.

**Associação de Desenvolvimento Comunitário Rural de Barra do Brumado** (Brumado), was awarded \$187,733 over three years to improve the income of residents of three communities in the state of Bahia, Brazil, by constructing a fruit and jelly-processing factory and providing related technical assistance, training and marketing support.

**Terra Peninsular A.C.** (Terra) was awarded \$345,270 over three years to provide 350 indigenous Yuma the opportunity to strengthen their organizations, implement income-generating projects and promote the environmental sustainability of fragile areas in northern Baja California, Mexico. This project targets expanded crafts production and sale and the growth of ecotourism businesses through environmentally responsible community management.

**Asociación para el Desarrollo de la Costa Atlántica** (PANA PANA) received a supplemental award of \$99,000 to support sustainable production of food and forestry products, marketing, micro-enterprise development, rehabilitation of infrastructure and equipment, and strengthening base groups in eleven Miskito communities in Nicaragua.

**Fundación para la Investigación Antropológica y el Etnodesarrollo** (ASUR) was awarded \$308,918 over two years toward reviving traditional weaving techniques and designs and improving the skills, income, self-esteem and cultural pride of 370 indigenous Bolivians, mostly women, in the Calcha and Tinquipaya zones of the Potosí region. The project includes the development of four weaving centers as well as training and technical assistance in product development, quality control, promotion and marketing, as well as in cultural research and institutional organization.

**Museo de Arte Niños Andinos "Ayllu Yupaychay"** (Yupay) was awarded \$35,610 over eight months to formalize its teaching methodology using art as the vehicle for providing elementary education to indigenous children in remote Andean villages in Peru.

***Strategic Plan Goal II***  
***Communication, learning and reflective practice.***

**Performance Goal 2.1:** Work with Inter-American Network of Corporations and Corporate Foundations and Actions (RedEAmérica) toward standardizing information collection and analysis.

**Performance Measure:** The IAF continued to help organize a hemispheric program of exchange visits and learning workshops among RedEAmérica members. A draft definition of grassroots development was shared and members reached a consensus on how it relates to broader themes of development and society. In addition, RedEAmérica developed basic working “principles” and a learning strategy for identifying key aspects to be documented and measured. First drafts of key indicators for grassroots development and guidelines for funding and supporting projects were shared among members. Also shared were best practices and efforts to standardize vocabulary that will facilitate reporting.

**Performance Goal 2.2:** Use separate unit within the operations office to maximize information sharing with the IAF’s automated grant evaluation and management system, develop greater internal capacity to analyze data and conduct more in-depth inquiries.

**Performance Measure:** Over the course of the year a close collaborative relationship developed between the Program Office and the Office of Evaluation. The latter is included as much as possible in program processes to facilitate understanding and incorporation of the goals of the Office of Evaluation. Evaluation staff participated as expert readers in the proposal review and participated in the country program presentations by identifying learning possibilities and selecting performance indicators for each project. A closer collaboration was also developed with the representatives and data verifiers for each country, facilitating the flow of practical information and the learning process, for the IAF as well as for grantees. The Evaluation Office also improved the format and distribution of its internal newsletter, *Enterese*.

The Evaluation Office awarded a five-year contract for external evaluation to the Getulio Vargas Foundation, a Brazilian institution with expertise in academic research and evaluation. The Program Office collaborated intensively with the Evaluation Office in the design of the external evaluations program, selection of the contractor and review of evaluations contracted. Findings will be incorporated into Program Office operations. Ten projects chosen at random from all IAF grants completed in Fiscal Year 2003 were evaluated and analyzed in Fiscal Year 2004. Specific areas of inquiry included:

- the degree to which the grantee organization and the beneficiary population achieved the objectives set forth in the project description of the grant agreement;
- the appropriateness and relevance of the indicators selected from the IAF's Grassroots Development Framework (GDF) to measure results of each grant;
- the direct and indirect changes, expected and unexpected, at the individual, organization and regional/societal levels as reflected by measurable indicators as well as subjective assessment;
- how the processes and development strategies contributed toward the observed changes;
- the effectiveness of the administrative processes for proposal review, administration and financial oversight as well as data verification;
- the degree to which each project responded to community needs or to a topical interest of the IAF.

FGV is preparing a summary of its findings for presentation to IAF Staff in October. Preliminary analyses reveal that projects have achieved most goals and objectives and have contributed to the development of the grantee organization and the community.

A grant funded in Fiscal Year 2004 supports Performance Goal 2.2:

**Pronatura Noreste, A.C.** (PNE) was awarded \$290,600 over three years for a project that will involve fishing families in the selection of indicators to measure their reduced dependence on harmful fishing practices and the improved sustainability of the Laguna Madre de Tamaulipas in Mexico. The Evaluation Office will work with PNE and the Program Office on a participatory methodology for monitoring and evaluating the results of the project.

**Performance Goal 2.3:** Present cutting edge development analysis that encourages additional resources to flow to Latin America and the Caribbean.

**Performance Measure:** The IAF has commissioned Lester Salamon of the Johns Hopkins University to study the role of the private sector in fostering better living conditions in poor communities of Latin America and the Caribbean. Dr. Salamon began work in Fiscal Year 2004 and expects to complete the project in Fiscal Year 2006. He will summarize his findings for *Grassroots Development*, the IAF's journal, and in a book.

The Program Office has collaborated with RedEAmérica on its studies and presentations directed at mobilizing corporate resources for grassroots development and gauging the impact. The IAF has collaborated with the World Bank, the Inter American Development Bank, USAID, the Canadian International Development Agency and several private-sector U.S. foundations in searching for more effective ways to use their resources to address development generated from the grassroots rather than from above. Of interest to donors, the IAF is sponsoring a study on effective strategies to promote democratic local governance as a development tool.

In this connection, the IAF is reviewing a grant proposal from the Inter - American Democracy Network (IADN) to institute a program of “training of trainers” to moderate deliberative grassroots forums and conflict management among its more than 250 member organizations. This project is designed to generate more focused self-diagnoses by communities and thus more relevant development activities. The IADN effort is being coordinated with RedEAmérica, which wishes to impart those skills to member foundations.

*Grassroots Development* 2004 features an interview with Miguel Krigsner, founder and president of Boticario, a Brazilian cosmetic manufacturer. Under Krigsner, Boticario earmarks 1 percent of its gross for social investment. Of that amount, 50 percent is channeled to Boticario’s Foundation whose initiatives in self-help are conducted in partnership with the IAF through an eco-development fund to which each party committed \$550,000, the most significant single corporate donation to an IAF partnership. An article on the joint project that led to the fund and on subsequent projects runs in tandem with the interview.

