



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

Audit of the Inter-
American Foundation's
Financial Statements for
Fiscal Years 2007 and 2006

AUDIT REPORT NO. 0-IAF-08-003-C
November 14, 2007

WASHINGTON, DC



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 14, 2007

MEMORANDUM

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

FROM: AIG/A, Joseph Farinella /s/

SUBJECT: Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2007 and 2006 (Audit Report No. 0-IAF-08-003-C)

The final report on the subject audit is enclosed. The Office of Inspector General contracted with the independent certified public accounting firm of Gardiner, Kamy & Associates, P.C. (GKA) to audit the financial statements of Inter-American Foundation (IAF) as of September 30, 2007 and 2006 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 Bulletin 07-04, *Audit Requirements for Federal Financial Statements*; and the Government Accountability Office/President's Council on Integrity and Efficiency Financial Audit Manual. GKA determined that:

- the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles,
- there were no material weaknesses or significant deficiencies in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations,
- there were no instances in which IAF's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) Section 803(a), and
- there were no instances of reportable noncompliance with laws and regulations 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, an opinion on IAF's financial statements. We also express no conclusions on the effectiveness of IAF's internal control, IAF's substantial compliance with FFMIA Section 803(a), or IAF's compliance with other laws and regulations. GKA is responsible for the attached auditor's report dated November 1, 2007 and the conclusions expressed in it. However, our review disclosed no instances where GKA did not comply, in all material respects, with generally accepted government auditing standards.

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

The Office of Inspector General 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 Alvin Brown at (202) 712-1003.



INTER-AMERICAN FOUNDATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT THEREON

For the Fiscal Years Ended September 30, 2007 and 2006

TABLE OF CONTENTS

MESSAGE FROM THE PRESIDENT	1
MANAGEMENT DISCUSSION AND ANALYSIS	4
INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS.....	21
BALANCE SHEETS.....	23
STATEMENTS OF NET COST.....	24
STATEMENTS OF CHANGES IN NET POSITION.....	25
STATEMENTS OF BUDGETARY RESOURCES	26
NOTES TO FINANCIAL STATEMENTS	27
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING.....	43
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS	45



Inter-American Foundation

An Independent Agency of the U.S. Government

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 IAF 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 public sector. 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 three offices; Executive, which houses the Office of the President, General Counsel and External Affairs; Operations, which manages Evaluation, Financial Management, Publications, Human Resources and Information Management; and the Program Office, which manages the grant program.

The IAF plays a crucial role in U.S. foreign policy by delivering U.S. government assistance directly to the poor of Latin America and the Caribbean and the groups that support them. Year after year, the IAF's investment in the ideas and energy of ordinary people has yielded extraordinary returns in the form of economic improvement for families and better living conditions in communities throughout the hemisphere. Many of the grassroots leaders supported by the IAF have gone on to play influential roles in democratic processes and have helped strengthen good governance principles. No longer considered experimental, the IAF's responsive approach is increasingly the model for overhauling top-down funding structures.

In FY 2007, as a result of IAF support, thousands of people in Latin America and the Caribbean:

- received the skills and training necessary to increase their family incomes;
- benefited from the creation of new jobs;
- were extended credit for income-generating small and micro- businesses;
- benefited from access to clean water, medical attention and enriched nutrition.

Many of the IAF's FY 2007 grants were awarded to organizations serving historically marginalized and excluded groups including women, African descendants and indigenous communities as well as persons with disabilities, bringing them into the development process and, eventually, into their countries' economic and political life. The IAF is working to maximize the investments made by other USG agencies in the region. In Nicaragua, for example, IAF funding and outreach are

designed to complement Millennium Challenge Corporation efforts in the Leon-Chinandega corridor, enabling local farmers to take advantage of the MCC's infrastructure and land titling initiatives.

IAF's successes are the results of (1) small amounts of U.S. taxpayer dollars carefully invested; and (2) vigorous efforts to make each dollar go further. In order to foster community ownership and long-term sustainability, the IAF requires all grantees to contribute to their project in cash or in kind, encourages them to partner with local government and urges them to mobilize funds to sustain their impact after the grant period. The IAF is nurturing community foundations as development donors and reaches out to U.S.-based immigrants interested in supporting self-help initiatives in their home communities.

The IAF's efforts extend well beyond its grant portfolio. The IAF-initiated corporate network, RedEAmérica, marshals considerable resources for social responsibility programs supporting grassroots development. Members that are parties to IAF cooperative agreements match IAF funding two-to-one; the entire network raises contributions from a variety of sources. Additionally, IAF staff is actively pursuing collaborations with Latin American governments, including, via their Social Investment Funds, and the introduction of Opportunity Zones, a Summit-of-the- Americas mandate based on the U.S. experience with renewal communities.

The Inter-American Foundation's Strategic Plan for FY 2008 through FY 2013 flows from the lessons of its experience. The Strategic Plan reflects the IAF's vision for a steady increase in international support for grassroots development. The IAF's FY 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 and lowers costs 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 Va., maintains a remote data center for IAF contingencies and continuity of operations. In June, the IAF again 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, using card readers with PKI cards to meet dual factor authentication requirements.

