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OFFICE OF INSPECTOR GENERAL

Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2005 and 2004

AUDIT REPORT NO. 0-IAF-06-002-C
November 14, 2005

WASHINGTON, DC



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MEMORANDUM

TO: IAF President and CEO, Amb. Larry L. Palmer

FROM: Acting AIG/A, Joseph Farinella

SUBJECT: Report on Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2005 and 2004 (0-IAF-06-002-C)

Enclosed is the final report on the subject audit. We contracted with the independent certified public accounting firm of Gardiner, Kamyra & Associates, P.C. (GKA) to audit the financial statements of the Inter-American Foundation as of September 30, 2005 and 2004 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; generally accepted auditing standards; Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual.

In its audit of the Inter-American Foundation (IAF), Gardiner, Kamyra & 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 26, 2005 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

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.”***

For 35 years, the IAF has been a small but significant component of U.S. foreign assistance. It has funded more than 4,500 development projects by responding to the self-help efforts of the organized poor and the groups that directly support them. The IAF's experience has demonstrated clearly that, in terms of better living conditions, foreign aid is most effective at the community level, where people shape their lives. In terms of furthering the U.S. government's long-term interest in productive relationships abroad, development assistance works best when it supports solutions that come from the communities affected by the tangible results. While effective national policies and sound infrastructure are necessary to successful development, these alone are not sufficient. People make changes and make them work. The IAF has been a pioneer in this realization. Created as an alternative to government-to-government assistance, it has had more experience with initiatives that mobilize ingenuity, energy and engagement at the grassroots level than any other foreign assistance agency.

Projects funded are the core of the IAF's development effort: to improve the quality of life as measured by objective indicators such as increased income, job creation, better nutrition and access to housing, education and clean water. Because these projects are proposed by the people most involved, their chances for sustainability beyond the life of IAF's support are very good. The IAF's rate of success in funding sustainable projects is well documented by independent evaluations as well as by regular data collection, verification and audits. IAF's focus areas emerge from the stream of proposals it receives and the fresh ideas they contain. These account for IAF's productive history with indigenous peoples and, more recently, for grants that support other disadvantaged sectors, especially African-descendent communities, women and the handicapped. Another current emphasis is transnational projects, funded in collaboration with U.S.-based associations of migrants who contribute to the creation of productive enterprises and jobs in their communities of origin.

Funded projects provide the lessons IAF communicates to students of foreign assistance and to development professionals. In recent years, IAF's dissemination of its experiences has helped expand the application of its grassroots approach. One notable initiative is RedEAmérica, a network of 53 Latin American and Caribbean corporations and

corporate foundations that have agreed to channel their own funding, and mobilize additional resources from the business sector, toward grassroots initiatives. The network now envisions a Global Fund capable of attracting funds for self-help development from beyond the Western Hemisphere. Additionally, the IAF and the International Guarantee Fund of Switzerland have created a fund for channeling loan capital to low-income entrepreneurs in Central America, which may extend its reach in fiscal 2007.

In 2005, the IAF's support for administration priorities in Latin America and the Caribbean has included close collaboration with the Department of State and 25 other U.S. government agencies on the Summit of the Americas, scheduled for November 2005 in Argentina. The IAF encouraged participation in the preparations for the event by sponsoring the Eleventh Annual Inter-American Conference for Mayors and Local Officials, the Second Inter-American Summit on Decentralization and Local/Regional Governance, and the African Descendent Summit Forum, where participants signed declarations to be presented at the Summit. Additionally, representatives of 10 IAF grantees presented their point of view at the Organization of American States' General Assembly in Fort Lauderdale, Fla., to cabinet-level officials, including U.S. Secretary of State Condoleezza Rice.

In order to streamline operations, lower costs and ensure compliance with OMB reporting requirements, the IAF continued to outsource the following services to the Bureau of the Public Debt (BPD): procurement, accounting, budget, Equal Employment Opportunity and information technology support. Under a new inter-agency agreement, BPD's Office of Information Technology maintains a remote data center at the facility in Parkersburg, West Virginia, for IAF contingencies and continuity of operations. The equipment designated for the IAF can recover the Foundation's infrastructure during an emergency and provide IAF employees with continued access to e-mail communications. IAF's essential personnel now have laptops configured to access the network at the contingency site. In October 2005, the IAF recertified and accredited additional enhancements made to the network infrastructure and security, based on IAF policy; OMB Circular A1-130, Appendix III; and NIST Special Publication 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems*. This significant accomplishment places IAF on a short list of federal micro-agencies with certification and accreditation.

The IAF is among the agencies supporting E-Gov. BPD has implemented the integration with the Central Contractor Registration, the system used by suppliers as the sole repository for pertinent data, including remittance information. Integration allows BPD and the IAF to more efficiently maintain current data related to suppliers. BPD and IAF completed the transfer from the Federal Financial System to the Oracle Federal Financials platform, which provides real-time, user-friendly financial reports. Per the Department of the Treasury's migration plan submitted to GSA in fiscal 2004, in January 2005 the IAF adopted the U.S. government-wide E-Travel system, GovTrip, integrating on-line booking and allowing travelers to attach receipts to their voucher.

I am pleased to introduce the IAF's Fiscal 2005 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:

/s/

Amb. Larry L. Palmer
President and CEO

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**INTER-AMERICAN FOUNDATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the Years Ended September 30, 2005 and 2004**

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 is based on four main institutional goals derived from this statutory basis, 35 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.

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The Fiscal 2005 Accomplishments

In Fiscal 2005, the Inter-American Foundation received an appropriation of \$17.8 million for program and program support activities, which was supplemented by \$6 million for grants from the Social Progress Trust Fund, \$75,000 from the IAF's gift account and \$1.25 million in carry-over funds. The total budget was \$25.35 million.

The IAF funds grassroots development in Latin American and the Caribbean by responding to the proposals it receives and carefully selecting the best from its very large pool. In-depth evaluations of selected projects complement normal reporting; the information is made available to staff and to the development and academic communities. During the first 10 months of fiscal 2005, IAF staff and grantee representatives shared at 70 events these and other experiences in development assistance, including the implications of financial, technical and cultural flows from transnational communities and the funding and learning potential of RedEAmérica, launched by the IAF in fiscal 2003.

Grants Funded in Fiscal 2005

In Fiscal 2005, the IAF funded 54 new grants and 33 grant supplements for a total obligation of \$14,618,294 of which \$8,474,294 was in appropriated funds, \$6,069,000 in SPTF funds, and \$75,000 in gift funds. These funding actions are divided among primary program areas as follows:

Fiscal 2005 Primary Program Area	Number of New Grants and Grant Supplements	Amount
Food Production/Agriculture	25	\$ 5,355,319
Business Development/Management	18	3,171,102
Education/Training	19	2,306,139
Research and Dissemination	4	583,960
Cultural Expression	4	653,442
Eco-development	5	684,832
Corporate Social Investment	12	1,863,500
Fiscal 2005 Total IAF Funding	87	\$14,618,294

Detailed below are the IAF's accomplishments of its objectives for fiscal 2005. For ease of reference the objectives are listed under the relevant goal from the original Strategic Plan submitted, and the accomplishments follow the corresponding objective.

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Accomplishment of the Goals and Objectives of the Fiscal 2005 Program

Strategic Plan Goal I:

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

Performance Goal 1.1: Fully implement a broader, more competitive and more transparent selection process which takes full advantage of internal sectoral expertise.

