



**USAID**  
FROM THE AMERICAN PEOPLE

## OFFICE OF INSPECTOR GENERAL

---

# Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2006 and 2005

AUDIT REPORT NO. 0-IAF-07-003-C  
November 15, 2006

WASHINGTON, DC



**USAID**  
FROM THE AMERICAN PEOPLE

*Office of Inspector General*

November 15, 2006

**MEMORANDUM**

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

**FROM:** AIG/A, Joseph Farinella /s/

**SUBJECT:** Report on Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2006 and 2005 (0-IAF-07-003)

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, 2006 and 2005 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 06-03, *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 the laws and regulations. GKA is responsible for the attached auditor's report dated October 27, 2006 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.

## TABLE OF CONTENTS

MESSAGE FROM THE PRESIDENT .....	1
MANAGEMENT DISCUSSION AND ANALYSIS (OVERVIEW).....	4
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS .....	20
BALANCE SHEETS.....	22
STATEMENTS OF NET COST .....	23
STATEMENTS OF CHANGES IN NET POSITION .....	24
STATEMENTS OF BUDGETARY RESOURCES.....	25
STATEMENTS OF FINANCING .....	26
NOTES TO FINANCIAL STATEMENTS .....	27
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL .....	41
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS.....	43

# 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, General Counsel and Corporate Programs; External Affairs; Operations, which houses Evaluation, Financial Management, General Services, Human Resources and Information Management; and the Program Office.

The IAF's role in the advancement of United States foreign policy is highly relevant in the current context. Over the past 35 years, it has delivered U.S. government assistance directly to the people of Latin America and the Caribbean by funding the initiatives of the organized poor and the groups that support them. Once considered experimental, the IAF's methodology—cornered on responsiveness to the ideas emerging from the grassroots and on participation by ordinary people in efforts toward positive change—has become widely recognized for its effectiveness. Particularly as recent development literature surveys the foreign assistance panorama, the IAF's approach is increasingly recommended as the best way to bring economic development and better living conditions to marginalized communities.

In addition to contributing to long-term U.S. interests in good hemispheric relations, its first Congressional mandate, the IAF, flexible by design, responds to unanticipated foreign policy priorities, such as those arising in fiscal 2006: Following natural disasters in Mexico and Central America, the IAF designated or reprogrammed \$875,000 for rescue and recovery. When President Bush announced the urgency to counter youth violence, the IAF responded with more funding for organizations offering alternatives for young people at risk, including gang members. IAF resources were allocated to support Summit of the Americas directives for the inclusion of African descendants and persons with disabilities in their countries' economic and political life and social processes, and toward developing Opportunity Zones, a Summit mandate that grew out of an IAF initiative.

The centerpiece of the IAF's strategy is its grant program, which is bolstered by an evaluation system that holds grantees accountable. In fiscal 2006, the IAF funded 108 new and supplemental grants, many of them to benefit historically excluded groups. As IAF's monitoring confirmed, grantees active during the fiscal year improved the quality of life for thousands of individuals. The IAF shares what it learns about grassroots development from these project experiences through scheduled publications and in a variety of national and international conferences.

In fiscal 2006, the IAF's investment yielded a significant return in resources for grassroots development: IAF corporate foundation partners mobilized more than \$5.95 million for their respective self-help programs. Under the terms of their fiscal 2006 grants and amendments, grantee organizations have committed to contributing counterpart in kind and in cash valued at \$22.3 million. In addition to their counterpart, IAF grantees raised another \$4.7 million to further their efforts.

The Inter-American Foundation's Strategic Plan for fiscal 2008 through fiscal 2013 flows from the lessons of its experience. The Strategic Plan also reflects the IAF's vision for a steady increase in international support for grassroots development. The IAF's fiscal 2008 goals are identical to the longer-term goals in the Strategic Plan and incorporate goals and performance measures developed with the Program Assessment Rating Tool, which helped sharpen the IAF's focus on its development mission.

The IAF streamlines operations, lowers costs and ensures compliance with OMB reporting requirements by outsourcing its procurement, accounting, budget and information technology functions to the Bureau of the Public Debt (BPD). Under an inter-agency agreement, BPD's Office of Information Technology in Parkersburg, West Virginia, maintains a remote data center for IAF contingencies and continuity of operations. In May, the IAF successfully completed annual contingency testing of remote access to alternate file, e-mail and grant database servers at BPD's data center through the use of a Virtual Private Network (VPN) configured on laptops assigned to essential employees.

As mandated by the Federal Information Security Management Act (FISMA), the IAF completed fiscal 2006 self-assessments of management, operational, and technical security controls for the Enterprise Network System and Grant Evaluation and Management System (GEMS) based on IAF policy; OMB Circular A-130, Appendix III; NIST Special Publications 800-53A (Guide for Assessing the Security Controls in Federal Information Systems) and 800-26 (Guide for Information Security Program Assessments); and FIPS Publication 200 (Minimum Security Requirements for Federal Information and Information Systems). Pursuant to its annual audit, USAID's Inspector General reported the IAF's information security program in full compliance with FISMA.

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 maintain more efficiently current data related to suppliers. The IAF is supporting OMB's Financial Management Line of Business (FMLOB) Initiative by using BPD's Oracle Federal

Financials System and related accounting and procurement services. The Oracle platform provides real-time, user-friendly financial reports. Since fiscal 2005, the IAF has been using GovTrip, the government-wide E-Gov Travel system, integrating online booking with the automated authorization and vouchering process allowing travelers to attach receipts electronically. The IAF continues to receive unqualified audits of its financial statements, internal controls over financial reporting, and its compliance with laws and regulations.

I am pleased to introduce the IAF's Fiscal 2006 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:

A handwritten signature in cursive script, appearing to read "Linda B. Kelso".

for Amb. Larry L. Palmer  
President

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### **Mission and Organizational Requirements**

The Inter-American Foundation funds self-help and participatory development efforts in ways that support democracy and strengthen the bonds of friendship and understanding in the Western Hemisphere. The IAF supports initiatives proposed by the organized poor in Latin America and the Caribbean to improve their quality of life. IAF staff, representing the American government and people, maintain a supportive relationship with the grantees and their beneficiaries during the course of projects and, frequently, beyond. The IAF's experiences are documented and shared with a broad and diverse audience.

The IAF vision for the next six years is a steady expansion of support for grassroots development and greater participation by the people of Latin America and the Caribbean in their countries' economic development, social processes and political life. The IAF will continue to respond to the best ideas from the region, empowering people by strengthening a vast infrastructure of community groups and nongovernmental organizations that has become a highly effective and transparent channel for productive foreign assistance. Because a broader resource base is crucial to an expanded IAF program, the IAF will seek enhanced Congressional appropriations and look for other ways of attracting resources. The IAF will build on its well-documented record of drawing local government, businesses, corporate foundations and transnational communities into grassroots development. Through disseminating the lessons of its investment to other donors, to policymakers and to American taxpayers, the IAF can continue to lead the development community toward a realization that bottom-up development, in which the organized poor play a leading role, is more effective than traditional top-down approaches.

### **The Fiscal 2006 Accomplishments**

In fiscal 2006, the Inter-American Foundation received an appropriation of \$19.3 million for program and program support activities, which was supplemented by \$5.6 million from the Social Progress Trust Fund for grants and \$386,000 in carry-over funds. The total budget was \$25.3 million. The IAF remained responsive to the best ideas for engaging poor communities in development.