IAF is making progress on benchmarks established in the agency transition plan to Internet Protocol Version 6 (IPv6), as required by the Office of Management and Budget. During FY 2007, IAF established a dedicated T1 internet circuit line between IAF and BPD and began using BPD's proxy servers and IPv6-compatible firewalls. IAF routers were upgraded and replacement switches should be in place by February 2008. The key transition objective is to allow IPv6 and IPv4 hosts to interoperate. A second objective is to allow IPv6 hosts and routers to be deployed in the Internet in a diffuse and incremental fashion, with few interdependencies. A third objective is that the transition should be as easy as possible for end-users, system administrators and network operators to understand and carry out. BPD technical specialists are developing a risk-mitigation strategy and test plan for IPv6 compatibility/interoperability.

In response to the Homeland Security Presidential Directive (HSPD-12) to establish a common

identification standard for federal employees, the IAF signed an inter-agency agreement with the DOI National Business Center as its HSPD-12 service provider and issued the first PIV card in October 2006. However, because NBC discontinued its HSPD-12 services in June 2007, IAF is now working with GSA as its HSPD-12 services provider. Through this new arrangement, IAF expects to resume card issuance in FY 2008.

As mandated by the Federal Information Security Management Act (FISMA), the IAF completed the re-certification and accreditation of the Enterprise Network System and Grant Evaluation and Management System (GEMS) in August 2007. Auditors from the USAID Office of the Inspector General (OIG) completed the annual independent assessment of the security infrastructure supporting IAF's enterprise network system and agency compliance with FISMA. A positive final audit report was received from the OIG auditors in September 2007.

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 the Financial Management Line of Business (FMLOB) Initiative by using BPD's Oracle Federal Financials System and related accounting and procurement services. In June, BPD began reporting FMLOB metrics for IAF. The Oracle platform provides real-time, user-friendly financial reports. Since FY-05, 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 FY 2007 financial statements, which reflect the IAF's quest to become increasingly innovative while adhering to its core principles.

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

Signed:

/s/

Amb. Larry L. Palmer
President

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 additional resources from various sources. 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 2007 Accomplishments

In FY 2007, the Inter-American Foundation received an appropriation of \$19.347 million for program and program support activities, which was supplemented by \$6.317 million from the Social Progress Trust Fund for development grants and by \$336,000 in carry-over funds. The total budget was \$26 million. The IAF's primary funding strategy is responsiveness to the best development ideas emerging from the grassroots throughout Latin America and the Caribbean. 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 FY 2007

In FY 2007, the IAF funded 65 new grants in the amount of \$12,347,542 and amended 28 ongoing projects in the amount of \$2,041,345 totaling more than \$14,388,887 in grant funding; representing 100 percent of all grant funds for FY 2007. These funding actions are divided among primary program areas as follows:

FY 2007 Primary Program Areas	Funding Actions	Amount
Business Development/Management	25	4,006,873
Education/Training	23	2,836,994
Food Production/Agriculture	22	3,331,945
Environment	8	1,460,104
Corporate Social Investment	5	1,430,344
Cultural Expression	4	513,020
Community Services	3	506,007
Legal Assistance	2	188,720
Research/Dissemination	1	114,880
FY 2007 Total IAF Funding	93	\$14,388,887

Descriptions of the FY 2007 funding actions are available upon request. Detailed below are the IAF's accomplishments of its objectives for FY 2007. 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 FY 2007 Program

The Inter-American Foundation achieved its goals as follows:

Strategic Plan Goal I: Effective development

The IAF will identify and fund projects promising effective development and will measure the results against objective indicators of the desired outcome selected in consultation with each grantee. Annual grantee reports are verified by IAF staff and contractors.

Performance Goal 1.1: Fund grassroots development proposals promising improvement in the quality of life as measured by such indicators as increased income, jobs created and better access to social services, housing, sanitation, clean water and education.

Performance Measure 1.1.1: Percentage of grantees, whose funding ends in FY 2007, that meet or exceed outcome goals specified for their project as determined by verified scheduled reports (recognizing that natural disasters and political and economic factors beyond the control of the grantees can affect progress).

Funding for 20 grantees ended, or is scheduled to end, in FY 2007. Of grantees reporting by July, 62 percent met or exceeded their goals. The IAF will continue to receive reports through December 2007, and an updated percentage of successful grantees will be submitted

to OMB in the FY 2008 PART due this spring.

Performance Goal 1.2: Promote participatory development as the fundamental building block of democratic self-governance.

Performance Measure 1.2.1: Funded proposals reflecting the engagement of beneficiaries in project design, execution and follow-through.

The IAF funded 65 new grants and amended 28 ongoing projects totaling more than \$14,388,887 in grant funding, Beneficiary engagement continued to be a significant factor in the selection of proposals.

Performance Measure 1.2.2: Funded training in self-governance and the skills necessary to partner with local government in community development.

Nine new grantees and one prior-year grantee that received an amendment will provide training in participatory planning and partnerships with local government, skills specifically related to self-governance.

The IAF and Florida International University and Miami-Dade County co-sponsored their 13th Inter-American Conference of Mayors and Local Authorities in Miami, June 11-14, where nearly 600 participants from 12 countries discussed municipal management and development. IAF panels spoke on responding effectively to community concerns and initiatives and on offering an incentive structure to further development.

Performance Goal 1.3: Identify opportunities for development among traditionally excluded peoples, among them people of African descent, indigenous peoples, people with disabilities and women.

Performance Measure 1.3.1: Funded projects proposed by grassroots organizations specifically serving excluded communities, including those enumerated above.

The IAF funded 34 projects reaching African descendants, indigenous communities, people with disabilities and young people. Some of these specifically benefit women.