Performance Measure. Changes to the selection process introduced in fiscal 2004 were refined during fiscal 2005 when proposals received totaled more than 1,880. Despite the unexpected influx, all proposals were evaluated against established criteria in the time allotted. This review began with a reading by one country expert and one other staff member with subject-matter expertise. More than 80 percent were rated by a second subject-matter expert. Some 300 proposals merited closer consideration, and IAF representatives visited 100 applicants. The top-ranked 51 proposals were further discussed at open reviews; representatives relayed concerns and suggestions to the prospective grantees for their response. Some applicants required a second visit. By mid-summer senior management began reviewing all documentation for approval, and proposals were then forwarded to Congress and the respective U.S. Embassies for clearance.

To make the work flow more evenly in fiscal 2006 and reduce time spent in review, IAF's Office of Programs decided to eliminate the single annual deadline and evaluate proposals throughout the next funding year. New software purchased in the fourth quarter will allow applicants to apply on-line. The IAF is revising its call for proposals in an effort to reduce the number of substandard submissions.

Performance Measure. The IAF funded 54 proposals (including five new cooperative agreements funded through RedEAmérica) promising improvement in the quality of life as measured by such indicators as increased income, job training and placement, better nutrition and housing, and access to clean water. These include the following representative examples:

Tukuypaj (\$159,202 over four years) will expand its experimental program of community-managed trout breeding and farming using lagoons in 41 Andean communities in Bolivia, diversifying food production, developing the communities' management capacity, improving family income and increasing trout consumption, resulting in nutritional benefits, especially for children. (BO-494)

Fundación UÑATATAWI (FUNDAWI) (\$195,272 over three years) will introduce and consolidate the production and marketing of medicinal and aromatic plants to protect the tropical forest ecology and increase the incomes of 258 families from eight communities in the Caranavi province of La Paz, Bolivia. The grantee will develop a farmer-owned and -managed enterprise involving a seedling nursery; infrastructure for processing and

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storing dried leaves, teas and essential oils; and training in organic production technologies and marketing. (BO-500)

Associação de Deficientes Físicos de Betim (ADEFIB) (\$249,350 over two years) will focus on protection of watersheds and the preservation of surface and ground water sources in the municipality of Betim, Brazil; on the social and professional inclusion of its 220 members, who are individuals with disabilities; and on job training and placement for people with physical disabilities. (BR-826)

Empresa Cooperativa del Sur del Cauca (COSURCA) (\$291,699 over two years) will provide technical and financial services to 1,530 Colombian coffee and fruit (papaya and *lulo*) farmers to renovate their farms, further their use of organic growing methods, improve post-harvest coffee processing, and increase the volume of organic coffee marketed through international Fair Trade channels, as well as increase fruit sales in regional markets. (CO-503)

Cooperativa de la Federación de Productores, Campesinos y Microempresarios Azuanos Inc. (C-Feproca) (\$142,151 over two years) will incubate at least 400 rural and/or women-owned micro-enterprises through enterprise development training and microcredit to 26 rural women's associations, all members of C-Feproca's affiliate organization, the Federación de Productores, Campesinos y Microempresarios Azuanos, in Azua de Compostela province in the Dominican Republic. (DR-330)

Federación de Cooperativas de Medianos y Pequeños Productores Agropecuarios De El Salvador (FEDECOPPS) (\$250,315 over two years) will conduct a pilot project to strengthen organic agricultural production and create five small businesses to process and market fruits and vegetables, improve food security, offering new economic opportunities to young adults, increasing leadership opportunities for women and improving family income. (ES-215)

Subcomité de Productores Ovicaprinos de Michoacán, A.C., (SPOM) (\$400,000 over four years) will further the consolidation of a regional goat-milk producers' association, develop a new system for collecting and processing milk, and begin production and sale of value-added items such as cheese, flavored milk and candies. By improving milk quality through technical assistance, training and providing marketing support, and by entering into new sales arrangements, the grantee aims to increase the income of 2,000 member goat farmers in 25 municipalities in northern Michoacán, Mexico. (ME-476)

Cooperativa de Servicios Múltiples Tepeyac (Tepeyac) (\$398,800 over three years) will increase the income of dairy farmers by constructing a pasteurizing and processing plant, offering technical and financial assistance to improve the quality and quantity of dairy production and also strengthen the local dairy sector, and by providing support for marketing activities. (NC-263)

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Fundación Baru Pro Desarrollo Socioeconómico de la Comunidad (FUNBARU) (\$163,939 over two years) will work in Paja de Sombrero, Panama, with a community organization that is introducing bamboo as an alternate source of income and a means to preserve the environment. The grantee will directly assist with capacity-building, investment capital for fixed assets and equipment, and marketing bamboo products while the community organization becomes legally constituted. (PN-279)

Centro de Investigación, Capacitación, Asesoría y Promoción (CICAP) (\$281,800 over three years) will provide training, technical assistance and capital to 400 Peruvian farmers in the Upper Zaña River Basin toward an economically and environmentally sustainable management for the area's bamboo forests and toward improving job opportunities and income through micro-enterprises that process the bamboo. (PU-528)

Asociación para la Defensa Ecológica (DEECO) (\$94,600 over two years) will provide training, technical assistance and equipment for 360 women trash handlers as they develop economic enterprises to increase their income from segregating solid waste for recycling and composting. DEECO will also organize an education campaign to teach the residents of Trujillo to separate organic and inorganic waste prior to collection. (PU-529)

Una Casa un Sueño (UCUS) (\$100,000 over two years) will provide training in home construction, urban farming and group organization and will set up a fund to finance urban agriculture activities for approximately 85 low-income residents of Villa del Chanco, a poor Montevideo neighborhood. Residents will build at least 25 new homes on land donated by the municipality. (UR-179)

Asociación de Productores de Leche de Paysandú (APLP) (\$289,246 over three years) will strengthen agricultural networks, develop the productive potential of Uruguayan farm families through technical training and a revolving loan fund. In collaboration with the regional, inter-sectoral Consejo Económico Social, the grantee will provide access to sub-grants for proposals addressing health, education, infrastructure maintenance and other community issues. (UR-180)

Agencia para el Desarrollo de la Pequeña Agroindustria en las Zonas Rurales de Venezuela (Agendair) (\$271,350 over three years) will work with La Fe y Pimpinela, an enterprise owned and operated by small-scale producers of sugar cane, to develop four collectively-owned sugar mills and at least three new products from sugar cane, benefiting 200 families in the state of Portuguesa, Venezuela. (VZ-194)

Fundación para la Capacitación y Mejoramiento Social del Joven Torrense (FUNCAMET) (\$336,130 over three years) will train at least 200 youths in entrepreneurship, integrate at least 100 producers in the collective production and marketing of aloe in Venezuela and internationally, and construct a rustic hospitality center, el Jardín de Aloe. Revenues will finance FUNCAMET's future socio-economic projects. (VZ-198)

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

Performance Measure. Based on a feasibility study, the IAF and the International Guarantee Fund (IGF), a nonprofit cooperative based in Switzerland, each contributed \$200,000 to form the Latin American International Guarantee Fund (LAIGF) in July 2004, to help qualifying organizations engaged in productive activities access credit. The fund was fully committed in FY 2005 to guaranteeing \$1 million in commercial bank loans to borrowers in Central America.

Performance Goal 1.3: Continue to help and to draw attention to African descendants—who comprise half the population living below the poverty line in Latin America and the Caribbean.