The University of Florida is using the article “Stages of Micro-Enterprise Growth in the Dominican Informal Sector,” in *Grassroots Development* 1983, Vol 9, No. 2, in a class on Caribbean anthropology. Brown Reference Group of London, England, is reprinting “The Life Cycle of A Corporation’s Socially Responsible Initiative: Inti Raymi Goldmine” by Kellee James, an IAF intern, in PRO/CON 4, a six volume set aimed at improving and increasing critical thinking among 15 to 18 year olds in the U.S. market. James’ article will appear in the volume “Poverty and Wealth” in connection with materials for use in debating whether transnational corporations help eradicate poverty in poor nations. The Inti Raymi Foundation is a former IAF grantee and a founding member of RedEAmérica.

The following grants funded in Fiscal Year 2004 support Performance Goal 2.3:

**Centro de Iniciativas para el Desarrollo Local** (La Choza) was awarded \$76,200 over two years toward its partnership with five municipalities and citizen councils in the province of Corrientes, Argentina, to train municipal and council representatives to identify local development priorities and the best use of public funds. The project will benefit approximately 2,000 low-income men and women participating in the decision-making.

**Asociación para el Desarrollo Local** (ASODEL) was awarded \$181,815 over 18 months to providing training and technical assistance to 660 residents of 71 villages and 15 communities in three districts in the department of Cajamarca, Peru, for the formulation of an integrated local development plan and budget expected to benefit 17,136 local residents.

***Strategic Plan Goal III:  
Make the most of available resources (efficiency, counterpart).***

**Performance Goal 3.1:** Collaborate with a broader range of donors in a broader array of arrangements.

**Performance Measure:** The IAF is negotiating a co-financing agreement with the Multilateral Investment Fund (MIF) of the Inter American Development Bank (IDB) to partner in support of grassroots development projects involving a transnational component. We expect this to be operational during Fiscal Year 2005.

**Performance Goal 3.2:** Increase the number of grants made by RedEAmérica Network.

**Performance Measure:** As of July 10, 2004, 18 agreements were made with 30 RedEAmérica members, six during Fiscal Year 2004, enabling IAF to reach poor and isolated communities that the IAF would not have been able to easily access alone. IAF's corporate partners match IAF funding at least dollar for dollar in all the agreements.

In Fiscal Year 2004, the IAF funded five bilateral, three-year cooperative agreements with members of RedEAmérica, under which community organizations of poor people will receive small grants, training and other support for self-help financed equally by the IAF and the corporate foundations. The signatories will also work with other members of RedEAmérica to advance learning in the field of grassroots development. Under these agreements these corporate foundations will receive IAF funding for the first year of the agreement as follows:

- **Fundación ACAC** of Uruguay, \$34,000;
- **Fundação Acesita** of Brazil, \$61,000;
- **Instituto Holcim** of Brazil, \$63,000;
- **Fundación Restrepo Barco** of Colombia, \$140,000; and
- **Fundação Otacílio Coser** of Brazil, \$76,000.

**Performance Goal 3.3:** Identify and support evolving relationships between immigrants to the U.S. and their home communities in Latin America and the Caribbean.

**Performance Measure:** The IAF's designated "Transnational Initiative" is a distinct area of programmatic emphasis with a staff coordinator, a staff committee, and specific travel and related funds for promotion and dissemination in the U.S. An external organization has been contracted to assist research efforts. This initiative will coordinate closely with the proposed MIF-IDB collaborative agreement (see Performance Goal 3.1, above).

Throughout Fiscal Year 2004, members of the IAF's transnational committee met with immigrant leaders in several U.S. cities and conducted site visits to counterpart organizations and projects in migrant-sending communities in Latin America. IAF staff made many new contacts and maintained ongoing communication with leaders of migrant organizations in several states. A brief document was developed to provide guidance to migrant organizations interested in submitting transnational proposals to the IAF. This year's outreach efforts resulted in a noticeable increase in inquiries from transnational organizations, as well as an increase in transnational proposals. The IAF expects approximately 5 percent of the proposals received in Fiscal Year 2004, to have transnational implications, a marked increase over the eight transnational proposals received last year.

Grants awarded in Fiscal Year 2004 include the following proposals with transnational support:

**Asociación Salvadoreña de Desarrollo Campesino (ASDEC)** was awarded \$350,000 over three years to enable 500 shrimp farmers in the Department of Usulután, El Salvador, to improve shrimp production, create a shrimp processing facility, and establish new local and international markets. Individuals and hometown associations in the Salvadoran community in the U.S. and Canada will help secure additional technical support and help identify U.S. markets.

**Desarrollo Binacional Integral Indígena A.C. (DBIIAC)** was awarded \$257,430 over three years for a program to increase horticulture and poultry production; promote sales of crafts and prepared foods; support savings and credit programs; and strengthen the leadership and organizational capacity of indigenous women in the Mixtec region of Oaxaca. The program will include training, technical assistance, a new loan fund, and exchanges and collaboration with partner migrant organizations in Mexico and the U.S.

**Migración y Desarrollo A.C. (MIDE-ac)** was awarded \$312,460 over three years to promote the creation of "social enterprises" in regions of high out-migration and facilitate cross-sector and transnational alliances that support income-generating projects. Primary activities will focus on Abeja de Oro, a honey producers' organization in Apulco, Zacatecas, Mexico, that works in partnership with the Zacatecan Federation of Fort Worth, Texas.

To disseminate the transnational concept, the IAF's *2003 in Review* featured a full-page summary detailing IAF's efforts to reach out to Latin American and Caribbean migrants working together to improve their communities of origin. The five-city series of dialogues on transnationalism and community development concluded with a meeting in Chicago on May 25 attended by representatives from foundations, networks of foundations, financial or technical assistance agencies, six Latino organizations, a state agency and three universities. A similar roundtable co-sponsored by IAF in Washington, D.C., focused on the Salvadoran transnational community and emphasized youth and education. All dialogues have brought together local foundations, immigrant organizations, hometown associations, municipal authorities and academics to discuss how transnationalism impacts immigrant communities. As a result, participants are more aware of constraints on HTAs, and new transnational links have produced ideas for projects.

IAF staff also explained the IAF's work in transnationalism at public events such as the Binational Forum of Michoacán (Mexico) Migrants and a meeting of the Civil Society Task Force organized by the Esquel Group Foundation, Partners of the Americas and the United States National Coordinator for the Summit of the Americas. IAF staff met formally and informally with representatives of the Ford Foundation and Rockefeller Foundation, as well as with other regional and local foundations. Two staff members participated in an event of the "Migration Learning Community," a program supported by the Ford Foundation and Migration Policy Institute with the goal of promoting and sharing knowledge to improve transnational grant making. By strengthening communication and relationships with other donors, the IAF hopes to better coordinate funding in this field and to encourage new counterpart resources for transnational projects.