Nine grants were awarded to organizations serving African descendants in Brazil, Colombia, the Dominican Republic, Ecuador, Honduras and Nicaragua. Some of this funding will break new ground by reaching communities new to the IAF: Nicaraguan and Guatemalan *garifuna* and the severely marginalized Haitians and people of Haitian descent who work in Dominican sugar cane fields and live restricted to *bateyes*, or shantytowns infamous for their harsh conditions. A grant to Federación Nacional de Organizaciones No Gubernamentales para el Desarrollo de las Comunidades Afrocolombianas (FEDEAFRO) funding research on the unmet needs of Afro-Colombians and indigenous Colombians in Cali and Buenaventura, has attracted the interest of the United States Congress. "I hope this important and progressive grant award will promote efforts to mobilize African descendants and indigenous Colombians to influence public policy," U.S. Representative Charles Rangel wrote in a letter to the IAF president.

Funding to 17 organizations in Bolivia, Colombia, Ecuador, Guatemala, Honduras, Mexico, Panama and Peru will continue IAF's long history of supporting the self-help efforts of indigenous peoples. This year's grantees target better income, particularly for craftswomen, improved health practices, water quality and sanitation, and bilingual education for young children.

Two new grantees will help individuals with disabilities live independently, will raise awareness of their challenges and capabilities and will promote their ability to generate income.

Six new awards bring to 14 the number of IAF grantees actively addressing the problems of young people through job training, employment opportunities and support for their enterprises. The IAF also collaborated with the Central American Coalition for the Prevention of Youth Violence on workshops centered on reducing violence, reintegrating young offenders and on community-based, youth-led initiatives to develop leaders and jobs.

Performance Measure 1.3.2: IAF-sponsored participation of representatives of traditionally excluded populations in international development fora, studies, publications and other activities.

The 2007 issue of the Inter-American Foundation's journal *Grassroots Development* focused on the concerns of African descendants from throughout the hemisphere as well as examples of self-help initiatives in features, articles, notes and reviews of publications and films. The journal also included a feature on indigenous Mexicans in community forest management, a photo essay on indigenous Peruvian textile workers and a review of a book on the indigenous movement in Bolivia. Shorter notes covered disability activism, youth programs in Central America and the advancement of women in a Salvadoran organization.

A FY 2006 IAF grant to the Latin American Studies Association (LASA) supported *Otros Saberes*, a program bringing Latin American and U.S. - based researchers together in six teams to study transnational indigenous networks and the political participation of African descendants. The IAF grant funded two of the teams. The Open Society Institute, the Ford Foundation and Harvard University also contributed toward the research conducted in Ecuador, Colombia, Brazil, Nicaragua, Puerto Rico and Mexico as well as in the U.S. The teams shared their findings in September at two sessions of the LASA Congress in Montreal and at a two-day workshop immediately following the Congress.

IAF made possible the attendance of representatives of traditionally excluded populations in more than 16 international fora, some of which are described as follows:

- Twenty activists participated in the Inter-American Conference for the Dignity and Rights of Persons with Disabilities and their Families in Panama co-sponsored by the Panamanian government and the Organization of American States, which launched the Program of Action for the Decade (2006 – 2016) of the Americas for persons with disabilities. IAF coordinated its participation with the U.S. Permanent Mission to the OAS.

- The IDB in partnership with IAF, ETHOS Institute and the Federação das Indústrias do Estado da Bahia hosted the IV Inter-American Conference on Corporate Social Responsibility in Salvador, Brazil, where the IAF showcased grantees that engage in business partnerships with persons with disabilities, African descendants, and indigenous peoples in Bolivia, Brazil and Chile.
- To increase awareness of the concerns of African descendants in the Summit of the Americas, IAF, the OAS and Global Rights sponsored *African Descendants and the Summit Process* consisting of workshops in Nicaragua, Colombia, Brazil and Uruguay, where some 200 African descendants developed recommendations and an anti-discrimination declaration for the OAS General Assembly in Panama.
- IAF, Global Rights and the Centro de Mujer Panameña sponsored the African Descendent Regional Forum where some 50 government and civil society representatives engaged the OAS Secretary General who told them, “The fight against poverty must be waged through the fight against racial discrimination.”
- IAF sponsored IAF grantee representatives and other African descendants at the National Council of La Raza’s annual conference where they spoke on panels on cultural identity and emerging leadership.

Performance Goal 1.4: Explore and promote the community foundation model as a vehicle for mobilizing resources.

Performance Measure 1.4.1: Continued funding of community foundations.

The IAF amended two grants to Mexican community foundations with additional funds in FY 2007. IAF-funded community foundations awarded 62 grants totaling \$120,856. IAF’s earlier investment of \$1.449 million in four community foundations on the U.S.-Mexico border enabled them to raise \$1.616 million for grassroots development over and above their required contribution of counterpart. A prior year’s grant of \$284,000 to develop a new Brazilian community foundation allowed the grantee to mobilize \$1.4 million. Funded by a FY 2006 IAF grant, an Argentine group is currently determining the suitability of community foundations as a structure for funding grassroots development in that country.

Performance Measure 1.4.2: Exchanges related to community foundations.

IAF Mexican grantee Fundación del Empresariado Sonorense (FESAC) made two visits to grantee Fundación del Empresariado Chihuahuense (FECHAC) to learn about its primary revenue source: a voluntary “tax” on the state’s businesses that generates \$8 million annually. Argentine grantee Fundación SES visited former Mexican grantee Fundación Comunitaria de Oaxaca and Brazilian grantee Instituto Rio to learn more about adapting the community foundation model.