Performance Measure. The IAF continues to be one of the leading development institutions working with communities of African descendants in the Americas. During fiscal 2005 staff and/or grantees participated in the following events:

- The National Council of La Raza (NCLR), the Inter-Agency Consultation on Race in Latin America (IAC) and the Woodrow Wilson Center sponsored a multi-event seminar on Mexicans of African descent and a reception honoring their contribution to Mexican history and culture.
- IAF contractors led a series of interviews, meetings and community diagnostic sessions designed to strengthen México Negro, an Afro-Mexican organization based in Oaxaca, and to identify potential project activities and community priorities.
- The IAF sponsored the attendance of 10 participants at conferences on racial equality in Uruguay and Brazil.
- African-descendants from Ecuador, Paraguay and Uruguay on an IAF-sponsored panel shared their experiences at the National Council of La Raza (NCLR) annual conference, attended by more than 6,000 Hispanic-Americans, and met with policy-makers, development practitioners and Afro-Latino youth leaders in Washington, D.C.
- The IAF sponsored 17 young African-descendent participants in the Global Afro-Latino and Caribbean Initiative's conference on the status of Afro-Latino organizations held in Argentina.
- During February 2005, the IAF hosted Afro-Brazilian international visitors invited to the United States by the Department of State; this included a reception on Capitol Hill hosted by the Congressional Black Caucus, the Brazil Information Center and the Inter-American Dialogue.
- The IAF sponsored the participation of five African-descendants in the International Seminar on Advancing Equity and Racial Inclusion hosted in Brasilia by the government of Brazil and sponsored by the Inter-American Development Bank.

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- The IAF was represented on a panel on the Millennium Development Goals at a regional conference of African-descendent organizations, local governments and multilateral organizations sponsored by grantee Mundo Afro in Montevideo.
- IAF's Office of External Affairs developed a brochure on IAF's work with Latin Americans of African descent.
- IAF provided grantee Mundo Afro resources to sponsor participants at planning events in preparation for the "Santiago +5" Latin American Regional Conference against Racism, to be held in Brazil in December 2005;
- The IAF sponsored the participation of 22 African-descendent civil society representatives and government officials at the African-Descendent Civil Society Forum, held in San Jose, Costa Rica, Sept. 1-2 as part of the Summit of the Americas preparatory process. The event immediately followed the Afro Legislators conference at which IAF sponsored the participation of 10 African-descendent legislators and civil society leaders.
- The IAF commissioned a survey of communities and organizations of African descendants in Mexico and Central America to help focus funding in this key area.
- The IAF published a report on the conference "Leadership and Socio-Economic Development for Communities of African Descent in Latin America and the Caribbean Workshop," held in Honduras in February 2004.

Performance Measure. Fundación Lann-Nobis, a member of RedEAmérica, is creating a fund (expected to total at least \$480,000) for financing self-help projects undertaken by community-based Ecuadorians of African descent. The fund has attracted support from multiple sources in Ecuador and abroad.

Performance Measure. The following 2005 projects funded in support of Performance Goal 1.3 are characterized by leadership or beneficiaries of African descent:

100 Dimensão-Cooperativa de Coleta Seletiva e Reciclagem de Resíduos Sólidos com Formação e Educação Ambiental (100 Dimensão) (\$321,625 over two years), a recyclers' cooperative in the Federal District of Brasilia led by an Afro-Brazilian woman, will strengthen its administrative and productive capacity, increase its members' income, develop activities to involve and benefit other community residents, and provide assistance to other organizations of recyclers. (BR-823)

Associação de Moradores do Conjunto Palmeira (ASMOCONP) (\$225,000 over two years) will provide vocational education and on-the-job training to 1,000 youths in Fortaleza. Students will intern with almost 100 accredited local establishments and will receive technical support and loans toward opening their own businesses. Participating establishments will also have access to credit to invest in their economic activities. (BR-824)

Associação dos Artesãos de Imperatriz (ASSARI) (\$314,000 over three years) will improve the income of approximately 400 families involved in handicraft production in

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Imperatriz, Maranhão, Brazil, through applying new technologies, developing their management skills and opening market opportunities. (BR-827)

Fundo Rotativo da Ação da Cidadania (CREDCIDADANIA) (\$315,000 over two years) will provide training to 400 low-income families in two rural communities in Pernambuco, Brazil, and access to start-up and working capital through a loan fund that each community will create and manage. CREDCIDADANIA will use a mobile office to respond to the credit needs of entrepreneurs in remote locations. (BR-828)

Obras Sociais da Diocese de Imperatriz (OSDI) (\$191,000 over three years) will strengthen Casas Familiares Rurais (CFRs) in three municipalities of Maranhão. CFRs are educational centers that allow rural students to alternate residence between home and school. Direct beneficiaries are 270 youths who will be trained as community development agents. The goal is to demonstrate the validity of the CFR model in improving the quality of life of rural families and obtain long-term official support. (BR-829)

Fundación Mujer y Familia Andina (FUNDAMYF) (\$230,000 over three years) will provide women of African descent in Esmeraldas, Ecuador, education and technical assistance in preventive health practices, citizen rights and responsibilities and in administering a savings and loan fund to finance their micro-enterprises. (EC-390)

Fundación para la Tecnología y el Desarrollo Latinoamericano Ecuatoriano (FTDE) (\$220,030 over two years) provides training in alternative agricultural practices to 500 Ecuadorian families of African descent in 30 different communities in Esmeraldas. Residents will also participate in activities that improve their networking, organizing, social cohesion and collective problem-solving. (EC-391)

Fundación Agencia de Desarrollo Planificado (PLANDES) (\$35,000 over one year) will assess the feasibility of a social franchise enterprise in which Afro-Venezuelan communities in up to four states will participate. The grantee will undertake a market analysis to identify the most promising traditional products for domestic and international sale; investigate the benefits of registering a brand name for the products and services offered by the enterprise; and research alternative organizational structures to coordinate production and marketing. (VZ-195)

Performance Goal 1.4: Continue to promote development efforts among indigenous communities while focusing on their residents as citizens and not just as disempowered ethnic groups.

Performance Measure. The IAF continued to support the efforts of indigenous peoples through improved economic opportunities, public-private partnerships and recognition of their rights. Funded initiatives included the construction of community museums to heighten community identity and increase income; leadership development; and improved production by indigenous artisans, especially women. In June 2005, the IAF

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brought representatives of former grantee El Ceibo to Washington, D.C., to participate in the Smithsonian Folklife Festival's exhibit on culture and food. El Ceibo showcased its history and multifaceted grassroots development approach; it began serving cacao producers in the late 1970s and gradually evolved into an agro-enterprise whose sales of beans and assorted chocolate products gross \$2 million a year.

An IAF representative has given presentations on the Andean region at a Georgetown University conference on indigenous development in Peru and Bolivia; at a workshop of the World Bank's International Finance Program on Grassroots Business Organizations; and at the Foreign Service Institute on the history of the indigenous movements in the Andes.