**Performance Measure:** The IAF has also identified the U.S.-Mexico border as an area of special interest and is devoting the part-time efforts of the Deputy Vice President for Programs to advance it. The IAF is a founding member of the U.S.-Mexico Border Philanthropy Partnership, a coalition of nine national and regional foundations and 20 community foundations committed to fighting poverty on both sides of the border. The program emphasizes community foundations as a mechanism to encourage local philanthropy and grassroots democracy in potentially volatile communities. The IAF funded three new grants this year to support nine organizations serving Mexican border communities.

The following grants awarded in Fiscal Year 2004 support cross-border initiatives:

**Fundación del Empresariado Chihuahuense A.C. (FECHAC)** was awarded \$230,000 over two years to strengthen democratic participation within FECHAC and in two marginalized zones in Ciudad Juarez. FECHAC, a non-governmental organization (NGO) of business people, will become a community foundation with a sub-grant program directed at encouraging citizen participation in resolving community problems.

**Fundación Internacional de la Comunidad A.C. (FIC)**, of Tijuana, was awarded \$400,000 over three years toward strengthening its partnership with business, NGO and philanthropic leaders; mobilizing \$400,000 to match IAF contributions; bolstering the organizational capacity of more than 200 NGOs and micro-businesses; supporting more than 60 small development projects managed by these local organizations, and benefiting 1,800 people in low-income communities in Baja California.

**Pronatura Noreste, A.C. (PNE)**, of Matamoros, was awarded \$290,600 over three years toward preserving the ecosystem of the Laguna Madre de Tamaulipas through alternative self-employment for fishing families, environmental education and the construction of ecological latrines. Stronger community organizations, reduced dependence on harmful fishing practices and the lagoon's improved sustainability will benefit 2,700 community members directly and 10,000 nearby residents indirectly.

**Performance Measure:** The 2004 issue of *Grassroots Development*, the journal of the Inter-American Foundation, includes a photo essay on three IAF-funded projects on the U.S.-Mexico border. Two of these grantees are themselves community foundations and the third works in collaboration with two other community foundations. The Office of External Affairs prepared a fact sheet describing projects on the U.S.-Mexico border supported by the IAF.

The same issue of *Grassroots Development* included a news item on “Salvadoran Men and Women Abroad as Links to Local Development,” a project of IAF grantee CARECEN funded in Fiscal Year 2003. Supported by the IAF, the grantee arranged a first-ever formal meeting of representatives of Salvadoran hometown associations in the U.S., local government officials and residents of Piedras Blancas to prioritize development projects for assistance by overseas Salvadorans. “Technology Transfers through Mexican Migration” by Sandy Nichols described the flow of ideas and equipment from migrants to their home communities and the implications for development. Finally, the lead article, Patrick Breslin’s “Thinking Outside Newton’s Box,” summarized IAF’s first response to transnational communities, a proposal from Fundación para la Productividad el Campo (APOYO) in Mexico. Work began in Fiscal Year 2004 on an issue of *Grassroots Development* planned for calendar year 2005 which will have a focus on development in transnational communities.

During Fiscal Year 2004 IAF produced country-specific fact sheets highlighting remittance and migration issues in several Latin American countries, as well as an inventory of scholars and available research on transnational issues. This information informs IAF’s work and stimulates creative thinking on new opportunities in transnational community development.



***Strategic Plan Goal IV:  
Be the preeminent organization in the areas of grassroots development  
and participatory democracy in Latin America and the Caribbean.***

**Performance Goal 4.1:** Revise the Grassroots Development Framework (GDF) to reflect further work on the “intangible” results in the areas of democracy, policy transformation and the like.

**Performance Measure:** The IAF has contracted the Getulio Vargas Foundation of Brazil to design a new evaluation protocol and apply it to 10 completed projects. The goal is to incorporate better evidence of the intangible results from well designed, well managed projects. Additionally, the Evaluation Office is reviewing the available evidence on the intangible requirements of sustainable grassroots development.

The Program Office is sponsoring a major state-of-the-art survey on measures of civic capacity to incorporate into a modified GDF. The intent is to give the GDF the solid conceptual framework, as well as the specific operational guidelines, to document the evidence of this capacity as it emerges. The World Bank, USAID, the IDB and the Canadian Agency for International Development have expressed an interest in this IAF initiative as a complement to their own efforts in community development.

**Performance Goal 4.2:** Broaden and deepen dialogue with other experts and practitioners studying democracy development as an experiential, rather than pedagogical, learning process.

**Performance Measure:** The IAF is collaborating closely with other donors also focused on the residual capacity for self governance as the lasting impact of development projects. IAF staff have helped organize a major conference on local development at the World Bank and a one-day seminar on democratic citizenship at the IDB. They have made related presentations to USAID, CIDA, the Organization of American States and have explained the connection between grassroots democracy and sustained grassroots development to the Mexican Center for Philanthropy (CEMEFI), the Red de Participación y Justicia in Bolivia, the Corona Foundation in Colombia, the World Movement for Democracy Conference, the Institute for Democracy in South Africa (IDASA), the CIVICUS World Assembly, the U.S.-Mexico Border Philanthropy Partnership and the World Conference of the Institute for Cultural Affairs in Guatemala.

“Investing in People,” a half-day seminar held May 4 and co-sponsored by the IAF and the Permanent Mission of the U.S. to the OAS, introduced the Permanent Council of the OAS to the IAF’s contemporary approach to democratic grassroots development involving three sectors: corporate foundations; associations of U.S.-based migrants; and elected community leaders. Representatives from grantees who work daily with these sectors shared their experience with the audience in the Hall of the Americas: Fernando Castellanos, Executive Director of Fundación Zonamerica, Uruguay, discussed RedEAmérica. Jesús Aguilar, Executive Director, Centro de Recursos Centro Americanos (CARECEN International-El Salvador), described how the IAF is working with collective remittances sent by hometown associations to their communities of origin. Rubén Calle, President, Asociación de Parroquias Rurales, Ecuador, explained how his organization promotes discussions on policy at the grassroots level.

*Grassroots Development* 2004 includes an interview with David Valenzuela on local development, meaning development on which a basic unit of government collaborates with citizens. Eduardo Rodríguez-Frías' "Developmental Abilities" described the self-help efforts of disabled people as a step toward their engagement as full citizens.

In Fiscal Year 2004, Lester Salamon's article summarizing his work with civil society, "The Third Sector in Global Perspectives," published in *Grassroots Development* Vol. 23, No. 1, was selected for inclusion in the Lexis Nexis database. The ILO's Delnet program reprinted on its Internet database part of "IAF's Argentine Grantees: Caught in the Crisis," by Paula Durbin, *Grassroots Development* 2003, Vol. 24, No. 1, and Vanessa Gray of the University of Massachusetts-Lowell used the whole article in her political science class. "I am increasingly using case studies of positive social change to supplement and even replace traditional textbooks," Gray wrote on December 7, 2003. "I like the IAF materials because they depict ethnically diverse Latin Americans who are active agents in trying to improve their lives. (Pictures of real Latin Americans are so rare and yours are beautiful!) IAF projects also offer a jumping off point for discussions about the political, economic, social, and ideological obstacles to more efforts of that type. The Argentina piece will be a perfect complement to discussions of the decline of living standards in that country. I also use one of the IAF's journal articles on Bogotá's recyclers in my Global Environmental Politics course."