Performance Goal 1.5: Support the mandate of the Summit of the Americas to create Opportunity Zones.

Performance Measure 1.5.1: Travel grants awarded toward development of Opportunity Zones.

To support the introduction of Opportunity Zones, modeled on U.S. Department of Housing and Urban Development's (HUD) Empowerment Zones and Renewal Communities, the IAF funded 32 travel grants enabling delegations from Honduras, Nicaragua, Guatemala, and Argentina to visit HUD sites in Yakima, Wash. and Chattanooga, Tenn., among other locations, a first step in the development of Opportunity Zones. IAF also funded visits of personnel from U.S. zones to a proposed zone site in Atitlan, Guatemala. These exchanges resulted in (1) correspondence between the Guatemalan vice president and the OAS secretary general urging the adoption of Opportunity Zones as a broader Summit initiative; (2) an IAF-sponsored workshop on public-private partnerships in Honduras; (3) visits by IAF to key officials in the new Nicaraguan administration; and (4) a seminar organized by the Argentine Ministry of Institutional Reform for local officials from Argentina and elsewhere, featuring its delegation's report. The IAF also promoted the Opportunity Zones initiative at the 2007 Mayors Conference referenced in 1.2.2 above. The IAF reports on progress to the U.S. Department of State and to the U.S. Mission to the OAS.

Performance Measure 1.5.2: Grants to grassroots and nongovernmental organizations toward development of Opportunity Zones.

IAF funded three proposals furthering the development of Opportunity Zones.

Strategic Plan Goal 2: Learning

The IAF will document effective projects and share the information with the development community through scheduled publications and other learning activities. Resources available through the IAF will include results data, independent in-depth evaluations and the findings of contracted research.

Performance Goal 2.1: Through surveys, document the extent to which participants in IAF learning activities find the knowledge shared applicable to their work.

Performance Measure 2.1.1: Percentage of participants in IAF learning activities that agree or strongly agree that they will apply knowledge gained in IAF sponsored learning activities to their development work.

The IAF evaluates only activities in which it plays a major role in the organization or content. Out of 400 respondents who completed evaluations at 14 workshops and seminars, 87 percent agreed or strongly agreed that they would apply the knowledge gained to their development work. Respondents often said they planned to teach and to organize workshops and meetings on specific topics.

Performance Goal 2.2: Promote understanding of grassroots development through the IAF's flagship publications, through outreach by IAF staff and through otherwise sharing IAF's experience, including the results of evaluations and research.

Performance Measure 2.2.1: Publication and distribution of IAF’s FY 2006 annual report and its 2007 journal.

IAF printed its 2006 annual report and *Grassroots Development 2007* in English and Spanish and distributed them to subscribers and other interested readers. The publications were posted to the IAF Web site in English, Spanish and Portuguese. The content of the journal is described under 1.3.2. The enthusiastic reception included a request from the library of the University of Illinois at Urbana-Champaign for 50 copies to accompany exhibits in small-town libraries. “I’ve received your recent issue, and it is outstanding,” wrote librarian Nelly Gonzales. “Its focus on African Descendants and Development provides new insight of this silent minority of the region.” Professor Rolando Costa Picazo of the Universidad de Buenos Aires wrote, “I found the coverage of the Afro-Argentines particularly valuable, quite comprehensive and first rate. Congratulations to you and all collaborators for a first-class journal.”

An unanticipated demand depleted the English version of *Grassroots Development 2006* and it was reprinted for future distribution.

The Colombian journal *Economía y Desarrollo* requested permission to translate and publish Albert Hirschman’s article “The Principle of Conservation and Mutation of Social Energy” from *Grassroots Development* 1983.

IAF distributed three newsletters electronically to more than 3,000 subscribers and posted them on the IAF Web site. IAF also distributed news releases. As a result of this outreach, a Corpus Christi television station interviewed the IAF representative accompanying a Honduran delegation visiting in April and the IAF was cited in the June 17 *Miami Herald* in “Latin American governments move against long-entrenched racism.” The IAF is redesigning its Web site through the U.S. Government Printing Office to more effectively convey its message by bringing new information to the home page and including a search engine.

Performance Measure 2.2.2: Staff and grantee presentations at development fora and in print.

IAF staff or grantee representatives discussed the IAF’s approach at over 20 events, some of which are described below:

- Georgetown University conference *Indigenous Peoples and Economic Opportunity in Latin America*, where IAF staff and representatives of former grantee El Ceibo, Bolivia’s largest exporter of chocolate and cacao, were panelists;
- Conference on the business sector and development in Haiti organized by the Canadian International Development Agency (CIDA), Canadian Foundation for Latin America (FOCAL), the Inter-American Dialogue, the Carter Center and International Center for Government Authorities and Civil Society Leaders, held in Atlanta, where a representative of Fundación Empresarios por la Educación shared the results of RedEAmérica’s study on the education and grassroots development connection;
- *Strategies for Promoting Gender Equity: Lessons, Challenges and Opportunities* co-sponsored by the IAF and the Woodrow Wilson International Center for Scholars, where

Angelina Aspucac of IAF Guatemalan grantee Asociación Femenina de Desarrollo de Sacatepéquez led a panel.

Performance Measure 2.2.3: Annual in-depth evaluation of randomly selected IAF projects whose grant period has ended and the incorporation of relevant recommendations into IAF's selection processes and monitoring procedures.