The IAF funds grassroots development in Latin America 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.



## Grants Funded in Fiscal 2006

In Fiscal 2006, the IAF funded 54 new grants in the amount of \$10,381,000 and amended 54 ongoing projects in the amount of \$3,772,000, totaling more than \$14,153,000 in grant funding, representing 100 percent of all grant funds for fiscal 2006. These funding actions are divided among primary program areas as follows:

Primary Program Areas	Funding Actions	Amount
Food Production/Agriculture	26	\$ 3,346,951
Business Development/Management	30	3,893,394
Education/Training	29	3,211,790
Research/Dissemination	2	79,000
Community Services	4	767,533
Legal Assistance	2	316,300
Cultural Expression	5	727,946
Ecodevelopment	6	1,194,989
Corporate Social Investment	4	615,000
<b>Fiscal 2006 Total IAF Funding</b>	<b>108</b>	<b>\$14,152,903</b>

Descriptions of the fiscal 2006 funding actions are available upon request. Detailed below are the IAF's accomplishments of its objectives for fiscal 2006. 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.

### **Accomplishment of the Goals and Objectives of the Fiscal 2006 Program**

The Inter-American Foundation achieved its goals as follows:

#### ***Strategic Plan Goal I:***

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

**Performance Goal I.1:** Fully implement a more expedited system for responding to proposals and processing grants that remains competitive and transparent and continues to take advantage of internal expertise.

**Performance Measure I.1.1:** Significantly reduce the time between receipt of proposals and obligation of funds.

The time between receipt of proposals and funding decreased from 15 months to 11 months, in part due to the elimination of the annual proposal deadline in favor of a rolling cycle. The IAF expects to further shorten the processing period in fiscal 2007 through new grant management software and a revised call for proposals.

**Performance Goal I.2:** Continue to promote participatory development as the fundamental building block of democratic governance.

*Performance Measure I.2.1: Identify and support innovative development projects that engage their beneficiaries in their design and execution and generate broadly applicable lessons.*

The IAF funded 55 new development projects, using criteria that included innovation, beneficiary participation and the potential for lessons. A complete listing of new grants and amendments is available upon request.

The IAF is engaged in the following initiatives arising out of mandates from the Summit of the Americas (SOA):

- *Opportunity Zones:* President George W. Bush included in his Summit presentation the IAF's proposal to introduce Opportunity Zones in Latin America. Opportunity Zones are self-defined development areas that encourage economic growth through tax incentives as well as training and technical assistance. When John Maisto, U.S. Ambassador to the OAS, discussed the SOA strategies at the June Latin American Conference of Mayors in Miami, he focused on Opportunity Zones. The U.S. Department of Housing and Urban Development provided guidance and materials on U.S. zones (currently "Renewal Communities") and assistance with visits by delegations representing the Guatemalan and Nicaraguan governments sponsored by the IAF. The IAF has met with Honduran officials and expects to introduce the concept in Ecuador and Argentina. Three more delegations are anticipated in fiscal 2007.
- *Improvement of the conditions of African Descendants:* The IAF sponsored the participation of eight African descendent civil society leaders at the SOA; of three at the May 2006 Civil Society Forum held at the OAS; and of 20 at the June 2-3 seminar "Expanding the Participation of Afro-Descendants at the OAS" in Santo Domingo prior to the OAS General Assembly (where these individuals later engaged in a formal dialogue with member states representatives). With IAF support, Partners of the Americas facilitated an eight-week virtual forum on the SOA process for African descendants.
- *More opportunities for persons with disabilities:* In collaboration with the Inter-American Institute for Disabilities, Handicapped International and the World Bank, the IAF funded 30 travel grants enabling the participation of Latin American disability activists at the seventh and eight meetings of United Nations Ad Hoc Committee on a Comprehensive and Integral Convention on the Protection and Promotion of Rights and Dignity of Persons with Disabilities. Support for projects benefiting persons with disabilities increased from one percent of IAF's 2003 funds to 5 percent of 2004 funds to 7 percent of 2005 funds. IAF grants benefiting persons with disabilities were awarded in Peru, El Salvador and the Dominican Republic.

The IAF briefed the Department of State's Western Hemisphere Affairs' Policy Planning staff on the IAF's philosophy, programs, approaches and contributions to U.S. foreign policy.

**Performance Measure I.2.3:** Promote training in local development, governance and capacity-building activities through direct sponsorship and through partnering with other sponsors.

The IAF funded 55 scholarships for grantee representatives and other Latin Americans to participate in the *International Labour Organization's Delnet Program* (Delnet) providing training in local development and networking opportunities online and on-site.

The Inter-American Democracy Network (IADN) inaugurated in Cartagena, Colombia, its methodology for training communities in constructive interaction and public debate. Eight conflict resolution workshops were conducted in Peru, Ecuador, Panama and Argentina.

The IAF, in collaboration with Miami-Dade County and Florida International University, sponsored the XII Inter-American Conference of Mayors and Local Authorities where more than 500 representatives of government, NGOs, international organizations, donors and others participated in workshops on community problem-solving and the application of technology, and discussed their experience and common goals in the promotion of democratic local governance.

**Performance Measure I.2.4:** Promote understanding of grassroots development by 1) extracting learning from projects funded; 2) evaluating selected projects in depth; 3) supporting research on specific topics; 4) publishing these experiences; and 5) sponsoring and participating in events to disseminate learning.

In fiscal 2006, 10 closed projects were randomly selected from a pool of 54 for in-depth analysis and evaluation. IAF staff discussed findings from the fiscal 2005 evaluations and their applicability to the grant-making process.

At the Miami Mayors' Conference, an IAF panel discussed community-based recycling and solid waste management initiatives that have enabled marginalized groups to improve their standard of living and address political and social challenges.

IAF planned the reactivation of the doctoral research component of IAF's Fellowship Program for fiscal 2007 with the goal of building the community of scholars specialized in grassroots development.

**Performance Goal I.3:** Identify opportunities for development among people of African descent, who comprise half the population living below the poverty line in Latin America and the Caribbean.

**Performance Measure I.3.1:** Fund development projects proposed by grassroots organizations representing African descendants.

The IAF funded 13 grants, totaling \$2.7 million, benefiting more than 29,000 African descendants in Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Mexico, Paraguay and Panama.

**Performance Measure I.3.2:** Promote the inclusion of grassroots organizations serving African descendants in international development agendas.

The IAF supported events with a variety of donors aimed at increasing awareness of issues affecting African descendent communities and at strengthening their organizations:

The IAF sponsored two seminars in Washington, D.C., with the National Council of La Raza (NCLR) and the Inter-Agency Consultation on Race: *Andean Voices, African Roots: A Discussion on Blackness, Community, and Culture* and *African Beat, Caribbean Echoes: Blackness in the Formation of Dominican Identity*. More than 100 community leaders, graduate students and others at the NCLR's annual conference attended an IAF sponsored workshop, *Afro-Latina Women Speak Up: A Discussion on Gender, Ethnicity and Community*, where panelists spoke on community engagement, grassroots development and a stronger role for Afro-Latinas.