#### **Identification of Key Factors that Could Affect Achievement of General Goals and Objectives**

The IAF works in poor, often remote, areas lacking infrastructure, vulnerable to health problems, weather and natural disasters, fragile agriculturally, and unstable politically. International phenomena such as markets, wars, and foreign investment also may affect planned activities. Yet only rarely do IAF-funded projects fail as a result of such factors.

## Fiscal Year 2004

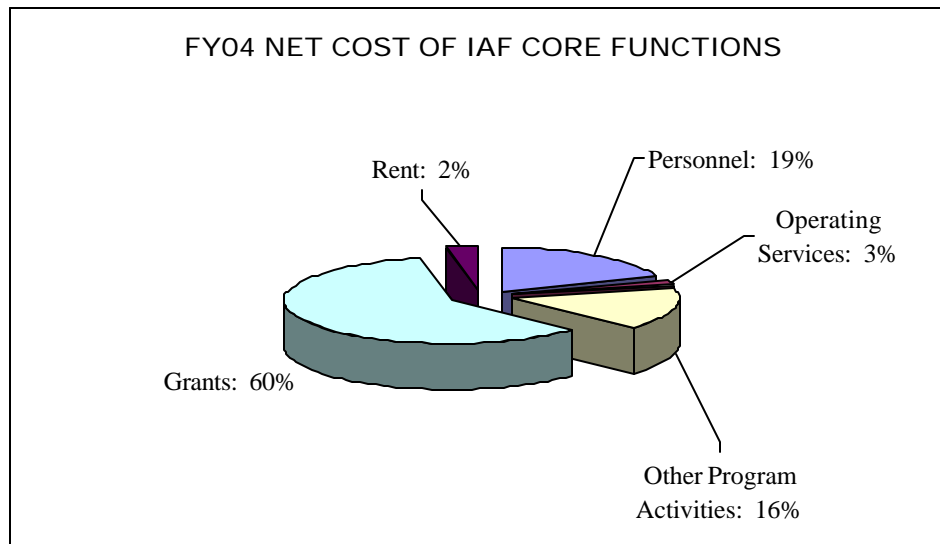
### Analysis of Financial Statements and Stewardship Information Systems, Controls, and Legal Compliance

#### Net Cost of Core Functions

The activity reported in the Statement of Net Cost reflects the resources used by the IAF during the year. Program costs of \$24,485,217 reflected an increase from the Fiscal Year 2003 amount of \$22,218,502, an increase of \$2,266,715 in resources used.

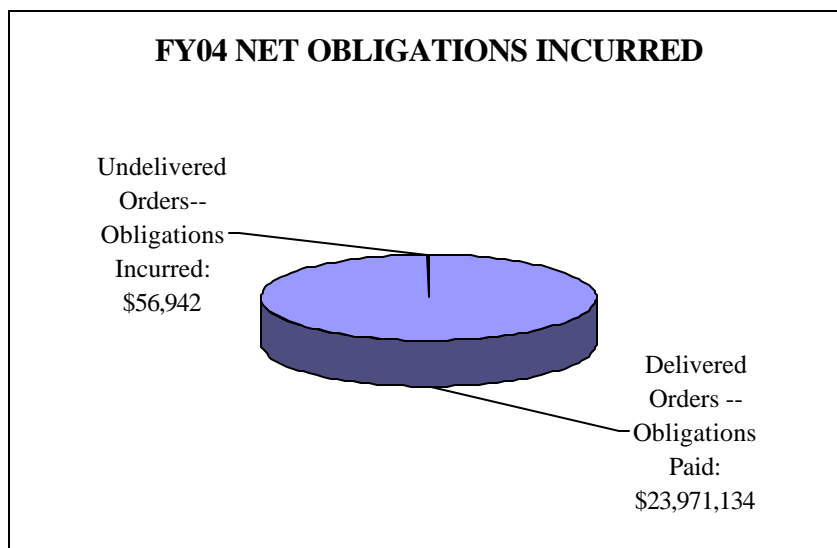
Personnel compensation and benefits increased from \$4,547,047 in Fiscal Year 2003 to \$4,550,138 in Fiscal Year 2004, reflecting an increase of only \$3,090. In Fiscal Year 2004, Contractual Services reflected resources used of \$3,946,359. The difference of \$1,494,555 from Fiscal Year 2003, which reported \$2,451,804 in resources used, reflects an increase of approximately 61 percent. Several factors contributing to this change include the obligation of a new contract to conduct independent evaluations of select program grants, increased technical assistance to grantees, as well as cost increases in inter-agency agreements for franchise services in information technology security and network administration.

Improved use of resources reflected improvements in costs of Printing and Reproduction (for the second subsequent year), Transportation of Things and Insurance Claims and Indemnities. Grants and Subsidies noted an increase of \$592,026 in Fiscal Year 2004.



Fiscal Year 2004 noted \$24,028,007 in Obligations Incurred. As shown in the Pie Chart below, Delivered Orders was \$23,971,134 representing 99.8 percent of Net Obligations Incurred. Undelivered Orders was \$56,942 representing 0.2 percent of Net Obligations Incurred.

The chart below shows the net obligations incurred for Fiscal Year 2004.



### **Fund Balance with U.S. Treasury**

Total resources available from the U.S. Treasury and other financing sources for Fiscal Years 2004 and 2003 were \$41,597,956 and \$38,451,341, respectively. The difference of \$3,146,615 is due to a net increase in the Social Progress Trust Fund (SPTF) collections in FY 2004 and a cancellation of \$572,443 in Fiscal Year 1998/1999 appropriated funds, which expired in FY 2004. The SPTF agreement was amended during Fiscal Year 2002 to provide all remaining funds to the IAF until they are exhausted, in approximately 15 years. See Note One in the Financial Statements for funding source and Note Seven for the end-of-year net position.

### **Limitations on Financial Statements**

These financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3513. While the statements have been prepared from the books and records of the entity in accordance with 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.

## Independent Auditor's Report on Financial Statements

Office of the Inspector General  
U.S. Agency for International Development  
Washington, D.C.