IAF evaluated 11 IAF-supported microcredit projects in Mexico, Nicaragua and Peru. The findings will be examined with the Program Office for guidance to apply in future funding cycles.

Performance Measure 2.2.4: Dissemination of the findings of studies on corporate social responsibility, civic opportunities for problem-solving, the economic and social integration of Latin Americans of African descent, and recycling programs as instruments for engaging excluded populations.

An IAF-funded study of corporate social responsibility will be completed before the end of the fiscal year; findings are scheduled for publication in the 2008 issue of *Grassroots Development*. Asociación Afro Paraguaya Kamba Cua (AAPKC) completed its IAF-funded survey of the socio-economic issues affecting Afro-Paraguayans in July, although not in time for publication in *Grassroots Development 2007* in which AAPKC and other grantees serving African descendants are profiled. In June, the researcher contracted to study IAF-funded community-based recycling programs joined the director of former IAF Colombian grantee Asociación Cooperativa de Recicladores de Bogotá and a representative of IAF Brazilian grantee Nova Pesquisa e Assessoria em Educação on a panel featured at the 2007 Inter-American Mayors conference, at a session of the Civil Society Task Force and at an informal briefing at the International Finance Corporation. His findings will also appear in the 2008 *Grassroots Development*.

Performance Goal: 2.3: Work toward sharing and harmonizing award guidelines, information collection and results analysis with institutions and networks of Latin American and Caribbean donors dedicated to responsive grassroots development funding.

Performance Measure 2.3.1: Collaborative relationships with organizations and processes that promote participatory development and democratic governance in the international development agenda: the Summit of the Americas, the Millennium Challenge Corporation, USAID, the Canadian International Development Agency, the World Bank, the Inter-American Development Bank and the Organization of the American States, among others.

IAF's Program Office staff met with representatives of the Millennium Challenge Corporation Policy Office and LAC Office staff to explore possibilities for collaboration in El Salvador, Honduras and Nicaragua. IAF funded two new projects in Nicaragua's León-Chinandega corridor and conducted special outreach as a complement to the Millennium Challenge Corporation's five-year investment of \$175 million in land titling and infrastructure initiatives targeting rural economic development, thereby positioning local farmers to take advantage of opportunities generated by the MCC.

The IAF is an active participant in the State Department Inter Agency Committee for the

Summit of the Americas and specifically supports Summit mandates related to African descendants, persons with disabilities and Opportunity Zones, as indicated in detail in 1.3.2 and 1.5. The IAF's collaboration on the Opportunity Zone initiative with the Department of Housing and Urban Development is documented in HUD's report for the *U.S. National Strategy for Public Diplomacy and Strategic Communication*. In this connection, the IAF also maintains a productive relationship with the U.S. Delegation to the Organization of American States.

IAF staff participated in a panel discussion at the Summit of the Americas Competitiveness Conference organized by Secretary of Commerce Carlos Gutierrez and Secretary of Education Margaret Spelling.

IAF staff participated in a program for the Martin Luther King Fellows in Medellin, Colombia, supported by the U.S. Department of State, and funded travel grants enabling a wide range of individuals to attend.

IAF staff met with the Grassroots Business Initiative Team, a program of the International Finance Corporation and the World Bank, to discuss partnerships in Brazil and next steps for collaboration with RedEAmérica.

Performance Goal 2.4: Continue refining the Grassroots Development Framework to reflect work on the “intangible” results of IAF's funding relevant to democratic engagement and deliberation.

Performance Measure 2.4.1: The development of new indicators and revision of current indicators of democratic engagement and deliberation for incorporation into the Grassroots Development Framework and its manual.

IAF has revised the GDF's set of intangible indicators.

Performance Measure 2.4.2: An IAF-sponsored review of new and revised indicators with other development agencies engaged in similar measurement efforts.

Representatives of IAF and the Grassroots Business Initiative, described in 2.3.1, met to discuss the indicators used in RedEAmérica's Impact Evaluation Tool, modeled on IAF's GDF, in the context of each institution's needs. Staff from the Office of the Under Secretary for Public Diplomacy of the Department of State met with IAF staff to discuss the findings of their evaluation of public diplomacy initiatives and expressed interest in IAF's monitoring and evaluation system.

Performance Goal 2.5: Reinstate the IAF graduate fellowships program for students in American universities specializing in topics related to grassroots development.

Performance Measure 2.5.1: Program structured and fellowships awarded.

IAF announced its intention to reinstate its Grassroots Development Fellowships for Field Research at the Doctoral Level at the Latin American Studies Association Congress in March 2006. In November, IAF contracted the Institute for International Education (IIE) to administer the program. IAF and IIE developed application information and materials for

posting to the IIE Web site soon after. An academic review committee, assembled by IIE from a list of scholars submitted by IAF, considered the 52 applications received for the 2007 competition and ranked the top applicants based on their academic credentials, the strength of their proposals and their potential contribution to grassroots development. Following the committee's recommendations, the IAF president approved awards for 11 Ph.D. candidates from universities in the United States. Nine are U.S. citizens, one is Argentine and the other is Brazilian.

Strategic Plan Goal 3: Mobilize counterpart resources

The IAF will mobilize cash and in-kind contributions from beneficiary communities and other sources. In addition to the counterpart resources the IAF requires every grantee to invest in its projects, the IAF will encourage its grantees to obtain additional support toward their efforts beyond the grant period.