The IAF funded the participation of African descendent leaders at events in preparation for the *Regional Race Conference: Santiago + 5*, hosted by the Brazilian government, which followed-up on the 2001 World Conference on Racism in Durban:

- *The Conference to Establish a Policy Agenda for Racial Equality in the Americas*, which brought together prominent African descendent academics, entrepreneurs, government officials and civil society representatives from the hemisphere to develop an agenda. A Capitol Hill reception followed and several participants traveled to Ottawa to meet with Canadian donors.
- Several sub-regional preparatory events, including a meeting with the president of Uruguay and Uruguayan officials responsible for race relations.
- The Meeting of the Coordinating Committee of the Afro-Parliamentarians in Costa Rica.
- The meeting of the Afro-Latino and Afro-Caribbean regional women's network, held in Nicaragua, which brought together 40 women from 14 countries.
- A workshop for civil society delegates to the Race Conference to finalize their strategy for negotiating with government officials.

*The First International Conference of Afro-Colombian Grassroots Leaders*, cosponsored by the IAF, Global Rights and other U.S. organizations, brought together Colombian civil society leaders to strengthen coordination among Afro-Colombian communities in their negotiations with international donors and to meet with officials from the IAF, State Department, Congress, World Bank, IDB and USAID.

*Making the Invisible Visible: Internationalizing the African Diaspora Imperative—African Descendants of Latin America Speak* included IAF-sponsored panel discussions and visits to grassroots and human rights organizations in New York. Ten African descendent women leaders later took part in public affairs programs on university campuses and meetings at the Council of Foreign Relations, *El Diario/La Prensa* and *Essence Magazine*. Activities were coordinated with the Global Afro-Latino and Caribbean Initiative and the Ford Foundation.

**Performance Measure I.3.3:** Promote understanding of the dynamics and historic role of African descendent communities in grassroots development in Latin America and the Caribbean by supporting studies on those topics, sponsoring events and publications, and disseminating this learning.

An IAF grant of \$44,000 grant to the Latin American Studies Association for two of the five research teams comprising its *Otros Saberes* project pairs U.S. scholars with indigenous and African descendent intellectuals who are studying, respectively, transnational indigenous networks and the civic participation of African descendants. Results will be published.

A photo essay on IAF's Web site portraying diversity and development in Afro-Andean communities was exhibited at the IAF-NCLR event *Andean Voices, African Roots, supra*.

The IAF displayed photos of its grantees' beneficiaries and other Afro-Dominicans at the IAF-NCLR event *African Beat, Caribbean Echoes: Blackness in the formation of Dominican Identity*. (See also Performance Measure 1.3.2., *supra*.)

The IAF and State's Office of Public Diplomacy co-sponsored the February "Viajes Personales: Photography and Oral History Workshop for Afro-Nicaraguan Youth," the second of three Department-coordinated workshops for young African descendants. The first was held in Mexico in October and the third in Colombia in June.

**Performance Measure I.3.4:** Promote training and capacity-building activities through grant funding and by entering into strategic partnerships with multilateral and other donor agencies.

Ten grants funded in fiscal 2006 include training and capacity-building activities for African descendants in Colombia, the Dominican Republic, Ecuador, Haiti, Mexico, Panama and Paraguay.

**Performance Measure I.3.5:** Include in *Grassroots Development* coverage of self-help efforts by African descendent communities and organizations.

*Grassroots Development* 2006 has a section on the IAF's outreach to African descendants. Among the events covered is Ecuadorian folklorist Juan Garcia's visit to Washington, D.C. The IAF funded Garcia's pioneering work in documenting Afro-Ecuadorian oral tradition during the 1980s. Garcia's research catalyzed the Afro-Ecuadorian community's awareness of its identity and heritage and he later compiled textbooks from his research. The same issue of *Grassroots Development* features an interview with rock star Wyclef Jean on his efforts to mobilize the Haitian Diaspora to work with him toward better conditions in Haiti.

Work has begun on *Grassroots Development 2007* which will focus on African descendants.

**Performance Goal I.4:** Continue to promote development efforts among indigenous communities.

**Performance Measure I.4.1:** Increase funding for local development projects presented by grassroots organizations serving indigenous communities.

The IAF funded eight grants totaling \$1,688,954 and amended eight ongoing projects in the amount of \$606,615 to benefit indigenous communities in Argentina, Bolivia, Brazil, Guatemala, Mexico, Panama and Peru.

**Performance Measure I.4.2:** Promote the inclusion of indigenous grassroots organizations on the international development agenda.

The IAF sponsored travel grants for representatives of indigenous women's grassroots groups and indigenous lawyers from Oaxaca, Mexico, to present their concerns to the Inter-American Commission on Human Rights and other audiences.

**Performance Measure I.4.3:** Promote understanding of the dynamics, historic role and civic potential of indigenous communities in grassroots development in Latin America/Caribbean by supporting studies on those topics, sponsoring events and publications, and generally disseminating this learning within the donor community, as well as to policy-makers, service organizations and communities themselves.

*Grassroots Development 2006* includes a major article on Peruvian grassroots visionaries Aquiles and Morena Lanao whose dedication and perseverance produced an impressive savings rate among the indigenous women clients of FINCA Peru, funded by the IAF in 1990s.

An IAF press release helped build attendance at a June "Bolivia Day" series of events at Pangea, an International Finance Corporation-supported crafts shop and café in Washington, DC. Products from two IAF grantees were featured, and IAF representative Kevin Healy described successful indigenous businesses and signed copies of his book that details more than two decades of grassroots development in Bolivia.

**Performance Measure I.4.4:** Facilitate training and capacity-building activities for indigenous organizations through grant funding or strategic partnerships with multilateral and other donor agencies.

IAF grantee Asociación Boliviana para el Desarrollo Rural (PRO RURAL), working with Irupana Andean Organic Food Company that sells natural food products from high-protein Andean grains grown on small plots, received financing from the International Finance Corporation to expand its productive capacity by building a new industrial complex for making multi-cereal bars that add value to the native grains and increase export opportunities.

Nine grants funded in fiscal 2006 include training and capacity-building activities in indigenous communities in Brazil, Bolivia, Mexico, Panama and Peru.

**Performance Measure I.4.5:** Continue to document, with articles and other coverage, the successful transition by indigenous citizens into positions of regional and national leadership both in countries with a significant indigenous population and in countries where indigenous peoples are a minority.

*Grassroots Development 2006* chronicles how the rise of Rosario Quispe, an indigenous Argentine, from local to regional to national leadership took a new direction when her guidance on economic development reached indigenous Bolivian communities.

The efforts of Leticia Toj, a Mayan regional health care leader, to meet the needs of Hurricane Stan victims in Guatemala, are included in *Grassroots Development 2006*. Work has begun toward a *Grassroots Development 2007* note on former Bolivian grantees now cabinet ministers.

### ***Strategic Plan Goal II:***

#### ***Further learning from monitoring and targeted research.***

**Performance Goal: II.1:** Work with networks of Latin American and Caribbean donors dedicated to responsive grassroots development funding, such as the Inter-American Network of Corporate Foundations and Actions for Grassroots Development (RedEAmérica), networks of community foundations and networks of national social funds, toward harmonizing and sharing grant-making guidelines, information collection and results analysis.

**Performance Measure II.1.1:** Pursue contacts and collaborative relationships with such networks and actively disseminate among them the IAF's view of participatory grassroots development as the cornerstone of democratic, sustainable development.

In Paraguay, where there are no RedEAmérica members, the IAF met with prospective members and business leaders who are now preparing a proposal for a Grassroots Development Fund with IAF participation.