Performance Measure. Representative grants relevant to Performance Goal 1.4 follow:

El Ceibal Asociación Civil (El Ceibal) (\$109,000 over three years) will strengthen and consolidate six organized clusters of rural artisans, mostly indigenous women, in the provinces of Santiago del Estero and Tucumán, Argentina, into an association of weavers. The artisans will increase household income, recover ancestral techniques and designs, thus acquiring a renewed sense of cultural identity. (AR-339)

Asociación de Artesanos Andinos (AAA) (\$186,325 over three years) will revive and further develop traditional weaving techniques and designs to increase the skills, income and cultural pride of 500 male and female indigenous Bolivian weavers. The project focuses on strengthening artisan organizations in 34 communities; improving, diversifying and expanding production; and formulating an effective local marketing strategy. (BO-497)

Consejo de Desarrollo de Sector Social de la Economía Regional de Intibucá (CODESSE-Intibucá) (\$173,742 over three years) will strengthen 12 worker-owned enterprises selected from among its member businesses, and, in the process, its own institutional capacity as well as its credibility in representing the interest of its members, primarily of Lenca Indian origin, in local and departmental policy venues in Intibucá, Honduras. (HO-239)

Organización de Ejidos Productores Forestales de la Zona Maya (OEPFZM) (\$395,000 over three years) will provide training and technical assistance to associations in the state of Quintana Roo, Mexico, that process and market non-timber forest products, with emphasis on gum and honey. The program aims to strengthen the associations and increase income while preserving natural resources. Approximately 450 Mayan families are expected to directly benefit from better prices for traditional agricultural goods in niche markets. (ME-477)

Miel Solidaria Campesina, A.C. (MISOCA) (\$399,500 over four years) will provide training and technical assistance to 200 small-scale, primarily indigenous beekeepers and their producer associations in the states of Veracruz, Puebla, Guerrero and Oaxaca,

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Mexico. The program will include participatory planning and evaluation activities, the development of a new training center equipped with accessible educational materials, a market study, and a fund for productive projects. The grantee aims to improve beekeepers' technical skills, increase their productive capacity and sales, and strengthen their associations. (ME-478)

Asociación Minga-Peru (Minga-Peru) (\$75,000 over 18 months) will strengthen its network of rural women who use training, economic projects and radio programs to promote gender equity, income-generation and preventive health practice in 55 indigenous Peruvian communities on the banks of Marañon and Tigre tributaries of the Amazon River. The communications activities will reach 30,000 women in the riverside communities. (PU-527)

Asociación Cultural Ayllu Yupaychay (YUPAY) (\$330,000 over three years) will design, apply and evaluate a more appropriate methodology for teaching indigenous children and youths in remote Andean highland communities of Cuzco, Peru. Approximately 360 children in 12 communities will participate. (PU-533)

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

Performance Goal 2.1: Work with RedEAmérica toward standardizing information collection and analysis.

Performance Measure. RedEAmérica members drafted a definition of grassroots development and funding principles and a standardized budget format and all 53 corporate foundation and company members unanimously accepted both. They also standardized results measurements for all projects funded with community organizations. Members initiated creation of a databank with information on all projects funded through the network.

Performance Goal 2.2: Use a separate unit within the Office of Operations 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. Office of Evaluation staff participated in the proposal reviews by identifying learning possibilities and selecting performance indicators for each project. IAF representatives and data verifiers developed a closer working relationship, resulting in more cooperation and information sharing. The Office of Evaluation also improved the format and distribution of its monthly newsletter summarizing verified grantee accomplishments.

Performance Measure. The Getulio Vargas Foundation, a Brazilian research institution, evaluated a group of 10 projects randomly selected from those whose funding expired

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within the two previous years. Findings and recommendations were discussed among staff. FGV shared its findings with IAF staff in October, confirming that these projects had achieved most of their goals. These preliminary findings included the following relevant to sustainability:

- Community participation in project design is a key factor in sustainability.
- Projects inserted in a broader local development strategy, including partnerships with local authorities, businesses and other community forces, had a greater chance of becoming sustainable.
- For donors, “knowing when to let go” is critically important.
- Leadership from outside the community can be constructive, but only when the expertise serves to empower local leaders.
- Short-term tangible results contribute to long-term sustainability.
- Projects should be seen in the context of broader policy opportunities.

Evaluations of another 10 randomly selected projects were completed in fiscal 2005 and a summary of findings will be shared with IAF staff.

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

Performance Measure. In fiscal 2004 the IAF commissioned a major study on the significance of corporate social responsibility in Latin America by scholar and author Lester Salamon of the Johns Hopkins University. Prof. Salamon has finished the literature review and the detailed survey of IAF files relating to corporate social responsibility and in summer 2005 conducted extensive interviews in four Latin American countries. Delays in the award of the contract to Dr. Salamon made necessary the postponement of the dissemination of his findings. This Performance Measure is included in the 2006 Program Plan.

Performance Measure. In fiscal 2004 the IAF contracted the Chilean Fundación para la Superación de la Pobreza to conduct a multi-country study on the role of development assistance in the creation of public spaces for community action. In fiscal 2005 the researchers shared their findings at seminars at the University of Texas-Austin, the Woodrow Wilson International Center for Scholars in Washington, at the Latin American meeting of the International Society for Third-Sector Research in Lima, Peru, at the Latin American Conference of Mayors and Municipal Officials in Miami, and at the Second Summit of Decentralization and Local/Regional Governance in San Salvador. The final report will be posted on the IAF Web site.

Performance Measure. The following grant was funded in support of Performance Goal 2.3:

VINCULAR Responsabilidad Social Empresarial (VINCULAR) (\$150,000 over one year) will advance the Inter-American Corporate Social Responsibility (IACSR) Network

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by engaging approximately 1,500 business leaders and community groups in training seminars focused on corporate social responsibility (CSR). Seminars will coincide with CSR conferences in Sao Paulo, Brazil, and Santiago, Chile. The grantee will organize additional meetings and provide Web page support. (LA-168)

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

Performance Goal 3.1: Collaborate with a broader range of donors.

Performance Measure. During 2005, the IAF began to disseminate to the U.S. donor community the IRS ruling that the IAF meets the expenditure responsibility reporting requirements, thus opening the door to additional resources for IAF-vetted projects. IAF staff and board representatives visited Texas foundations interested in funding community groups in Mexico and elsewhere in Latin America, and contacted foundations in the Mississippi Delta region interested in supporting U.S. immigrant organizations with transnational connections. With the Tower Center for Public Policy at Southern Methodist University, the IAF is planning a gathering of donors for early 2006 in Dallas.

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

Performance Measure. RedEAmérica's grant program was launched through a series of cooperative agreements with individual members requiring they match or double IAF funding awarded in fiscal 2003, 2004 and 2005. Additionally, in fiscal 2005, the cooperative agreements prompted the formation of several local and national funds that mobilized funds from third parties. In 2005, IAF's funding and funding mobilized by RedEAmérica members financed 319 small grants supporting the self-help efforts of grassroots organizations.

RedEAmérica members matching IAF's funding were Colombia's Fundación Empresarios por la Educación with \$146,000; Dibujando un Mañana of Mexico with \$43,500 and another \$40,000 from other corporate sources; and Coser Foundation of Brazil with \$70,000. Fundación Arcor, Telefónica Chile, Corporación Acción RSE (Colombia), Corporación Sociedad Activa (Chile) and Fundación Lann-Nobis (Ecuador) reported \$2,622,000, or double the IAF's contribution, had been committed to their programs.

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. Throughout fiscal 2005, members of the IAF's transnational committee met with immigrant leaders in several U.S. cities and visited counterpart organizations and projects in migrant-sending communities in Latin America. A brief document was developed to provide guidance to migrant organizations interested in

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submitting transnational proposals to the IAF. Outreach efforts have resulted in a noticeable increase in inquiries from transnational organizations.