Performance Goal 3.1: Promote greater involvement of the business sector in supporting responsive grassroots development through RedEAmérica's network of companies and corporate foundations.

Performance Measure 3.1.1: Increase RedEAmérica's membership.

RedEAmérica began requiring dues of its members in 2006. As a consequence, membership initially dropped from 57 companies and corporate foundations to 54. As of July, the network had 55 members, all of whom pay dues.

Performance Measure 3.1.2: Increase the number of grants and grant supplements from RedEAmérica members supporting the self-help efforts of community organizations.

Between January and July, RedEAmérica members reported supporting 110 grassroots development projects, compared with 41 projects in calendar 2006. All grantees will have reported by December; an updated figure will be ready in January 2008.

Performance Measure 3.1.3: Increase the *amount* of support committed by members of RedEAmérica to community organizations, including funds contributed from the individual members' own resources and mobilized from other donors.

RedEAmérica does not yet have a mechanism for reporting the entire monetary commitment of each member by a defined fiscal year. The IAF is developing a system for measuring and verifying the results of the network's investment, including resources contributed from members' own resources or mobilized from other donors, and it should be operational in FY 2008. With respect to the amount of support RedEAmérica members committed to community organizations in FY 2007, IAF can report the following:

As the IAF requires its RedEAmérica partners to match its funding two-to one, five organizations, all parties to cooperative agreements with the IAF entered into in FY 2007, have committed \$2,241,172 from their own and other resources for grassroots development.

Ecuadorian RedEAmérica member Fundación Lann-Nobis, a party to a FY 2004 cooperative agreement to create a Grassroots Development Fund with \$440,000 in support from the IAF, Brazilian RedEAmérica member Odebrecht S.A. and its own resources, mobilized another \$1,545,000 from the Inter-American Development Bank and \$413,000 from the regional government of Guayas for grassroots efforts in 2007.

Colombian RedEAmérica members Fundación Corona, Fundación Smurfit and Fundación EPSA joined with the IAF to invest a total of \$200,000 in the creation of Fondo Focus-Valle to support grassroots development projects in the Colombian departments of Cauca and Valle. Between FYs 2005 and 2007, the three corporate foundations increased Fondo Focus-Valle by an additional \$237,069 from their own resources.

RedEAmérica members have begun to develop funds by country known as “nodes.” The 11 companies and foundations comprising the Brazilian node report investing \$10 million in grassroots development projects benefiting 74,000 Brazilians in 40 localities since January.

RedEAmérica is negotiating with the Inter-American Development Bank a matching-funds agreement valued at \$8,042,350 that will support network activities and channel resources to grassroots projects through members in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Peru.

Performance Measure 3.2.1: Amount of in-kind and cash resources that grantees are able to mobilize from within or obtain from without to further project activities and their future efforts.

Based on verified reports received by July, IAF grantees raised more than \$500,000 over and above their commitment of counterpart contributions required for an award. All grantees will have reported by December 2007; an updated figure for FY 2007 will be available by spring 2008.

Performance Goal 3.3: Collaborate with U.S. and other donors in a broad variety of arrangements.

Performance Measure 3.3.1: To encourage contributions from private U.S. donors to IAF-funded projects, disseminate an IRS letter ruling that the IAF’s grantmaking procedures satisfy IRS expenditure responsibility requirements for U.S. foundations.

The IAF completed its research into the implications of the Patriot Act for U.S. donors to foreign organizations.

Performance Measure 3.3.2: Extension of the coverage of the partnership between the IAF and the International Guarantee Fund (IGF) of Switzerland (1) broadening the criteria for participation to include organizations not solely dedicated to credit and (2) by expansion beyond Central America.

The Latin American International Guarantee Fund (LAIGF), a partnership formed in 2005 between the IAF and the IGF to serve microfinance institutions in Central America, increased its initial capital of \$400,000 to \$600,000 in 2006. In FY 2007 the IAF awarded

LAIGF an additional \$355,000, of which \$300,000 capitalized the fund and the rest was allocated to a risk reserve account and operating expenses. A recent low-interest rate loan from the Spanish government will provide \$2 million in additional funding. The fund is currently considering applications from proponents outside of Central America but has not yet expanded beyond the region.

Performance Goal 3.4: Identify and support evolving transnational relationships that encourage immigrant organizations to aid in the sustainable and responsive grassroots development of their home communities.

Performance Measure 3.4.1: Continued collaboration with immigrant groups toward identifying financial and technical resources for supporting development projects in their communities of origin.

IAF staff maintains relationships with Mexican, Salvadoran and umbrella immigrant organizations that support development projects in their communities of origin. Several IAF grantees operate programs to reduce remittance transfer costs and boost the development impact of funds that workers send to their families. Some of these “transnational” projects, defined as involving collaboration between migrants and their hometowns, have concluded or will soon conclude. Through discussions, monitoring visits and reviews of reports and results, the IAF has been working to extract lessons and to promote activities that bring grantees together with migrant associations, public officials and others to build on the experience. IAF staff also shares observations with international donors, with the goal of attracting more new resources and improving the effectiveness of the investment. IAF staff worked with several U.S. foundations to promote coordination and explore opportunities for co-funding and with the Inter-American Dialogue, the Council of Mexican Federations and grantees in Central America and Mexico to co-sponsor events analyzing migration, remittances and their impact on community development.

Performance Measure 3.4.2: Continued dissemination of the results of IAF’s initiatives in transnational linkages.