IAF partner and RedEAmérica member Fundación Acción Responsabilidad Social Empresarial has assisted Gerdau Aza, a Chilean steel company, in applying grassroots development methodologies in its work with recycling cooperatives in Santiago.

The IAF met with a representative of Genesis Foundation (Genesis), a group of Colombian and American business leaders committed to supporting education and health initiatives for underserved children up to 18 years old. As a result, Genesis initiated contact with RedEAmérica members in Colombia and has applied for membership.

The IAF funded a grant to Fundación Sustentabilidad, Educación, Solidaridad which will study the feasibility of developing community foundations in 10 provinces in Argentina, in partnership with a network of nongovernmental organizations and businesses.

**Performance Measure II.1.2:** Provide encouragement and support toward a standardized results reporting system, which would allow aggregation of RedEAmérica data using a common electronic data base.

With IAF funding, RedEAmérica conducted four regional workshops for 260 individuals, representing 49 current and prospective members, who were trained in the application of RedEAmérica tools, including the set of common indicators for measuring funding impact.

**Performance Measure II.1.3:** Finalize an updated monitoring and evaluation system that gathers and analyzes data for reports, congressional presentations and the IAF board of directors.

Indicators of the intangible impact of IAF-funded projects were incorporated into the Grassroots Development Framework, IAF's data collection instrument, for application to new grants.

**Performance Goal II.2:** Consolidate the IAF's information collection and develop greater analytical capacity, conduct more in-depth inquiries, and internalize and share lessons.

**Performance Measure II.2.1:** Continue to perfect IAF evaluation methodology as applied to at least 10 in-depth grant evaluations per year.

Reports now include expected as well as unexpected results of projects evaluated. Evaluations point to the need for baseline data on conditions existing at the start of the project, which new grantees are encouraged to provide.

**Performance Measure II.2.2:** Incorporate the learning from these evaluations into IAF project selection and monitoring.

Evaluation findings have been discussed with IAF staff for application to proposal review.

**Performance Measure II.2.3:** Share these lessons with communities, service organizations and with other donors.

Evaluations have been shared with grantees, ex-grantees and prospective proponents.

**Performance Goal II.3:** Present to the broad development assistance community cutting-edge analysis that encourages additional and more targeted resources for grassroots development.



**Performance Measure II.3.1:** Disseminate the findings of a major study on corporate social responsibility, undertaken in fiscal 2004 and fiscal 2005 by Lester Salamon of the Johns Hopkins University.

Because of Dr. Salamon's previous commitments, a possibility he made clear to IAF when his contract was awarded, delivery dates for his reports and manuscripts were extended by one year. The final manuscript is now due in August 2007, and dissemination, including conferences and symposia involving other donors, will take place in fiscal 2008.

**Performance Measure II.3.2:** Develop formal agreements with other donors as well as informal contacts to share such learning.

Fundación Esquel's study of RedEAmérica members' efforts to mobilize resources was followed by a workshop to share experiences. Fundación Empresarios por la Educación will provide a menu of options on how to incorporate grassroots development methodologies into the education programs many companies prefer to fund. Fundación Arcor is leading a study on business-community relations to share with other RedEAmérica members.

As per Performance Measure I.2.2., *supra*, the IAF has developed an effective relationship with the U.S. Mission to the OAS regarding SOA follow-up. In connection with its Opportunity Zones initiative, the IAF has also contacted USAID and the Millennium Challenge Corporation field offices regarding collaborations *in situ*.

The IAF maintains frequent contact with specific offices within USAID, the IDB, the World Bank, IFC and the OAS as well as with private donors, such as Ford Foundation and the Rockefeller Foundation, particularly in the U.S.-Mexico Border Donors' Collaborative.

**Performance Measure II.3.3:** Collaborate with other donors on organizing events such as conferences and symposia where such knowledge is disseminated.

IAF staff, RedEAmérica members and representatives from Harvard University and other research institutions participated in a conference at the Universidad de San Andrés in Buenos Aires on evaluating, researching and disseminating findings on grassroots development.

The IAF is collaborating with the OAS/Department for the Promotion of Good Governance toward a major conference and follow-up dissemination on the role of foreign assistance in participatory local government. Possible partners will be the Open Society Institute, the Canadian Agency for International Development and the Woodrow Wilson Center. A previous collaboration in 2001 led to a conference and publication titled *Building Democracy from the Grassroots*.

The IAF worked at increasing awareness of issues affecting African descendent communities and strengthening their organizations with members of the Inter-American Consultation on Race (IAC): the World Bank, the Inter-American Development Bank (IDB), OAS, Ford Foundation, the Pan American Health Organization and the Inter-American Dialogue. (See Performance Measure I.3.2, *supra*.)

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

**Performance Goal III.1:** Collaborate with a broad range of U.S. and other donors in an array of arrangements.

**Performance Measure III.1.1:** Disseminate an IRS ruling that grants made by U.S. foundations to overseas organizations through the IAF meet expenditure responsibility requirements, and encourage the use of the IAF as a conduit for grants from other U.S. donors.

IAF staff is researching Patriot Act requirements for private U.S. donors to overseas organizations. Discussions have been held with the IAF board of directors on various dissemination strategies for this new resource mobilization tool.

**Performance Goal III.2:** Increase the number of grassroots development grants from RedEAmérica to community organizations.

Between December 2003 and December 2005, RedEAmérica channeled IAF and corporate funding to grassroots development projects by 369 community membership organizations reaching more than 66,630 beneficiaries, including children and adolescents, African descendants and indigenous groups. Projects targeted income-generation, academic improvement, the promotion of solidarity and respect, cultural activities and institutional strengthening.

IAF funded one cooperative agreement with a RedEAmérica member in Chile and amended three others that work with community organizations in Argentina, Chile and Brazil.

**Performance Measure III.2.1:** Contribute to the admission of new members to RedEAmérica, to an expanded capability of all members to fund more community organizations, and to the mobilization of financial resources from members and from other sources.

Under fiscal 2006 agreements, each RedEAmérica partner must double the IAF's contribution and pays all administrative costs of channeling funding to beneficiary community organizations. The IAF's 25 bilateral agreements with RedEAmérica members resulted in the mobilization of \$5,957,000 in cash from corporate sources in fiscal 2006; in all, \$11,267,000 has been mobilized since RedEAmérica's founding in 2002.

**Performance Goal III.3:** Identify and support evolving transnational relationships that encourage immigrant organizations to aid the development of their home communities, and promote and connect this effort with other interested parties.

**Performance Measure III.3.1:** Continue collaboration with immigrant groups in the U.S. and Canada to support development projects in their communities of origin and identify new

financial and technical resources through seminars with these groups, foundations, academics and municipal authorities in U.S. cities with major immigrant communities.

The IAF funded two grants to organizations in Mexico and El Salvador that work with migrants in the United States.

**Performance Measure III.3.2:** Continue disseminating among development and related organizations the results of IAF's involvement in transnational linkages and of its assistance in transforming linkages into co-development initiatives by immigrant communities in the United States and their countries of origin.

IAF staff and grantees speaking on transnational linkages reached audiences that included local, state, and federal government officials, migrant organizations, students and academics at the Binational Forum on Productive Projects in Jalisco, Mexico; and at *Promise and Pitfalls of Migrant Investment in Local Development*, a panel in the series on remittances and development organized by the Fletcher School, Tufts University.