We have audited the accompanying Balance Sheets of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of September 30, 2004 and 2003, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years then ended. These financial statements are the responsibility of the management of the IAF. 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 the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IAF as of September 30, 2004 and 2003, and its net costs, changes in net position, budgetary resources, and the reconciliation of budgetary obligations to net cost for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in IAF Management's Discussion and Analysis (Overview) section is not a required part of the financial statements but is supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. Although we have read the information presented, such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 22, 2003 on our consideration of the IAF's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read in conjunction with this report.

/s/

Gardiner, Kanya & Associates, P.C  
October 22, 2003

**Inter-American Foundation**  
**BALANCE SHEETS**  
**As of September 30, 2004 and 2003**  
**(in dollars)**

	2004	restated 2003
<b>ASSETS:</b>		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	\$ 41,597,956	\$ 38,451,341
Total Intragovernmental	41,597,956	38,451,341
General Property, Plant and Equipment, net (Note 4)	10,716	16,115
Grant Advances and Prepayments (Note 3)	3,933,182	3,615,630
Total Assets	\$ 45,541,854	\$ 42,083,086
<b>LIABILITIES:</b>		
Intragovernmental		
Accounts Payable	\$ 127	\$ 127
Other	28,103	34,766
Total Intragovernmental	28,230	34,893
Accounts Payable	74,541	47,960
Other	1,187,993	635,861
Total Liabilities (Note 5)	1,290,764	718,714
<b>NET POSITION:</b>		
Unexpended Appropriations (Note 7)	16,425,074	18,097,429
Cumulative Results of Operations (Note 7)	27,826,016	23,266,943
Total Net Position	\$ 44,251,090	\$ 41,364,372
Total Liabilities and Net Position	\$ 45,541,854	\$ 42,083,086

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

**Inter-American Foundation**  
**STATEMENTS OF NET COST**  
**For the year ended September 30, 2004 and 2003**  
**(in dollars)**

	2004	2003
Program Costs:		
Intragovernmental Gross Costs	\$ 1,927,473	\$ 1,965,811
Gross Costs With the Public	22,557,743	20,252,691
Total Net Cost	24,485,216	22,218,502
Net Cost of Operations (Note 8)	\$ 24,485,216	\$ 22,218,502

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



**Inter-American Foundation**  
**STATEMENTS OF CHANGES**  
**IN NET POSITION**  
**For the year ended September 30, 2004 and 2003**  
**(in dollars)**

	2004		Restated 2003	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ 23,266,943	\$ 18,097,429	\$ 1,177,584	\$ 31,191,649
Prior period adjustments (Note 10)	-	-	13,626,683	(13,626,683)
Beginning balances, as adjusted	<u>23,266,943</u>	<u>18,097,429</u>	<u>14,804,267</u>	<u>17,564,966</u>
Budgetary Financing Sources:				
Appropriations Received		16,334,000		16,200,000
Other Adjustments (Recissions, etc.)		(668,814)		(703,062)
Appropriations Used	17,337,541	(17,337,541)	14,964,475	(14,964,475)
Nonexchange revenue - SPTF collections (Note 9 and 10)	11,402,562		15,256,966	
Donations and forfeitures of cash and cash equivalents	50,000		-	
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	254,186	-	459,737	-
Total Financing Sources	<u>29,044,289</u>	<u>(1,672,355)</u>	<u>30,681,178</u>	<u>532,463</u>
Net Cost of Operations from SPTF	6,858,007		6,805,341	
Net Cost of Operations from Gift Fund	78,345		49,287	
Net Cost of Operations from Appropriations	<u>17,548,864</u>		<u>15,363,874</u>	
Net Cost of Operations	<u>24,485,216</u>	<u>-</u>	<u>22,218,502</u>	<u>-</u>
Ending Balances	<u>\$ 27,826,016</u>	<u>\$ 16,425,074</u>	<u>\$ 23,266,943</u>	<u>\$ 18,097,429</u>

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

**Inter-American Foundation**  
**STATEMENTS OF BUDGETARY RESOURCES**  
**For the year ended September 30, 2004 and 2003**  
**(in dollars)**

	2004	2003
<b>BUDGETARY RESOURCES:</b>		
Budget Authority		
Appropriations Received	\$ 16,334,000	\$ 16,200,000
Unobligated Balance:		
Beginning of Period	9,945,886	3,656,824
Spending Authority from Offsetting Collections:		
Earned		
Collected	11,452,562	15,256,966
Subtotal	37,732,448	35,113,790
Recoveries of Prior Year Obligations		
Actual	364,429	265,411
Permanently Not Available		
Cancellations of Expired and No-Year Accounts	(572,441)	(597,762)
Pursuant to Public Law	(96,371)	(105,300)
	37,428,065	34,676,139
Total Budgetary Resources	37,428,065	34,676,139

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

**Inter-American Foundation**  
**STATEMENTS OF BUDGETARY RESOURCES (continued)**  
**For the year ended September 30, 2004 and 2003**  
**(in dollars)**

**STATUS OF BUDGETARY RESOURCES:**

Obligations Incurred		
Direct		
Category A	15,464,041	16,036,347
Category B	8,563,966	8,693,906
Subtotal	24,028,007	24,730,253
Unobligated Balance		
Apportioned		
Balance, Currently Available	1,327,321	733,522
Unobligated Balances Not Available	12,072,737	9,212,364
Total Status of Budgetary Resources	37,428,065	34,676,139
Obligated Balance, Net, Beginning of Period	28,505,455	25,059,743
Undelivered Orders	(27,166,027)	(28,036,196)
Accounts Payable	(1,031,871)	(469,259)
Outlays		
Disbursements	23,971,135	21,019,130
Collections	(11,452,564)	(15,256,966)
Subtotal	12,518,571	5,762,164
Net Outlays	\$ 12,518,571	\$ 5,762,164

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

**Inter-American Foundation**  
**STATEMENTS OF FINANCING**  
**For the year ended September 30, 2004 and 2003**  
**(in dollars)**

	2004	2003
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 24,028,007	\$ 24,730,253
Less: Spending Authority from Offsetting Collections and Recoveries	11,816,993	15,522,377
Obligations Net of Offsetting Collections and Recoveries	12,211,014	9,207,876
Other Resources		
Donations and forfeitures of property	50,000	-
Imputed Financing from Costs Absorbed by Others	254,186	459,737
Other (Note 9)	11,402,562	15,256,966
Net Other Resources Used to Finance Activities	11,706,748	15,716,703
<b>Total Resources Used to Finance Activities</b>	23,917,762	24,924,579
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	(552,617)	2,736,178
Resources That Fund Expenses Recognized in Prior Periods	-	(1,084)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	(552,617)	2,735,094
<b>Total Resources Used to Finance the Net Cost of Operations</b>	24,470,379	22,189,485

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

**Inter-American Foundation**  
**STATEMENTS OF FINANCING (continued)**  
**For the year ended September 30, 2004 and 2003**  
**(in dollars)**

**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	9,438	23,579
Total Components of Net Cost of Operations That Will Require or Generate Resources in future periods	9,438	23,579

Components not Requiring or Generating Resources:

Depreciation and Amortization	5,399	5,438
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	5,399	5,438

**Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period**

	14,837	29,017
<b>Net Cost of Operations</b>	<b>\$24,485,216</b>	<b>\$22,218,502</b>

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

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The Inter-American Foundation (The Foundation), a U.S. government corporation, was established pursuant to part IV of the Foreign Assistance Act of 1969 (22 U.S.C. 290f (a)). The Foundation provides grants to help non-governmental and community-based organizations in Latin America and the Caribbean implement their own ideas for development and poverty reduction.