IAF staff spoke at events in New York, Los Angeles, Washington, D.C., and the Dominican Republic about the IAF’s transnational grant making experience. Staff and grantees shared experiences with the Council of Foundations, Hispanics in Philanthropy, the Inter-American Dialogue and the Council of Mexican Federations, among other organizations. IAF staff and contractors in El Salvador organized a series of grantee meetings to exchange ideas and practices for drawing more transnational resources into grassroots development. Requests for the IAF’s 2006 *Grassroots Development*, which focuses on transnational communities and development, depleted the stock; the journal was reprinted and continues to be distributed. Finally, the IAF and the Inter-American Dialogue sponsored a dinner meeting at the U.S. Capitol where members of Congress and IAF staff discussed the complexities of migration and development.

Performance Measure 3.4.3: Expanded community foundation activities on the U.S.-Mexico border through promotion of cross-border philanthropy.

An IAF staff member works with the Executive Committee Border Philanthropy Partnership that is planning to create a binational grantmaking organization in 2008. Two community foundations in Mexico are developing monitoring and evaluation systems to assess the impact of their grants based on their experience with IAF's Grassroots Development Framework. IAF facilitated a session on grassroots development grantmaking at the Border Philanthropy Partnership's annual meeting of border foundations.

Performance Measure 3.4.4: Research on effective grassroots development assistance involving transnational communities.

IAF staff participated in an event hosted by the Inter-American Dialogue and the World Bank to examine current policy research on family remittances sent to Latin America and the Caribbean. The IAF reported on initial lessons of IAF grants and discussed the research on and priorities of Latin American governments and international agencies dealing with remittance flows. IAF representatives subsequently met with researchers to identify specific areas of study for possible collaboration. The findings of research on transnational indigenous networks, funded by an IAF grant to the Latin American Studies Association (LASA) for its *Otros Saberes* project, were shared in September in sessions at and immediately following the LASA Congress, as noted in 1.2.3, *supra*.

Performance Measure 3.4.5: Meetings bringing together representatives of IAF grantees to share experiences.

IAF travel grants and other support enabled more than 15 grantee representatives, IAF field contractors from Mexico and El Salvador, and other interested individuals from Honduras and Nicaragua to participate in the First Latin American Migrant Community Summit in Morelia, Mexico, and share their ideas on how collective remittances might be more effectively invested.

The IAF supported the attendance of women leaders at *IV Encuentro de Salvadoreños en el Mundo* in El Salvador, which attracted Salvadorans from around the world to discuss remittances and migration and other social and development issues. The women's participation is described in detail in *Grassroots Development 2007*.

Strategic Plan Goal 4: Operational Efficiency

The Foundation will make internal operations as cost-effective as possible. It will seek to minimize its operational expenses as a percentage of its program obligations and reduce the time required to process proposals, select projects to be supported and obligate funds.

Performance goal 4.1: Reduce overhead, notwithstanding government-wide requirements that often limit our control of expenditures, to make more resources available for development activities that improve the quality of life of poor communities.

Performance Measure 4.1.1: Percentage of IAF's budget spent on overhead.

The IAF estimates it will spend 28.1 of its budget on overhead in FY 2007, versus 28.9

percent in FY 2006.

Performance Goal 4.2: Reduce the time lapsed between receipt of a proposal and award of a grant.

Performance Measure 4.2.1: Time spent on review of proposals.

The time spent in FY 2007 on the review and approval of grant proposals remained 11 months, as in FY 2006, down from 15 months in FY 2005.

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.

Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act

In accordance with applicable guidelines, the IAF submitted its Fiscal Year 2007 Assurances Statement relating to requirements imposed by Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA) to the USAID Office of the Inspector General.

The IAF, in conjunction with BPD, analyzed and evaluated its systems of management control and financial management under the FMFIA for the year ended September 30, 2007, according to the procedures and standards prescribed by the Office of Management and Budget and the Government Accountability Office. Based on this evaluation we found that our systems of management controls provide reasonable assurance that: programs are free from waste, fraud and mismanagement; laws and regulations are followed; our continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and our performance information is reliable as defined in OMB Circular A-11, Section 232.10. We further found that the IAF's financial management systems, in conjunction with those of BPD, meet the Federal government's management system objectives of usefulness, timeliness, reliability and completeness, comparability and consistency, and efficiency and economy. As a result, we conclude that there is reasonable assurance that the Inter-American Foundation complies with Sections 2 and 4 of the FMFIA.

We have no open or new material weakness or nonconformance to report; we have not closed any material weakness or nonconformance during fiscal year 2007; and we do not have any open reportable conditions or second tier issues.