The IAF sponsored 29 travel grants for participants in a conference at the Woodrow Wilson Center on Mexican migrant binational civic and political participation, which brought together leaders of hometown associations, established Latino organizations, academics, policymakers and community development practitioners from the U.S. and Mexico.

In October, for the third consecutive year, the IAF sponsored 14 travel grants for women to participate in the *Salvadoreños en el Mundo* conference. Fiscal 2006 participants formed a Women's Consultative Committee that has since raised money to assist rural women in El Salvador with education, health and literacy.

About 70 mayors and municipal council members at the Mayor's Conference, *supra*, attended an IAF-organized panel on *Transnational Communities and Local Governments*, which included the director of Salvadoran grantee CARECEN, the mayor of Acajutla, and a representative of the Los Angeles-based home town that supports Acajutla.

The IAF held several seminars in El Salvador on migration and remittances for grantees and representatives of other donor agencies, as part of an ongoing series begun three years ago to disseminate best practices.

More than 80 people at the July NCLR annual conference, *supra*, attended the IAF-organized panel on the role of transnational community organizations in promoting development and citizen participation. Speakers included representatives from the Zacatecan Federation of Southern California, the Confederation of Mexican Federations of the Midwest, the Women's Consultative Committee of Salvadorans in the World and the Central American Coalition of Los Angeles.

The IAF's reception during the NCLR conference brought together immigrant leaders, local authorities, foundation representatives and others to honor and disseminate the contributions of migrant hometown associations in promoting development in Latin America.

**Performance Measure III.3.3:** Connect to efforts in Canada and other countries that can use their own transnational linkages as a development resource.

IAF provided materials for the CanAFRO Web site, a project of the Canadian Foundation for the Americas in partnership with the Inter-Agency Coalition for Race in the Americas to highlight Afro-descendent development issues.

See also, 1.3.2., *supra*.

**Performance Measure III.3.4:** Expand community foundation activities on the U.S.-Mexico border, including monetary and nonmonetary transfers (such as technical assistance), through promoting challenge grants and other forms of cross-border philanthropy.

In September, IAF sponsored a conference on grassroots development with seven community foundations on the border.

The IAF amended a grant to the Mexican community foundation Fundación del Empresario Sonorense, A.C.

**Performance Measure III.3.5:** Publish an issue of *Grassroots Development* focused on trends in transnational community development.

*Grassroots Development* 2006 includes 10 articles on transnational development as well as six reviews of resources available. The articles cover migration and development, hometown associations, the role of the Diaspora, IAF's roundtables, its transnational portfolio in Mexico and El Salvador and projects benefiting indigenous communities split between two countries.

***Strategic Plan Goal IV:***

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

**Performance Goal IV.1:** Continue improving the Grassroots Development Framework to reflect work on those “intangible” results of IAF’s program relevant to democratic engagement and deliberation.

**Performance Measure IV.1.1:** Develop new and revised indicators of intangible results of IAF-funded projects and integrate them into the Grassroots Development Framework.

See II.1.3, *supra*.

**Performance Measure IV.1.2:** Test and adjust the Grassroots Development Framework manual, developed in Fiscal 2005, for use by data verifiers and grantees.

A new Grassroots Development Framework manual was compiled.

**Performance Measure IV.1.3:** Sponsor a review and evaluation of the revised framework.

The Grassroots Development Framework indicators were revised and introduced to IAF staff.

**Performance Goal IV.2:** Maintain IAF's print and electronic publications in the vanguard of reporting on and analysis of grassroots development in order to promote a deeper understanding of self-help in improving living conditions.

**Performance Measure IV.2.1:** Disseminate quality material on the lessons from the IAF's more than three decades of experience in funding innovative self-help initiatives.

*Grassroots Development 2006* covers a broad range of IAF experiences: the IAF's portfolio of transnational projects; two successful micro credit programs; IAF's responses to Hurricanes Mitch and Stan; outreach to African descendants and to persons with disabilities; and the development of ecotourism and revival of indigenous traditions on Taquile Island, Peru. This and previous issues carried information on IAF's earlier publications, resulting in requests from throughout the hemisphere.

Among its human interest stories showing the impact of development assistance on people's lives, the State Department's Public Diplomacy Web site features Agua para el Pueblo, which brings access to water to isolated communities; OPCION/Aj Ticonel, an NGO with a business arm that inserts Guatemalan farmers into the globalized economy; and FUNDAMYF, an Ecuadorian micro credit program for women with small businesses.

The IAF redesigned its Web site to accommodate "Changing Lives," using photos and vignettes to highlight the tangible benefits of IAF's projects for individuals and communities.

IAF's Web site now provides links to more than 200 grantee Web sites.

The IAF disseminated news releases to U.S. embassy press offices in every country where our grants were awarded; many were distributed to local media and reproduced verbatim.

Photos on IAF grassroots funding were exhibited at the Chilean Embassy; the Woodrow Wilson Center; the University of Texas, Austin; and the Copper Queen Library, Bisbee, Ark.

Ambassador William Eaton headed the visit of a delegation from the U.S. Embassy in Panama to FUNBARU. Members observed the IAF grantee's innovative use of Guadua bamboo in alternative agriculture and received samples of bamboo handicrafts.

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

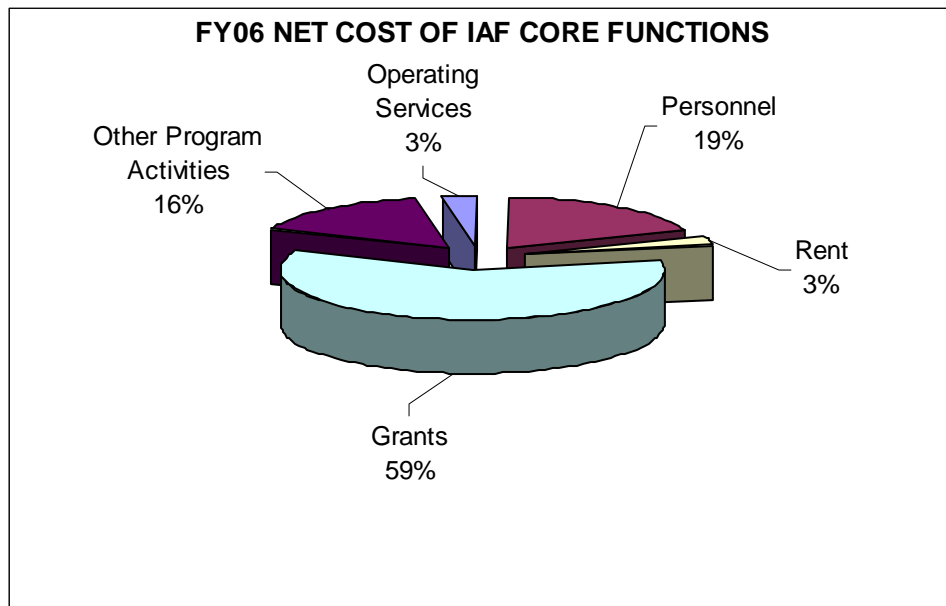
The IAF works in poor, often remote, areas lacking infrastructure, vulnerable to health problems, weather and natural disasters, fragile agriculturally, and unstable politically. International phenomena such as markets, wars, and foreign investment also may affect planned activities. Yet only rarely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

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

### Net Cost of Core Functions

The activity reported in the Statement of Net Cost reflects the resources used by the IAF during the year. Program costs of \$24,665,565 reflected a decrease of \$2,014,434 in resources used from the fiscal 2005 amount of \$26,679,999.