Performance Measure. Fiscal 2005 grants with transnational implications follow:

Centro Waaponí (Waaponi) (\$297,160 over two years) will work with 400 Ecuadorian adolescents and young adults with at least one parent who has migrated in search of work. Participants will learn to confront problems, manage conflict, set life goals and become active in their communities. (EC-392)

Fundación Salvadoreña para la Reconstrucción y el Desarrollo (REDES) (\$459,000 over four years) will assist 18 communities with high migration rates in the departments of Cabañas, Cuscatlán, San Vicente and La Paz through an economic development program providing grants for six community projects to be matched by contributions from hometown associations. Loans and sub-grants will be awarded to 240 families for microbusinesses, including 90 pilot projects managed by young adults. (ES-217)

Maquiladora Dignidad y Justicia (MDJ) (59,300 for two years) will strengthen a worker-run garment enterprise on the U.S.-Mexican border, developing management and production skills as well as market opportunities and expanding its labor force. (ME-475)

Performance Measure. The IAF has identified community foundations along the U.S.-Mexico border as an area of interest and has designated the deputy vice president for programs to advance it. In fiscal 2005, the IAF funded a visit of representatives of community foundation grantees to the Fundación Internacional de la Comunidad (FIC) in Tijuana, Mexico, which has designed and piloted a call for proposals and competitive process and has awarded 18 grants to community groups in five municipalities. Based on this success, it received \$50,000 from the Secretary for Social Development of Baja California for a loan fund. Under the fiscal 2004 grant LA-164, representatives of four border foundation grantees attended training in community deliberation and are applying the methodology. In December, the IAF provided three travel grants to Mexican community foundation staff who, accompanied by the IAF's deputy vice president for programs, shared experiences on starting foundations, garnering support, governance, fundraising and other topics at the First International Symposium on Community Foundations in Berlin.

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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 to reflect further work on the “intangible” results of IAF funding.

Performance Measure. The Office of Evaluation worked with data verifiers and IAF program staff at the annual conference of data verifiers in the Dominican Republic to revise indicators of intangible grant results, such as “leadership,” which now includes “the capacity to facilitate and negotiate actions for collective interests.” New indicators such as “trust in the organization” and the capacity to “concert” were added to the GDF. For all indicators, a new electronic table for recording and reporting information was designed. These new GDF elements will be reflected in a manual to be applied by the next fiscal year.

Performance Goal 4.2: Broaden and deepen dialogue with other development experts and practitioners studying democracy and the grassroots approach.

Performance Measure. In 2005 IAF representatives explained the connection between grassroots democracy and sustained grassroots development staff at the Mexican Center for Philanthropy (CEMEFI), the World Affairs Conference at the University of Colorado, Boulder, Georgetown University’s School of Foreign Service, American University School of International Affairs, the World Bank, the International Youth Foundation, and the annual conferences of the League of United Latin American Citizens and the National Council of La Raza, among other venues. The IAF is collaborating with the United Nations Development Programme’s initiative on community dialogues and with other donors focused on the capacity for self governance as the lasting impact of development projects. The IAF co-sponsored a major conference on local development at the University of Texas at Austin and at the Woodrow Wilson Center. IAF’s staff made related presentations to USAID, Canadian International Development Agency and the Organization of American States.

In 2005, IAF’s Office of External Affairs received considerable response to *Grassroots Development 2004* (which, because of technical difficulties, had appeared later in fiscal 2004 than originally anticipated). Readers from as far away as India and Bangladesh described Patrick Breslin’s article “Thinking Outside Newton’s Box: Metaphors for Grassroots Development” as “provocative,” “fascinating” and “excellent.” It is being used in courses at American University and California State Polytechnic University and circulated through a variety of development agencies.

Grassroots Development 2005 was printed and distributed in English and Spanish in August 2005; pdf and html files in Portuguese will be posted by late September. The 2005 journal features a section on the IAF’s start-up under Bill Dyal, IAF president from

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1971 to 1980, who tested and then nurtured the concepts of responsiveness and participatory self-help that have guided the IAF's funding ever since. Profiled in the journal are two organizations supported during the Dyal years, the Bosconia Program in Colombia and Manos del Uruguay, both still in operation. The journal also examines a grant 25 years ago to indigenous Guarani in Misiones, Argentina, and looks at current grantees offering job placement to Venezuelans living with HIV/AIDS, water services to rural Hondurans and micro-loans to Ecuadorian women. Other items covered include an IAF-co-sponsored series on Mexicans of African descent, a group which has since attracted international attention, and the contribution of two late grassroots leaders to the success of the Bolivian chocolate cooperative El Ceibo, a former grantee.

Copies of both the 2005 and 2006 issues were recently requested for use this fall at California State Polytechnic University. Among comments received on the latest journal was one from Charles Frankel of Honolulu: "I get a lot of publications, many of which I merely thumb through. But I gave *Grassroots Development* a good read because of the interesting articles and fine photos... *Grassroots Development* was a good antidote for *Collapse*, by Jared Diamond, a great book which shows how we are environmentally destroying the world. You give examples of how poor peoples are helping to save the world."

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

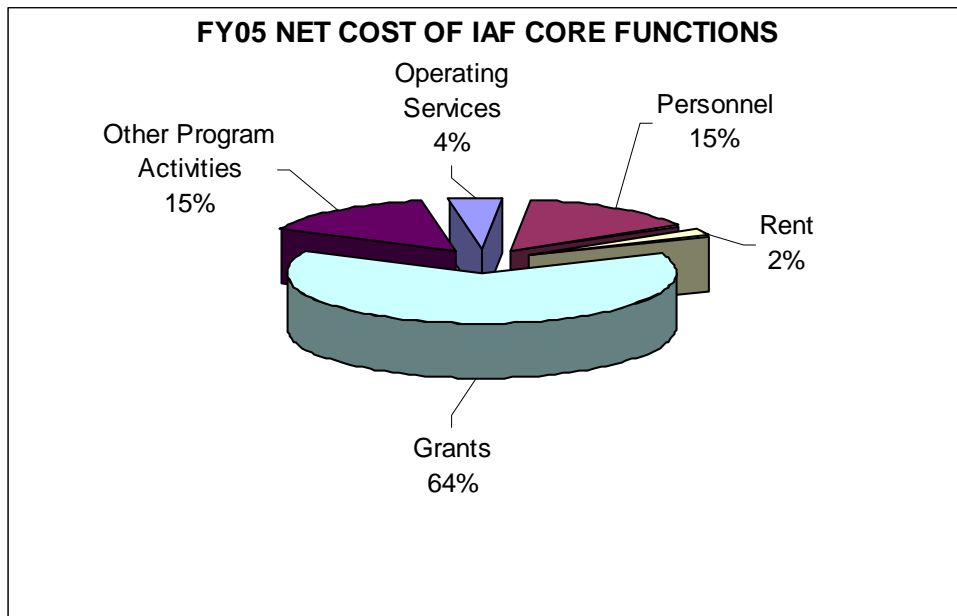
The IAF works in poor, often remote, areas lacking infrastructure, vulnerable to health problems, weather and natural disasters, fragile agriculturally, and unstable politically. International phenomena such as markets, wars, and foreign investment also may affect planned activities. Yet only rarely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

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ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP
INFORMATION SYTEMS, CONTROLS, AND LEGAL COMPLIANCE
For the Years Ended September 30, 2005 and 2004**

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 \$26,676,999 reflected an increase of \$2,191,783 in resources used from the Fiscal 2004 amount of \$24,485,216.