The management of The Foundation is vested in a nine-person Board of Directors appointed by the President of the United States. Six Board members are drawn from the private sector and three from among officers or employees of agencies of the U.S. Government concerned with inter-American activities. The Board appoints The Foundation's president who acts as the chief executive officer.

**B. Basis of Presentation**

These financial statements are provided to meet the requirements of the Government Management and Reform Act (GMRA) of 1994. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources and Statement of Financing.

These financial statements have been prepared to report the financial position and results of operation of The Foundation. These statements were prepared from the books and records of The Foundation in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Bulletin No. 01-09, Form and Content of Agency Financial Statements.

The amounts in the FY 2003 Statement of Changes in Net Position, Statement of Financing and Note 2 to the financial statements have been reclassified or restated to facilitate a more meaningful comparison between FY's 2004 and 2003.

**C. Basis of Accounting**

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over use of Federal funds.

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program (JFMIP)

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 1. Summary of Significant Accounting Policies (continued)**

established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountants (AICPA) Council designated FASAB as the accounting standards authority for Federal government entities.

**D. Funding Sources**

The Foundation's grant program is funded by (1) appropriation from the budget of the United States, (2) agreement with the Inter-American Development Bank covering the Social Progress Trust Fund (SPTF), and (3) donations from the private sector. No-year appropriations remain available until expended, while multi-year appropriations are available for the period prescribed by the applicable statute. Appropriations are used, within statutory limits, for programmatic, operating and capital expenditures for essential personal property. Appropriations are recognized as revenues at the time the related program or administrative expense are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

The Foundation has an agreement with the Inter-American Development Bank (IDB) to receive funds from the SPTF to finance part of The Foundations grant program. The IDB is an international financial organization established to promote the economic and social development of member countries. The United States' participation in IDB is authorized and governed by the Inter-American Development Bank Act (22 U.S.C. 283). Within the Bank, the United States established the SPTF in 1961 and provided appropriations to SPTF through 1964. The Bank was designated as the administrator for the SPTF and committed the original SPTF appropriations to loans. Repayments of these loans are recycled by the IDB in accordance with the original agreement and subsequent provision for additional loans, technical cooperation programs, and financing of the Inter-American Foundation program.

Pursuant to a 1973 amendment to the Foreign Assistance Act of 1961, the Bank provides funds to finance social development projects. These funds are made available in U.S. dollars upon request by the Foundation, subject to denomination availability and exchange controls. In 2002, the STPF agreement was amended to make available all remaining funds until exhausted.

**E. Fund Balance with Treasury**

Funds with the Department of the Treasury primarily represent appropriated funds and SPTF collections that are available to pay current liabilities and finance authorized purchase commitments and SPTF grants. See Note 2 for additional information.

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 1. Summary of Significant Accounting Policies (continued)**

**F. Accounts Receivable**

Intra-governmental accounts receivable represent amounts due from other governmental agencies. Non-governmental accounts receivable represent amounts due from non-federal entities.

**G. Advances and Prepayments**

Payments in advance of receipt of goods and services are recorded as prepaid charges at the time of the prepayment and recognized as expenditures/expenses when the related goods or services are received. See Note 3 for additional information.

**H. General Property, Plant, and Equipment, Net**

The Foundation's property, plant and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Foundation's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. Service lives are shown below. See Note 4 for additional information.

<u>Description</u>	<u>Life</u>
ADP Equipment	<u>3</u>
Office Furniture and Equipment	<u>10</u>

**I. Liabilities**

Liabilities represent the amount of monies or other resources likely to be paid by The Foundation as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation or SPTF funding. Liabilities for which an appropriation has not been enacted or SPTF funds received are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

**J. Accounts Payable**

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

**K. Annual, Sick, and Other Leave**

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or



**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 1. Summary of Significant Accounting Policies (continued)**

prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

**L. Retirement Plans**

The Foundation's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). FERS was established by the enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected to join either FERS and Social Security or remain in CSRS.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and The Foundation makes a mandatory 1 percent contribution to this account. In addition, The Foundation makes matching contributions, ranging from 1 to 4 percent, for FERS eligible employees who contribute to their TSP accounts. In accordance with Federal employee benefit policies, matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, The Foundation remits the employer's share of the required contribution. The Foundation's contribution to employee pension plan were \$416,115 for Fiscal Year 2004 and \$631,571 for Fiscal Year 2003. In addition, The Foundation costs for health and life insurance were \$339,948 for Fiscal Year 2004 and \$301,668 for Fiscal Year 2003.

The Foundation 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 Office of Personnel Management.

**M. Grant Disbursements and Administrative Expenses**

Grant disbursements include payments in advance of performance under contractual obligations. Evidence of performance is determined by review of periodic expenditure reports. All Foundation expenditures for grants over \$35,000 are independently verified using The Foundation's audit guidelines. The Foundation's administrative expenses are funded solely by appropriated funds.

**N. Imputed Costs/Financing Sources**

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities also incur costs that are paid in total or in part by other entities. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities.

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 1. Summary of Significant Accounting Policies (continued)**

The Foundation recognized imputed costs and financing sources in fiscal years 2004 and 2003 to the extent directed by the OMB.

**O. Non-Entity Assets and Liabilities**

The Foundation did not hold any Non-Entity assets or liabilities as of September 30, 2004 and 2003.

**Note 2. Funds with U.S. Treasury**

Entity fund balance includes balances that are available to pay liabilities and to finance authorized purchase and grant commitments. The Foundation maintains all funds with the United States Treasury.