Personnel compensation and benefits increased from \$4,463,293 in fiscal 2005 to \$4,781,144 in fiscal 2006 reflecting an increase of \$317,851. In fiscal 2006, program-related Contractual Services used \$4,010,675 of IAF resources. The difference of \$655,738 from fiscal 2005, which reported \$3,354,937 in resources used, reflects an increase of approximately 19.5 percent. See pie chart below:



### Fund Balance with U.S. Treasury

Total resources available from the U.S. Treasury and other financing sources for fiscal 2006 and 2005 were \$35,137,832 and \$36,606,103, respectively. The difference of \$1,468,271 is due to a net decrease in the Social Progress Trust Fund (SPTF) collections in FY-06 and a cancellation of \$48,087 in fiscal 2000/2001 appropriated funds, which expired in FY-06. The SPTF agreement was amended during fiscal 2002 to provide all remaining funds to the IAF until they are exhausted, in approximately 14 years. See Note 1 in the Financial Statements for funding source and Note 8 for the end-of-year net position.

### **Limitations on Financial Statements**

These financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3513. While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

## Independent Auditor's Report on Financial Statements

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

We have audited the accompanying Balance Sheet of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of September 30, 2006 and 2005, 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.

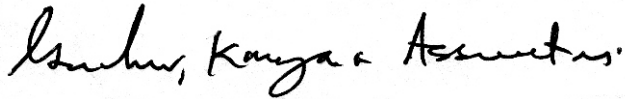
We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin No. 06-03, *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, 2006 and 2005, 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 (MD&A) section is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, OMB Circular A-136, *Financial Reporting Requirements*. 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. However, we have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the MD&A information.



In accordance with *Government Auditing Standards*, we have also issued reports dated October 27, 2006 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.

A handwritten signature in black ink that reads "Isuhur, Kanya & Associates". The signature is written in a cursive, flowing style.

October 27, 2006

**INTER-AMERICAN FOUNDATION**  
**BALANCE SHEETS**  
As of September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 35,137,832	\$ 36,606,103
Other	5,342	35,150
	<u>35,143,174</u>	<u>36,641,253</u>
Total intragovernmental	35,143,174	36,641,253
Account receivable, net (Note 4)	427	20,000
General property, plant and equipment, net (Note 5)	729	1,455
Advances and prepayments (Note 3)	3,206,128	3,801,176
	<u>3,206,128</u>	<u>3,801,176</u>
<b>Total assets</b>	<b><u>\$ 38,350,458</u></b>	<b><u>\$ 40,463,884</u></b>
<b>Liabilities</b>		
Intragovernmental		
Accounts payable (Note 6)	\$ 89,547	\$ -
Other (Note 6)	29,005	251,729
	<u>118,552</u>	<u>251,729</u>
Total intragovernmental	118,552	251,729
Accounts payable (Note 6)	395,226	66,759
Other (Note 6)	477,245	721,452
	<u>477,245</u>	<u>721,452</u>
<b>Total liabilities</b>	<b><u>991,023</u></b>	<b><u>1,039,940</u></b>
<b>Net Position</b>		
Unexpended appropriations – Other funds	17,898,210	16,062,880
	<u>17,898,210</u>	<u>16,062,880</u>
Cumulative Results of Operations		
Earmarked funds (Note 15)	19,767,528	-
Other funds	(306,303)	-
	<u>19,461,225</u>	<u>23,361,064</u>
Total cumulative results of operations	19,461,225	23,361,064
	<u>19,461,225</u>	<u>23,361,064</u>
<b>Total net position</b>	<b><u>37,359,435</u></b>	<b><u>39,423,944</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 38,350,458</u></b>	<b><u>\$ 40,463,884</u></b>

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

**INTER-AMERICAN FOUNDATION**  
**STATEMENTS OF NET COST**  
**For the Years Ended September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Program Costs</b>		
Foreign Grant Program		
Gross costs (Note 9)	\$ 24,665,565	\$ 26,676,999
Less: Earned Revenue	-	-
<b>Net Cost of Operations</b>	<u>\$ 24,665,565</u>	<u>\$ 26,676,999</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, 2006 and 2005**

	<u>2006</u>			<u>2005</u>
	<u>Earmarked Funds</u>	<u>All Other Funds</u>	<u>Total</u>	
<b>Cumulative Results of Operations</b>				
Beginning balance	\$ 23,581,840	\$ (220,776)	\$ 23,361,064	\$ 27,826,016
<u>Budgetary Financing Sources</u>				
Appropriations used	-	17,421,583	17,421,583	17,445,399
Non-exchange revenue	3,062,440	-	3,062,440	4,440,576
Donations and forfeitures of cash and cash equivalents	-	-	-	75,000
<u>Other Financing Sources (Non-Exchange)</u>				
Imputed financing sources (Note 11)	-	281,703	281,703	251,072
Total financing sources	3,062,440	17,703,286	20,765,726	22,212,047
Net cost of operations	(6,876,752)	(17,788,813)	(24,665,565)	(26,676,999)
Net changes	(3,814,312)	(85,527)	(3,899,839)	(4,464,952)
Ending balance	19,767,528	(306,303)	19,461,225	23,361,064
<b>Unexpended Appropriations</b>				
Beginning balance	-	16,062,880	16,062,880	16,425,074
<u>Budgetary Financing Sources</u>				
Appropriations received	-	19,500,000	19,500,000	18,000,000
Other adjustments	-	(243,087)	(243,087)	(916,795)
Appropriations used	-	(17,421,583)	(17,421,583)	(17,445,399)
Total Unexpended Appropriations	-	17,898,210	17,898,210	16,062,880
<b>Net position</b>	<b>\$ 19,767,528</b>	<b>\$ 17,591,907</b>	<b>\$ 37,359,435</b>	<b>\$ 39,423,944</b>

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

**INTER-AMERICAN FOUNDATION**  
**STATEMENTS OF BUDGETARY RESOURCES**  
**For the Years Ended September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Budgetary Resources:</b>		
Unobligated balance brought forward, October 1	\$ 10,731,352	\$ 13,400,058
Recoveries of prior year unpaid obligations	2,583,454	1,397,453
	<u>13,314,806</u>	<u>14,797,511</u>
Budget Authority		
Appropriation	19,500,000	18,000,000
Spending authority from offsetting collections		
Earned:		
Collected	3,062,440	4,515,576
	<u>35,877,246</u>	<u>37,313,087</u>
Permanently not available	<u>(243,087)</u>	<u>(916,795)</u>
<b>Total Budgetary Resources</b>	<b><u>\$ 35,634,159</u></b>	<b><u>\$ 36,396,292</u></b>
<b>Status of Budgetary Resources:</b>		
Obligations incurred		
Direct	\$ 25,329,994	\$ 25,664,940
Unobligated balance		
Apportioned	9,638,846	5,296,565
Unobligated balances not available	<u>665,319</u>	<u>5,434,787</u>
<b>Total status of budgetary resources</b>	<b><u>\$ 35,634,159</u></b>	<b><u>\$ 36,396,292</u></b>
<b>Change in Obligated Balance:</b>		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 25,874,752	\$ 28,197,898
Obligations incurred, net	25,329,994	25,664,940
Less: Gross outlays	(23,787,624)	(26,590,633)
Less: Recoveries of prior year unpaid obligations, actual	<u>(2,583,454)</u>	<u>(1,397,453)</u>
<b>Obligated balance, net, end of period</b>	<b><u>\$ 24,833,668</u></b>	<b><u>\$ 25,874,752</u></b>
<b>Net Outlays:</b>		
Gross outlays	\$ 23,787,624	\$ 26,590,633
Less: Offsetting collections	<u>(3,062,440)</u>	<u>(4,515,576)</u>
<b>Net Outlays</b>	<b><u>\$ 20,725,184</u></b>	<b><u>\$ 22,075,057</u></b>