Personnel compensation and benefits decreased from \$4,550,138 in Fiscal 2004 to \$4,463,293 in Fiscal 2005, reflecting a decrease of \$86,845. In Fiscal 2005, program-related Contractual Services used \$3,354,937 of IAF resources. The difference of \$591,422 from Fiscal 2004, which reported \$3,946,359 in resources used, reflects a decrease of approximately 14.98 percent. See pie chart below:



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ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP
INFORMATION SYTEMS, CONTROLS, AND LEGAL COMPLIANCE
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Fund Balance with U.S. Treasury

Total resources available from the U.S. Treasury and other financing sources for Fiscal 2005 and 2004 were \$36,606,103 and \$41,597,956, respectively. The difference of \$4,991,853 is due to a net decrease in the Social Progress Trust Fund (SPTF) collections in FY-05 and a cancellation of \$772,795 in Fiscal 1999/2000 appropriated funds, which expired in FY-05. The SPTF agreement was amended during Fiscal 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 Auditors' Report on Financial Statements

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

We have audited the accompanying Balance Sheet of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of September 30, 2005 and 2004, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IAF as of September 30, 2005 and 2004, 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 26, 2005 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, Kamyra & Associates, P.C.
October 26, 2005

INTER-AMERICAN FOUNDATION
BALANCE SHEETS
As of September 30, 2005 and 2004
(in dollars)

	<u>2005</u>	<u>2004</u>
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	\$ 36,606,103	\$ 41,597,956
Other	<u>35,150</u>	
Total intragovernmental	36,641,253	41,597,956
Account Receivable, net (Note 4)	20,000	-
General property, plant and equipment, net (Note 5)	1,455	10,716
Grant advances and prepayments (Note 3)	<u>3,801,176</u>	<u>3,933,182</u>
Total assets	<u>\$ 40,463,884</u>	<u>\$ 45,541,854</u>
Liabilities:		
Intragovernmental		
Accounts payable	\$ -	\$ 127
Other	<u>251,729</u>	<u>28,103</u>
Total intragovernmental	251,729	28,230
Accounts payable	66,759	74,541
Other	<u>721,452</u>	<u>1,187,993</u>
Total liabilities (Note 6)	<u>1,039,940</u>	<u>1,290,764</u>
Net Position:		
Unexpended appropriations (Note 8)	16,062,880	16,425,074
Cumulative results of operations (Note 8 and 12)	<u>23,361,064</u>	<u>27,826,016</u>
Total net position	39,423,944	44,251,090
Total liabilities and net position	<u>\$ 40,463,884</u>	<u>\$ 45,541,854</u>

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

INTER-AMERICAN FOUNDATION
STATEMENTS OF NET COST
For the years ended September 30, 2005 and 2004
(in dollars)

	<u>2005</u>	<u>2004</u>
Program Costs:		
Intragovernmental gross costs	\$ 2,608,314	\$ 1,927,473
Gross costs with the public	24,068,685	22,557,743
Total net cost of operations (Note 9)	<u>\$ 26,676,999</u>	<u>\$ 24,485,216</u>

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

INTER-AMERICAN FOUNDATION
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2005 and 2004
(in dollars)

	2005 Cumulative Results of Operations	2005 Unexpended Appropriations	2004 Cumulative Results of Operations	2004 Unexpended Appropriations
Beginning Balances	\$ 27,826,016	\$ 16,425,074	\$ 23,266,943	\$ 18,097,429
Budgetary Financing Sources:				
Appropriations received	-	18,000,000	-	\$ 16,334,000
Other adjustments (recessions, etc)	-	(916,795)	-	(668,814)
Appropriations used	17,445,399	(17,445,399)	17,337,541	(17,337,541)
Nonexchange revenue – SPTF Collections	4,440,576	-	11,402,562	-
Donations and forfeitures of cash and cash equivalents	75,000	-	50,000	-
Other Financing Sources:	-	-	-	-
Imputed financing from costs absorbed by others (Note 11)	251,072	-	254,186	-
Total Financing Sources	<u>22,212,047</u>	<u>(362,194)</u>	<u>29,044,289</u>	<u>(1,672,355)</u>
Net Cost of Operations from SPTF (Note 12)	8,776,319	-	6,858,007	-
Net Cost of Operations from Gift Fund	94,311	-	78,345	-
Net Cost of Operations from Appropriations	<u>17,806,369</u>	<u>-</u>	<u>17,548,864</u>	<u>-</u>
Total Net Cost of Operations (Note 9)	<u>26,676,999</u>	<u>-</u>	<u>24,485,216</u>	<u>-</u>
Ending Balances	<u>\$ 23,361,064</u>	<u>\$ 16,062,880</u>	<u>\$ 27,826,016</u>	<u>\$ 16,425,074</u>

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

INTER-AMERICAN FOUNDATION
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2005 and 2004
(in dollars)

	2005	2004
Budgetary Resources:		
Budget authority		
Appropriations received	\$ 18,000,000	\$ 16,334,000
Unobligated balance:		
Beginning of period	13,400,058	9,945,886
Spending authority from offsetting collections:		
Earned		
Collected	4,515,576	11,452,562
Subtotal	35,915,634	37,732,448
Recoveries of prior year obligations		
Actual	1,397,453	364,429
Permanently not available		
Cancellations of expired and no-year accounts	(772,795)	(572,441)
Pursuant to Public Law	(144,000)	(96,371)
Total Budgetary Resources	\$ 36,396,292	\$ 37,428,065
Status of Budgetary Resources:		
Obligations incurred		
Direct		
Category A	\$ 7,437,843	\$ 15,464,041
Category B	18,227,097	8,563,966
Subtotal	25,664,940	24,028,007
Unobligated balance		
Apportioned		
Balance, currently available	5,296,565	1,327,321
Unobligated balances not available	-	12,072,737
Other	5,434,787	-
Total status of budgetary resources	\$ 36,396,292	\$ 37,428,065
Relationship of Obligations to Outlays:		
Obligated balance, net, beginning of period	\$ 28,197,898	\$ 28,505,455
Obligated balance, net, end of period		
Undelivered orders	\$ (25,109,342)	\$ (27,166,027)
Accounts payable	\$ (765,410)	\$ (1,031,871)
Outlays		
Disbursements	26,590,633	23,971,135
Collections	(4,515,576)	(11,452,564)
Subtotal	22,075,057	12,518,571
Les: Offsetting receipts	-	-
Net Outlays	\$ 22,075,057	\$ 12,518,571

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

INTER-AMERICAN FOUNDATION
STATEMENTS OF FINANCING
For the years ended September 30, 2005 and 2004
(in dollars)

	2005	2004
<i>Resources Used to Finance Activities</i>		
Budgetary Resources Obligated		
Obligations incurred	\$ 25,664,940	\$ 24,028,007
Less: Spending authority from offsetting collections and recoveries	(5,913,029)	(11,816,993)
Obligations net of offsetting collections and recoveries	19,751,911	12,211,014
Other Resources		
Donations and forfeitures of property	75,000	50,000
Imputed financing from costs absorbed by others	251,072	254,186
Other (Note 12)	4,440,576	11,402,562
Net other resources used to finance activities	4,766,648	11,706,748
<i>Total resources used to finance activities</i>	24,518,559	23,917,762
<i>Resources Used to Finance Items Not Part of the Net Cost of Operations</i>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	2,153,541	552,617
<i>Total Resources Used to Finance the Net Cost of Operations</i>	26,672,100	24,470,379
<i>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</i>		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	15,638	9,438
Components not Requiring or Generating Resources:		
Depreciation and amortization	9,261	5,399
Other	(20,000)	-
Total components of Net Cost of Operations that will not require or generate	(10,739)	5,399
<i>Total components of Net Cost of Operations that will not require or generate resources in the current period</i>	4,899	14,837
<i>Net Cost of Operations (Note 9)</i>	\$ 26,676,999	\$ 24,485,216

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

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of The Inter-American Foundation (IAF). The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Accountability of Tax Dollars Act of 2002 and the Office of Management and Budget (OMB) Bulletin Number 01-02, Audit Requirements for Federal Financial Statements. They have been prepared from, and are fully supported by, the books and records of IAF in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, Form and Content of Agency Financial Statements and IAF accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control IAF's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and the Statement of Custodial Activity. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all dollar amounts are presented in dollars.