Fund Balances	<u>FY 2004</u>	<u>FY 2003</u>
Appropriated Fund	\$ 15,675,996	\$ 16,679,598
Gift Fund	35,661	124,384
Social Progress Trust Fund (SPTF)	<u>25,886,299</u>	<u>21,647,359</u>
Total Entity Funds	<u>\$ 41,597,956</u>	<u>\$ 38,451,341</u>
 Status of Fund Balance with Treasury		
Unobligated Balance		
Available	\$ 1,327,321	\$ 733,522
Unavailable	12,072,737	9,212,364
Obligated Balance not yet Disbursed	<u>28,197,898</u>	<u>28,505,455</u>
Total	<u>\$ 41,597,956</u>	<u>\$ 38,451,341</u>

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 3. Advances and Prepayments**

Grant payments are recorded as an advance and amortized over the estimated useful period covered by the agreement. First time grant payments are amortized over an eight-month period. Subsequent payments are amortized over a six-month period. Prepayments are also made to select government agencies and vendors in advance of receiving the goods or service. Advances are also permitted for employee travel, although none were outstanding at the end of either 2004 or 2003. Advances and prepayments are detailed as follows:

Advances and Prepayments	<u>FY 2004</u>	<u>FY 2003</u>
Prepayments other than Grant Advances	\$ 45,293	\$ 49,981
Grant Advances	<u>3,887,889</u>	<u>3,565,649</u>
Total Advances and Prepayments	<u>\$ 3,933,182</u>	<u>\$ 3,615,630</u>

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 4. Property, Plant and Equipment**

The balance of Property, Plant and Equipment is as follows:

Schedule of Property, Plant and Equipment as of September 30, 2004

<u>Description</u>	<u>Depreciation Method</u>	<u>Service Life</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP Equipment	Straight Line	3 years 10	\$ 127,893	\$ 127,893	\$ -
Office Furniture	Straight Line	years	<u>106,077</u>	<u>95,362</u>	<u>10,716</u>
Total			<u>\$ 233,970</u>	<u>\$ 223,255</u>	<u>\$ 10,716</u>

Schedule of Property, Plant and Equipment as of September 30, 2003

<u>Description</u>	<u>Depreciation Method</u>	<u>Service Life</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP Equipment	Straight Line	3 years 10	\$ 127,893	\$ 127,893	\$ -
Office Furniture	Straight Line	years	<u>108,011</u>	<u>91,896</u>	<u>16,115</u>
Total			<u>\$ 235,904</u>	<u>\$ 219,789</u>	<u>\$ 16,115</u>

**Note 5. Liabilities**

The accrued liabilities for The Foundation are comprised of program expense accruals, payroll accruals, and unfunded annual leave earned by employees. Program expense accruals represent expenses that were incurred prior to year-end but were not paid. Similarly, payroll accruals represent payroll expenses that were incurred prior to year-end but were not paid.

Schedule of Liabilities

<u>Liabilities Covered by Budgetary Resources</u>	<u>FY 2004</u>	<u>FY 2003</u>
Intragovernmental		
Accounts Payable	\$ 127	\$ 127
Program Expenses	1,492	12,671
Payroll Taxes Payable	<u>26,611</u>	<u>22,096</u>
Total Intragovernmental	28,230	34,893

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 5. Liabilities (continued)**

Program expences

Personnel Benefits/MetroPool	15,000	6,000
Rent	22,000	-
Staff travel, training, printing, equipment maintenance, supplies, non-capt.equipment	35,452	-
Maintenance of equipment	-	25,354
Staff travel, training, printing, communications and mail services	-	50,884
Supplies & non - capitalized equipment	-	20,757
Program conference support	251,000	100,000
Grant monitoring services (DVs)	203,000	-
Local advisory service contracts for grantees	105,000	58,387
Research on corporate responsibility	42,000	-
Grant audits	56,000	55,037
Misc. Services, Program	74,000	-
Misc. Services, Program Support	7,977	-
Accts. Payable	74,541	-
Minus GPO	<u>(1,492)</u>	<u>-</u>
Total Program expences	<u>844,478</u>	<u>316,419</u>
Payroll accrual	117,509	116,592
Payroll taxes payable	<u>1,654</u>	<u>1,354</u>

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 5. Liabilities (continued)**

Total liabilities covered by budgetary resources	<u>1,031,872</u>	<u>469,259</u>
Liabilities not covered by budgetary resources		
Unfunded leave	<u>258,893</u>	<u>249,456</u>
Total liabilities	<u>\$ 1,290,764</u>	<u>\$ 718,715</u>
Other governmental liabilities:		
Accruals shown above	\$ 809,937	\$ 291,909
Payroll Accruals	117,509	93,143
Payroll taxes payable	1,654	1,354
Unfunded leave	<u>258,893</u>	<u>249,456</u>
	<u>\$ 1,187,993</u>	<u>\$ 635,861</u>

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 6.        Commitments and Contingencies**

In the course of its grant-making activities, The Foundation has unliquidated grant obligations which, in the absence of violations or cancellations of the grant agreements, will require disbursements. Unliquidated grant obligations at September 30, 2004 and 2003 total approximately \$25,250,000 and \$23,700,000, respectively.

As of September 30, 2004 and 2003, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

**Note 7.        Net Position**

The Inter-American Foundation's net position is composed of unexpended appropriations and the cumulative results of operations. Net position as of September 30, 2004 and 2003 consisted of the following:

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 7. Net Position (continued)**

	<u>FY 2004</u>	<u>FY 2003</u>
Unexpended appropriations		
Unobligated		
Available	\$ 1,177,180	\$ 654,697
Unavailable	2,353,246	2,397,884
Undelivered Orders	<u>12,894,649</u>	<u>15,044,848</u>
Total unexpended appropriation	\$ 16,425,074	\$ 18,097,429
Cumulative Results of Operations	<u>27,826,016</u>	<u>23,266,943</u>
Net Position	<u>\$ 44,251,090</u>	<u>\$ 41,364,372</u>
Reconciliation to Statement of Budgetary Resources		
Unobligated available		
SPTF	\$ 150,141	\$ 78,826
Appropriations	<u>1,177,180</u>	<u>654,697</u>
Total Unobligated available	<u>\$ 1,327,321</u>	<u>\$ 733,522</u>
Unobligated unavailable		
SPTF	\$ 9,719,491	\$ 6,814,480
Appropriations	<u>2,353,246</u>	<u>2,397,884</u>
Total Unavailable	<u>\$ 12,072,737</u>	<u>\$ 9,212,364</u>
Total Unobligated unavailable		
Undelivered orders		
SPTF	\$ 14,271,379	\$ 12,991,348
Appropriations	<u>12,894,649</u>	<u>15,044,848</u>
Total Undelivered orders	<u>\$ 27,166,027</u>	<u>\$ 28,036,196</u>



**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 8. Program Costs**

	<u>FY 2004</u>	<u>FY 2003</u>
Personnel compensation	\$ 3,442,628	\$ 3,285,771
Personnel benefits other than pension, health, and life insurance	351,447	328,017
Pension – CSRS	114,139	96,614
Pension – FERS	301,976	534,957
Health insurance	333,565	295,444
Life insurance	6,383	6,244
Travel and transportation of persons	390,077	409,370
Transportation of things	9,248	7,574
Rents, communication, utilities and misc. charges	719,958	408,324
Printing and reproduction	73,946	108,294
Other services	3,946,359	2,451,804
Supplies and materials	35,727	34,211
Equipment	15,997	100,136
Grants, subsidies, and contributions	<u>14,743,767</u>	<u>14,151,742</u>
Total	<u>\$24,485,217</u>	<u>\$ 22,218,502</u>

**Note 9. Financing Sources - SPTF**

The Statement of Financing reconciles the Financial Net Cost of Operations with obligation of budget authority. The Foundation's Statement of Budgetary Resources is based on its SF-133 in which The Foundation reports SPTF funds obtained from the IDB as offsetting collections earned. The Foundation had no exchange revenue in fiscal year 2003 or 2004. For fiscal year 2004, The Foundation received \$11,402,563 from the IDB, which was reported on its SF-133 as funds received from SPTF collections. For fiscal year 2003, The Foundation received \$15,256,966 from the IDB, which was reported in its SF-133 as funds received from SPTF collections.