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

**INTER-AMERICAN FOUNDATION**  
**STATEMENTS OF FINANCING**  
**For the Years Ended September 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated		
Obligations incurred	\$ 25,329,994	\$ 25,664,940
Less: Spending authority from offsetting collections and recoveries	(5,645,894)	(5,913,029)
Net obligations	19,684,100	19,751,911
Other Resources		
Donations and forfeitures of property	-	75,000
Imputed financing from costs absorbed by others	281,703	251,072
Other (Note 9)	3,062,440	4,440,576
Net other resources used to finance activities	3,344,143	4,766,648
<b>Total resources used to finance activities</b>	<b>23,028,243</b>	<b>24,518,559</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	1,584,093	2,153,541
Resources that fund expenses recognized in prior periods	19,573	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	1,603,666	2,153,541
<b>Total resources used to finance the net cost of operations</b>	<b>24,631,909</b>	<b>26,672,100</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
<i>Components Requiring or Generating Resources in Future Periods:</i>		
Increase in annual leave liability	32,931	15,638
<i>Components not Requiring or Generating Resources:</i>		
Depreciation and amortization	725	9,261
Other	-	(20,000)
<i>Total components of Net Cost of Operations that will not require or generate resources</i>	725	(10,739)
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<b>33,656</b>	<b>4,899</b>
<b>Net Cost of Operations</b>	<b>\$ 24,665,565</b>	<b>\$ 26,676,999</b>

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

**INTER-AMERICAN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006 and 2005**

**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 OMB Bulletin Number 06-03, 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 principles of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, *Financial Reporting Requirements* 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, and Statement of Financing. In accordance with OMB Circular A-136, the financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in U.S. 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 support the initiatives of non-governmental and community-based organizations in Latin America and the Caribbean to implement their economic development and poverty reduction projects.

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 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 2006 and 2005, IAF was accountable for the 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

**INTER-AMERICAN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006 and 2005**

Treasury General Fund warrants and transfers from the Inter-American Development Bank (IDB).

**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 established the FASAB in 1990. The American Institute of Certified Public Accountants 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**  
**September 30, 2006 and 2005**

IAF recognizes as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on its 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

**INTER-AMERICAN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006 and 2005**

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:

<u>Description</u>	<u>Useful Life (in 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

**INTER-AMERICAN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006 and 2005**

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.

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 \$440,474 for fiscal year 2006 and \$394,423 for fiscal year 2005. In addition, IAF costs for health and life insurance were \$391,618 for fiscal year 2006 and \$370,326 for fiscal year 2005.

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 2006 and 2005 to the extent directed by OMB.

**INTER-AMERICAN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006 and 2005**

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

IAF did not hold any Non-Entity assets or liabilities as of September 30, 2006 and 2005.

**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—FUND 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.

**INTER-AMERICAN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<u>Fund Balances</u>		
Appropriated fund	\$ 16,509,112	\$ 15,043,704
Gift fund	75,000	75,000
Social progress trust fund (SPTF)	<u>18,553,720</u>	<u>21,487,399</u>
Total entity funds	<u>\$ 35,137,832</u>	<u>\$ 36,606,103</u>
<u>Status of Fund Balance with Treasury</u>		
Unobligated balance includes SPTF		
Available	\$ 9,638,846	\$ 5,296,565
Unavailable	665,318	5,434,787
Obligated balance not yet disbursed	<u>24,833,668</u>	<u>25,874,751</u>
	<u>\$ 35,137,832</u>	<u>\$ 36,606,103</u>

**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>2006</u>	<u>2005</u>
Prepayments other than grant advances	\$ 78,231	\$ 34,170
Grant advances	<u>3,127,897</u>	<u>3,767,006</u>
Total	<u>\$ 3,206,128</u>	<u>\$ 3,801,176</u>

**NOTE 4—ACCOUNTS RECEIVABLE**

Accounts receivable balances as of September 30, 2006 and 2005 were \$427 and \$20,000 respectively. Accounts receivable from the public are shown net of allowances for uncollectible amounts as of September 30, 2006 and 2005, respectively.

**INTER-AMERICAN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006 and 2005**

**NOTE 5—PROPERTY, PLANT AND EQUIPMENT**

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

	<b>September 30, 2006</b>		
	<b>Acquisition Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
ADP equipment	\$ 27,000	\$ 27,000	\$ -
Office furniture	41,072	40,343	729
	\$ 68,072	\$ 67,343	\$ 729

	<b>September 30, 2005</b>		
	<b>Acquisition Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
ADP equipment	\$ 29,424	\$ 29,424	\$ -
Office furniture	41,072	39,617	1,455
	\$ 70,496	\$ 69,041	\$ 1,455

**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

	<b>2006</b>	<b>2005</b>
<b>Liabilities covered by budgetary resources</b>		
<i>Intragovernmental</i>		
Accounts payable	\$ 89,547	\$ -
Payroll taxes payable	29,005	26,151
Program expenses	-	225,578
	118,552	251,729
<i>Program expenses</i>		
Rent	21,662	5,220

**INTER-AMERICAN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
Staff travel, training, printing, equipment maintenance, supplies, non-capt. equipment	14,190	16,649
Postal, freight	3,322	4,798
Maintenance of equipment	46,958	8,448
Communications and mail services	4,168	6,489
Supplies & non-capitalized equipment	47,964	12,745
Grant monitoring services (DVs)	-	5,327
Translations	-	3,027
Local advisory service contracts for grantees	39,747	115,413
Research on corporate responsibility	-	46,884
Grant audits	109,752	39,320
Misc. services, program	15,571	6,619
Misc. services, program support	91,892	7,309
Accounts payable	-	66,759
<i>Total program expenses</i>	395,226	345,007
Payroll accrual	164,932	164,332
Payroll taxes payable	4,853	4,342
<b>Total liabilities covered by budgetary resources</b>	<b>683,563</b>	<b>765,410</b>
<b>Liabilities not covered by budgetary resources</b>		
Unfunded leave	307,460	274,530
<b>TOTAL LIABILITIES</b>	<b>\$ 991,023</b>	<b>\$ 1,039,940</b>
Reconciliation of other non governmental liabilities:		
Program expense accruals	\$ 395,226	\$ 278,248
Payroll accruals	164,932	164,332
Payroll taxes payable	4,853	4,342
Unfunded leave	307,460	274,530
Total	<b>\$ 872,471</b>	<b>\$ 721,452</b>

**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, 2006 and 2005 total approximately \$21,768,267 and \$22,714,000, respectively.