B. Reporting Entity

IAF, a U.S. government corporation, was established pursuant to part IV of the Foreign Assistance Act of 1969 (22 U.S.C. 290f (a)). IAF 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 IAF 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 IAF's president who acts as the chief executive officer.

C. Budgets and Budgetary Accounting

Congress enacts appropriations to permit IAF to incur obligations for authorized purposes. In fiscal years 2005 and 2004, IAF was accountable for Social Progress Trust Fund (SPTF), Gift Fund, and General Fund appropriations. IAF recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through the Department of Treasury General Fund warrants and transfers from the Inter-American Development Bank (IDB).

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. 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 disbursement of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the 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) 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.

E. Revenue and Other Financing Sources

IAF's grant program is funded by appropriation from the budget of the United States, agreement with the Inter-American Development Bank covering the SPTF, and 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 expense when an asset is consumed in operations.

IAF has an agreement with the IDB to receive funds from the SPTF to finance part of IAF's 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 IDB, the United States established the SPTF in 1961 and provided appropriations to SPTF through 1964. IDB 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, IDB provides funds to finance social development projects. These funds are made available in U.S. dollars upon request by IAF, subject to denomination availability and exchange controls. In 2002, the SPTF agreement was amended to make available all remaining funds until exhausted.

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

IAF recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on our behalf by the Office of Personnel Management (OPM).

F. Taxes

IAF, as a Federal entity, is not subject to federal, state or local income taxes, and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balances with Treasury

The U.S. Treasury processes cash receipts and disbursements. 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. IAF does not maintain cash in commercial bank accounts or foreign currency balances. Foreign currency payments are made either by Treasury or the Department of the State and are reported by IAF in U.S. dollar equivalents. See Note 2 for additional information.

H. Accounts Receivable

Accounts receivable consists of amounts owed to IAF by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include reimbursements from employees. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent. See Note 4 for additional information.

I. Advances and Prepayments

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

J. General Property, Plant, and Equipment, Net

IAF's property, plant and equipment is recorded at original acquisition 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. IAF's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. The useful life classifications for capitalized assets are as follows:

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

<u>Description</u>	<u>Useful Life (years)</u>
ADP equipment	3
Office furniture and equipment	10

K. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by IAF 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. There is no certainty that the appropriation will be enacted. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities. Liabilities not covered by budgetary resources on the Balance Sheets are equivalent to amounts reported as Components requiring or generating resources on the Statement of Financing.

L. Accounts Payable

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

M. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used.

N. Retirement Plans

IAF'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.

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

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

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 IAF makes a mandatory 1 percent contribution to this account. In addition, IAF 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, IAF remits the employer's share of the required contribution. IAF's contribution to employee pension plan were \$394,423 for fiscal year 2005 and \$416,115 for fiscal year 2004. In addition, IAF costs for health and life insurance were \$370,326 for fiscal year 2005 and \$339,948 for fiscal year 2004.

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

O. 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 IAF expenditures for grants over \$35,000 are independently verified using IAF's audit guidelines. IAF's administrative expenses are funded solely by appropriated funds.

P. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates.

Q. Imputed Cost/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. IAF recognized imputed costs and financing sources in fiscal years 2005 and 2004 to the extent directed by OMB.

R. Non-Entity Assets and Liabilities

IAF did not hold any Non-Entity assets or liabilities as of September 30, 2005 and 2004.

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

S. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. IAF recognizes liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. IAF discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to IAF for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made. There are no contingencies that require disclosure.

T. Expired Accounts and Cancelled Authority

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

Note 2. Funds Balance with Treasury

Entity fund balances include amounts that are available to pay liabilities and to finance authorized purchase and grant commitments. Restricted unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

	<u>2005</u>	<u>2004</u>
Fund Balances:		
Appropriated fund	\$ 15,043,704	\$ 15,675,996
Gift fund	75,000	35,661
Social progress trust fund (SPTF)	21,487,399	25,886,299
Total entity funds	<u>\$ 36,606,103</u>	<u>\$ 41,597,956</u>
Status of Fund Balance with Treasury:		
Unobligated balance		
Available	\$ 5,296,565	\$ 1,327,321
Unavailable	5,434,787	12,072,737
Obligated balance not yet disbursed	25,874,751	28,197,898
Total	<u>\$ 36,606,103</u>	<u>\$ 41,597,956</u>

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

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 and prepayments are detailed below:

	<u>2005</u>	<u>2004</u>
Advances and prepayments		
Prepayments other than grant advances	\$ 34,170	\$ 45,293
Grant advances	<u>3,767,006</u>	<u>3,887,889</u>
Total advances and prepayments	<u>\$ 3,801,176</u>	<u>\$ 3,933,182</u>

Note 4. Accounts Receivable

Accounts receivable balances as of September 30, 2005 and 2004 were \$20,000 and \$0, respectively. Accounts receivable from the public are shown net of allowances for uncollectible amounts as of September 30, 2005 and 2004, respectively.

Note 5. Property, Plant and Equipment

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

Schedule of Property, Plant and Equipment as of September 30, 2005

<u>Description</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP equipment	\$ 29,424	\$ 29,424	\$ -
Office furniture	<u>41,072</u>	<u>39,617</u>	<u>1,455</u>
Total	<u>\$ 70,496</u>	<u>\$ 69,041</u>	<u>\$ 1,455</u>

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

<u>Description</u>	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
ADP equipment	\$ 127,893	\$ 127,893	\$ -
Office furniture	<u>106,077</u>	<u>95,361</u>	<u>10,716</u>
Total	<u>\$ 233,970</u>	<u>\$ 223,254</u>	<u>\$ 10,716</u>