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 9.        Financing Sources – SPTF (continued)**

	<u>FY 2004</u>	<u>FY 2003</u>
SPTF cumulative results		
SPTF beginning balance	\$ 23,304,194	\$ 14,852,568
SPTF funds received	11,402,563	15,256,966
SPTF funds expended	<u>(6,858,007)</u>	<u>(6,805,341)</u>
SPTF fund carry forward	<u>\$ 27,848,749</u>	<u>\$ 23,304,194</u>
 Donations cumulative results		
Donations beginning balance	\$ 127,205	\$ 176,492
Donations received	50,000	-
Donations expended	<u>(78,345)</u>	<u>(49,287)</u>
Donations carry forward	<u>\$ 98,860</u>	<u>\$ 127,205</u>
 Total SPTF and Donations	<u>\$ 27,947,609</u>	<u>\$ 23,431,399</u>
 Unfunded Leave and Accumulates		
Depreciation from Appropriated Funds	<u>(121,593)</u>	<u>(164,456)</u>
 Total Cumulative Results of Operations for		
SPTF, Gift and Appropriated Funds	<u>\$ 27,826,016</u>	<u>\$ 23,266,943</u>

**Note 10.        Restatement of Prior Financial Statements**

In FY 2003 and prior periods, the Inter - American Foundation collected receipts of Social Progress Trust Fund Revenues, with these collections being recorded as appropriation transfers. Consultation with the Financial Management Services' USSGL Issues team and the Office of Management and Budget concluded that this was not the proper accounting treatment for these transactions. FMS and OMB have determined that these collections should be displayed as a Non-Exchange Revenue and not as a 'Transferred Appropriation'.

Given the decision of FMS and OMB, the Inter - American Foundation is restating the Statement of Changes in Net Position and the Balance Sheet for FY 2003. This restatement of balances will facilitate the correction of an error due to an oversight of facts that existed at the time the financial statements were prepared. Since the financial statements are presented in a comparative

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 10. Restatement of Prior Financial Statements (continued)**

format and this error occurred in FY 2003 and prior periods, the FY 2003 comparative data is being restated and the beginning of cumulative results of operation and unexpended appropriations in the Statement of Changes in Net Position are being adjusted.

Absent the correction of these errors, cumulative results of operations for FY 2003 would have been understated by \$13,626,683 and the change in net position would have been overstated by \$13,626,683.

Additionally, in prior periods, the SPTF collections have been presented on the Statement of Changes in Net Position as a Budgetary Financing Source – Appropriation Transferred In. Given the inaccuracy of this methodology and the lack of Congressional authority to support the receipt of transferred appropriations, these amounts have been presented as Non Exchange Revenue on the Statement of Change in Net Position. This approach is not expected to change in the foreseeable future.

**Note 11. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government**

The 2006 Budget of the United States Government, with the Actual Column completed for fiscal year 2004, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2005. The 2005 Budget of the United States Government, with the Actual Column completed for fiscal year 2003, has been reconciled.

**Note 12. Operating Lease**

The Foundation occupies office space under a lease agreement, which is accounted for as an operating lease. The Foundation entered into a lease agreement that will expire on March 31, 2012. Lease payments are increased annually based on The Foundation's proportionate share of the building's operating expenses and real estate taxes. The new agreement allows The Foundation an abatement credit in lieu of a build-out allowance that will be deducted from the monthly rent for the first 26 months of the lease. Total net rental expense was \$589,046 for fiscal year 2004 and \$408,324 for fiscal year 2003. Future minimum lease payments for office space as of September 30, 2004 are detailed below:

**Inter-American Foundation**  
**Notes to Financial Statements**  
**For the years ended September 30, 2004 and 2003**

**Note 12.      Operating Lease (continued)**

Schedule of Future Operating Lease  
Payments

	<u>FY 2004</u>
FY 2005	\$576,157
FY 2006	590,186
FY 2007	604,566
FY 2008	619,305
FY 2009	634,413
After 5 years	<u>649,898</u>
 Total Future Payments	 <u>\$ 3,674,525</u>

## **Independent Auditor's Report on Internal Control**

Office of the Inspector General  
U.S. Agency for International Development  
Washington, D.C.

We have audited the financial statements of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2004 and 2003, and have issued our report thereon dated October 22, 2003. 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, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered the IAF's internal control over financial reporting by obtaining an understanding of the IAF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audits was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the IAF's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

In addition, with respect to internal controls related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of

significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the U.S. Agency for International Development, the Office of Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

Gardiner, Kanya & Associates, P.C.

October 22, 2003

## **Independent Auditor's Report on Compliance with Laws and Regulations**

Office of the Inspector General  
U.S. Agency for International Development  
Washington, D.C.

We have audited the financial statements of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2004 and 2003, and have issued our report thereon dated October 22, 2003. 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, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the IAF is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the IAF's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the IAF.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02.

Under FFMIA, we are required to report on whether the IAF's financial management systems substantially comply with the Federal financial management systems requirements (FFMSR), applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. The Administrative Resource Center of the Franchise Fund, Bureau of Public Debt, performs the accounting and reporting functions for the IAF. We are not the auditors of the Franchise Fund and did not perform tests of compliance with the FFMSR using the implementation guidance included in Appendix D of OMB Bulletin No. 01-02. Those tests were performed by other auditors whose report has been furnished to us. Our report, insofar as it relates to FFMSR compliance, is based solely on the report of the other auditors.

The report of the other auditors on the substantial compliance of the IAF with the requirements of FFMSR disclosed no instances of substantial non compliance with the FFMSR. Our audit tests disclosed no instances in which IAF did not substantially comply with Federal accounting standards and the U.S. Standard General Ledger requirements.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of the Inter-American Foundation (IAF), the Office of the Inspector General (OIG) of the U.S. Agency for International Development, the Office of Management and Budget (OMB), and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

Gardiner, Kamyra & Associates, P.C.

October 22, 2003