As of September 30, 2006 and 2005, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

**INTER-AMERICAN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006 and 2005**

**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 consisted of the following:

	<u>2006</u>	<u>2005</u>
<i>Unexpended appropriations</i>		
Unobligated excludes SPTF:		
Available	\$ 1,881,797	\$ 552,576
Unavailable	665,319	1,784,295
Undelivered orders	<u>15,351,094</u>	<u>13,726,009</u>
 <i>Total unexpended appropriations</i>	 \$ 17,898,210	 \$ 16,062,880
 Cumulative results of operations	 <u>19,461,225</u>	 <u>23,361,064</u>
 Net Position	 <u>\$ 37,359,435</u>	 <u>\$ 39,423,944</u>
 <u>Reconciliation to statement of budgetary resources</u>		
	<u>2006</u>	<u>2005</u>
Unobligated available		
SPTF	\$ 7,757,049	\$ 4,743,990
Appropriations	<u>1,881,797</u>	<u>552,575</u>
 Total unobligated available	 <u>\$ 9,638,846</u>	 <u>\$ 5,296,565</u>
 Unobligated unavailable		
SPTF	\$ -	\$ 3,650,491
Appropriations	<u>665,319</u>	<u>1,784,296</u>
 Total unobligated unavailable	 <u>\$ 665,319</u>	 <u>\$ 5,434,787</u>
 Undelivered orders (Less Advances)		
SPTF	\$ 10,796,672	\$ 13,089,830
Donations	75,000	75,000
Appropriations	<u>13,278,433</u>	<u>11,944,512</u>
 Total undelivered orders	 <u>\$ 24,150,105</u>	 <u>\$ 25,109,342</u>



**INTER-AMERICAN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006 and 2005**

**NOTE 9—PROGRAM COSTS**

Costs by major budgetary object classification as of September 30 are as follows:

<u>Budgetary Object Classifications</u>	<u>2006</u>	<u>2005</u>
Personnel compensation	\$ 3,598,757	\$ 3,343,431
Personnel benefits other than pension, health, and life insurance	350,295	355,113
Pension – CSRS	126,113	95,123
Pension – FERS	314,361	299,300
Health insurance	385,515	364,489
Life insurance	6,103	5,837
Travel and transportation of persons	463,358	461,069
Transportation of things	5,877	26,258
Rents, communication, utilities and misc. charges	652,313	832,799
Printing and reproduction	122,599	374,617
Other services	4,010,675	3,354,937
Supplies and materials	53,702	48,653
Equipment	105,012	94,654
Grants, subsidies, and contributions	<u>14,470,885</u>	<u>17,020,719</u>
 Total	 <u>\$ 24,665,565</u>	 <u>\$ 26,676,999</u>

**NOTE 10—LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

The liabilities on IAF's Balance Sheet as of September 30, 2006 and 2005, 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 \$307,460 and \$274,530 as of September 30, 2006 and 2005, 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, 2006 and 2005, respectively, imputed financing was \$281,703 and \$251,072.

**INTER-AMERICAN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006 and 2005**

**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 2006 or 2005. For fiscal year 2006 and 2005, IAF received \$3,062,440 and \$4,440,576 respectively, from the IDB, which was reported on its SF-133 as funds received from SPTF collections.

	<u>2006</u>	<u>2005</u>
<u>SPTF cumulative results</u>		
SPTF beginning balance	\$ 23,502,291	\$ 27,848,749
SPTF funds received	3,062,440	4,440,576
Less: SPTF asset transfer	-	(10,715)
Less: SPTF funds expended	<u>(6,872,203)</u>	<u>(8,776,319)</u>
SPTF fund carry forward	19,692,528	23,502,291
<u>Donations cumulative results</u>		
Donations beginning balance	79,548	98,860
Donations received	-	75,000
Less: Donations expended	<u>(4,548)</u>	<u>(94,311)</u>
Donations carry forward	75,000	79,549
Less: Unfunded leave and accumulated depreciation from appropriated funds	<u>(306,303)</u>	<u>(220,776)</u>
Total cumulative results of operations for SPTF, Gift and Appropriated funds	<u>\$ 19,461,225</u>	<u>\$ 23,361,064</u>

**NOTE 13—EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT**

The 2008 Budget of the United States Government, with the Actual Column completed for fiscal year 2006, 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 2007. The 2007 Budget of the United States Government, with the Actual Column completed for fiscal year 2005, has been reconciled.

**INTER-AMERICAN FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2006 and 2005**

**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 April 30, 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 2006 and 2005 were \$595,208 and \$576,030 respectively. Below is a schedule of future payments for the term of the lease:

<b>Fiscal Year</b>	<b>Amount</b>
2007	\$ 629,566
2008	644,305
2009	659,413
2010	674,898
2011	690,770
2012	408,195
Total future payments	\$ 3,707,147

**NOTE 15—EARMARKED FUNDS**

Earmarked funds are presented for fiscal year 2006 in compliance with OMB Circular A-136 which took effect for reporting in fiscal year 2006. Such identification and presentation was not made in fiscal year 2005 and earlier as earmarking of funds was not required in those years.

Schedule of Earmarked Funds as of September 30, 2006

*Balance Sheet*

<b>Assets</b>	
Fund balance with Treasury	\$ 18,628,720
Other Assets	1,138,808
<b>Total Assets</b>	<b>\$ 19,767,528</b>
<b>Liabilities</b>	<b>\$ -</b>
<b>Net Position</b>	
Cumulative results of operations - Earmarked funds	19,767,528
<b>Total Liabilities and Net Position</b>	<b>\$ 19,767,528</b>

**INTER-AMERICAN FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2006 and 2005**

*Statement of Net Cost*

**Program Costs**

Gross Costs	\$ 6,876,752
Less: Total Non Exchange Revenues	<u>(3,062,440)</u>
Net Cost of Operations	<u>\$ 3,814,312</u>

*Statement of Changes in Net Position*

Net Position Beginning of Period	\$ 23,581,840
Net Cost of Operations	<u>(3,814,312)</u>
Net Position End of Period	<u>\$ 19,767,528</u>

## **Independent Auditor's 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, 2006, and have issued our report thereon dated October 27, 2006. 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. 06-03, *Audit Requirements for Federal Financial Statements*.

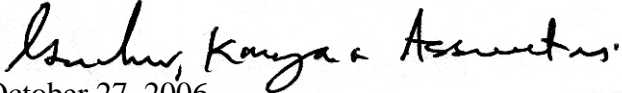
In planning and performing our audit, we considered the IAF's internal control over financial reporting by obtaining an understanding of the IAF's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine 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. 06-03. 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. 06-03. 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.

  
October 27, 2006

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

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

We have audited the financial statements of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2006, and have issued our report thereon dated October 27, 2006. 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. 06-03, *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, non compliance 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. 06-03, 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 non compliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

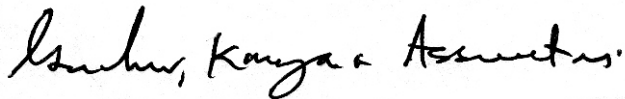
Under FFMIA, we are required to report on whether the IAF's financial management systems substantially comply with the Federal financial management systems requirements (FFMSR), applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. The Administrative Resource Center, Bureau of Public Debt, performs the accounting and reporting functions for the IAF. We are not auditors of the Bureau of Public Debt and did not perform tests of compliance with the FFMSR using the implementation guidance included in Appendix D of the OMB Bulletin No. 06-03.

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 on the report of the other auditors.

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

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

This report is intended solely for the information and use of 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.

A handwritten signature in cursive script that reads "Isidoro, Kanya & Associates".

October 27, 2006