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

Note 6. Liabilities

The accrued liabilities for IAF 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>2005</u>	<u>2004</u>
Liabilities covered by budgetary resources		
Intragovernmental		
Accounts payable	\$ -	\$ 127
Payroll taxes payable	26,151	26,611
Program expenses	<u>225,578</u>	<u>1,492</u>
Total intragovernmental	<u>251,729</u>	<u>28,230</u>
Program expenses		
Personnel benefits/metro pool	-	15,000
Rent	5,220	22,000
Staff travel, training, printing, equipment maintenance, supplies, non-capt. equipment	16,649	35,452
Postal, freight	4,798	-
Maintenance of equipment	8,448	-
Staff travel, training, printing, communications and mail services	6,489	-
Supplies & non-capitalized equipment	12,745	-
Program conference support	-	251,000
Grant monitoring services (DVs)	5,327	203,000
Translations	3,027	-
Local advisory service contracts for grantees	115,413	105,000
Research on corporate responsibility	46,884	42,000
Grant audits	39,320	56,000
Misc. services, program	6,619	74,000
Misc. services, program support	7,309	7,977
Accts payable	66,759	74,541
Minus GPO	<u>-</u>	<u>(1,492)</u>
Total program expenses	<u>345,007</u>	<u>884,478</u>
Payroll accrual	164,332	117,509
Payroll taxes payable	<u>4,342</u>	<u>1,654</u>
Total liabilities covered by budgetary resources	<u>765,410</u>	<u>1,031,871</u>
Liabilities not covered by budgetary resources		
Unfunded leave	<u>274,530</u>	<u>258,893</u>
Total liabilities	<u>\$ 1,039,940</u>	<u>\$ 1,290,764</u>

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

Note 6. Liabilities (continued)

<u>Schedule of liabilities (continued)</u>	<u>2005</u>	<u>2004</u>
Reconciliation of other non governmental liabilities:		
Accruals shown above	\$ 278,248	\$ 809,937
Payroll accruals	164,332	117,509
Payroll taxes payable	4,342	1,654
Unfunded leave	274,530	258,893
Total	<u>\$ 721,452</u>	<u>\$ 1,187,993</u>

Note 7. Commitments and Contingencies

In the course of its grant-making activities, IAF 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, 2005 and 2004 total approximately \$22,714,000 and \$25,250,000, respectively.

As of September 30, 2005 and 2004, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

Note 8. 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, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Unexpended appropriations		
Unobligated		
Available	\$ 552,575	\$ 1,177,180
Unavailable	1,784,296	2,353,246
Undelivered orders	<u>13,726,009</u>	<u>12,894,648</u>
Total unexpended appropriation	16,062,880	16,425,074
Cumulative results of operations	23,361,064	27,826,016
Net position	<u>\$ 39,423,944</u>	<u>\$ 44,251,090</u>

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

Note 8. Net Position (continued)

	<u>2005</u>	<u>2004</u>
Reconciliation to statement of budgetary resources		
Unobligated available		
SPTF	\$ 4,743,990	\$ 150,141
Appropriations	<u>552,575</u>	<u>1,177,180</u>
Total unobligated available	<u>5,296,565</u>	<u>1,327,321</u>
Unobligated unavailable		
SPTF	3,650,491	9,719,491
Appropriations	<u>1,784,296</u>	<u>2,353,246</u>
Total unobligated unavailable	<u>5,434,787</u>	<u>12,072,737</u>
Reconciliation to statement of budgetary resources		
Undelivered orders (Less Advances)		
SPTF	13,089,830	14,271,378
Donations	75,000	-
Appropriations	<u>11,944,512</u>	<u>12,894,649</u>
Total undelivered orders	<u>\$ 25,109,342</u>	<u>\$ 27,166,027</u>

Note 9. Program Costs

Costs by major budgetary object classification as of September 30, 2005 and 2004 are as follows:

<u>Budgetary object classifications</u>	<u>2005</u>	<u>2004</u>
Personnel compensation	\$ 3,343,431	\$ 3,442,628
Personnel benefits other than pension, health, and life insurance	355,113	351,447
Pension – CSRS	95,123	114,139
Pension – FERS	299,300	301,976
Health insurance	364,489	333,565
Life insurance	5,837	6,383
Travel and transportation of persons	461,069	390,077
Transportation of things	26,258	9,248
Rents, communication, utilities and misc. charges	832,799	719,958
Printing and reproduction	374,617	73,946
Other services	3,354,937	3,946,359
Supplies and materials	48,653	35,727
Equipment	94,654	15,997
Grants, subsidies, and contributions	<u>17,020,719</u>	<u>14,743,766</u>
Total	<u>\$ 26,676,999</u>	<u>\$ 24,485,216</u>

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

Note 10. Liabilities Not Covered By Budgetary Resources

The liabilities on IAF's Balance Sheet as of September 30, 2005 and 2004, include liabilities not covered by budgetary resources, which are liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources consist entirely of unfunded leave. Unfunded leave balances are \$274,530 and \$258,893 as of September 30, 2005 and 2004, respectively.

Note 11. Imputed Financing Sources

IAF recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. For the fiscal years ended September 30, 2005 and 2004, respectively, imputed financing was \$251,072 and \$254,186, respectively.

Note 12. Financing Sources - SPTF

The Statement of Financing reconciles the financial Net Cost of Operations with the Statement of Budgetary Resources. IAF reports SPTF funds obtained from the IDB as offsetting collections earned. IAF had no exchange revenue in fiscal year 2005 or 2004. For fiscal year 2005 and 2004, IAF received \$4,440,576 and \$11,402,562 respectively, from the IDB, which was reported on its SF-133 as funds received from SPTF collections.

	<u>2005</u>	<u>2004</u>
SPTF cumulative results		
SPTF beginning balance	\$ 27,848,749	\$ 23,304,194
SPTF funds received	4,440,576	11,402,562
Less: SPTF asset transfer	(10,715)	-
Less: SPTF funds expended	<u>(8,776,319)</u>	<u>(6,858,007)</u>
SPTF fund carry forward	<u>23,502,291</u>	<u>27,848,749</u>
 Donations cumulative results		
Donations beginning balance	98,860	127,205
Donations received	75,000	50,000
Less: Donations expended	<u>(94,311)</u>	<u>(78,345)</u>
Donations carry forward	<u>79,549</u>	<u>98,860</u>
 Total SPTF and Donations	24,581,840	27,947,609
Less: Unfunded leave and accumulated depreciation from appropriated funds	<u>(200,776)</u>	<u>(121,593)</u>
Total cumulative results of operations for SPTF, Gift and Appropriated funds	<u>\$ 23,381,064</u>	<u>\$ 27,826,016</u>

INTER-AMERICAN FOUNDATION
Notes to Financial Statements
For the years ended September 30, 2005 and 2004

Note 13. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The 2007 Budget of the United States Government, with the Actual Column completed for fiscal year 2005, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2006. The 2006 Budget of the United States Government, with the Actual Column completed for fiscal year 2004, has been reconciled.

Note 14. Operating Lease

IAF occupies office space under a lease agreement, which is accounted for as an operating lease. IAF entered into a lease agreement that will expire on March 31, 2012. Lease payments are increased annually based on IAF's proportionate share of the building's operating expenses and real estate taxes. The new agreement allows IAF 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 for fiscal years 2005 and 2004 were \$576,030 and \$589,046, respectively. Below is a schedule of future payments for the term of the lease:

Schedule of future operating lease payments

<u>Fiscal Year</u>	<u>Amount</u>
FY2005	\$ 576,157
FY2006	590,186
FY2007	604,566
FY2008	619,305
FY2009	634,413
Thereafter	649,898
Total future payments	<u>\$ 3,674,525</u>

Independent Auditors' Report on Internal Control over Financial Reporting

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 year ended September 30, 2005, and have issued our report thereon dated October 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, 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 non compliance 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 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 the use of 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, Kamy & Associates, P.C.
October 26, 2005

Independent Auditors' 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, 2005, and have issued our report thereon dated October 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, 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 con 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 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, Kamy & Associates, P.C.
October 26, 2005