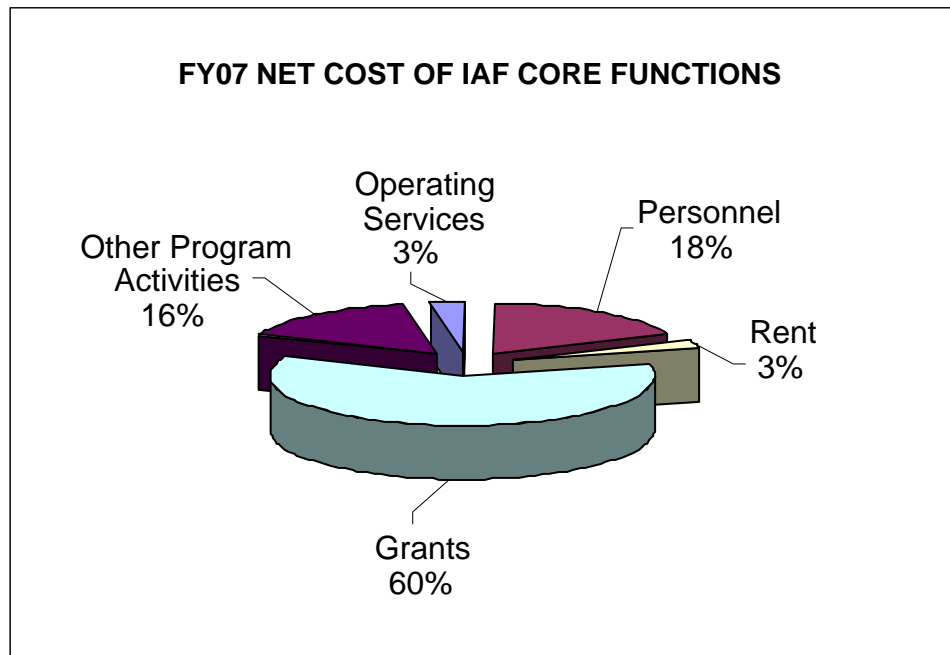
In addition, we have found that, for the year ended September 30, 2007, the Inter-American Foundation's administrative and fiscal accounting systems substantially comply with the requirements of the FFMIA.

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 \$27,220,538 reflected an increase of \$2,554,973 in resources used from the fiscal 2006 amount of \$24,665,565.

Personnel compensation and benefits increased from \$4,781,144 in fiscal 2006 to \$4,972,012 in fiscal 2007 reflecting an increase of \$190,868. In fiscal 2007, program-related Contractual Services used \$4,400,283 of IAF resources. The difference of \$389,608 from fiscal 2006, which reported \$4,010,675 in resources used, reflects an increase of approximately 14 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 2007 and 2006 were \$34,614,690 and \$35,137,832, respectively. The difference of \$523,142 is due to a net increase in the Social Progress Trust Fund (SPTF) obligations in FY-07 and a cancellation of \$228,571 in fiscal 2001/2002 appropriated funds, which expired in FY-07. The SPTF agreement was amended during fiscal 2002 to provide all remaining funds to the IAF until they are exhausted, in approximately 13 years. See Note 1 in the Financial Statements for funding source and Note 15 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.

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

Independent Auditors' Report on Financial Statements

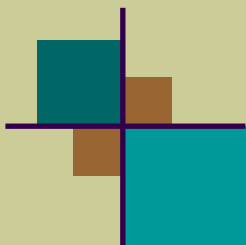
Office of the Inspector General
U.S. Agency for International Development
Washington, D.C.

We have audited the financial statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of September 30, 2007 and 2006. 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. 07-04, *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, 2007 and 2006, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph of this report as a whole. The information presented in IAF Management's Discussion and Analysis (Overview) section is not a required part of the financial statements but is supplementary information required by OMB Circular No. 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.

In accordance with *Government Auditing Standards*, we have also issued reports dated November 1, 2007 on our consideration of the IAF's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read in conjunction with this report.

/s/

GKA P.C.

November 1, 2007

**INTER-AMERICAN FOUNDATION
BALANCE SHEETS
As of September 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 34,614,690	\$ 35,137,832
Other	33,125	5,342
	<hr/>	<hr/>
Total intragovernmental	34,647,815	35,143,174
Account receivable, net (Note 4)	895	427
General property, plant and equipment, net (Note 5)	183	729
Other	111,449	3,206,128
	<hr/>	<hr/>
Total assets	<u>\$ 34,760,342</u>	<u>\$ 38,350,458</u>
Liabilities		
Intragovernmental		
Accounts payable (Note 6)	\$ 165,594	\$ 89,547
Other (Note 6)	35,037	29,005
	<hr/>	<hr/>
Total intragovernmental	200,631	118,552
Accounts payable (Note 6)	795,516	395,226
Other (Note 6)	619,080	477,245
	<hr/>	<hr/>
Total liabilities	<u>1,615,227</u>	<u>991,023</u>
Net Position		
Unexpended appropriations – Other Funds	17,128,211	17,898,210
Cumulative results of operations		
Earmarked funds (Note 15)	16,328,662	19,767,528
Other funds	(311,758)	(306,303)
	<hr/>	<hr/>
Total cumulative results of operations	16,016,904	19,461,225
	<hr/>	<hr/>
Total net position	<u>33,145,115</u>	<u>37,359,435</u>
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 34,760,342</u>	<u>\$ 38,350,458</u>

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

INTER-AMERICAN FOUNDATION
STATEMENTS OF NET COST
For the Years Ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Program Costs		
Foreign Grant Program:		
Gross costs (Note 9)	\$ 27,220,538	\$ 24,665,565
Less: Earned Revenue	<u>-</u>	<u>-</u>
Net Cost of Operations	<u>\$ 27,220,538</u>	<u>\$ 24,665,565</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, 2007 and 2006

	2007		2006	
	Earmarked Funds	All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	\$19,767,528	\$ (306,303)	\$ 19,461,225	\$ 23,361,064
<u>Budgetary Financing Sources</u>				
Appropriations Used	-	19,888,172	19,888,172	17,421,583
Nonexchange Revenue	-	-	-	3,062,440
Donations and forfeitures of cash and cash equivalents	50	-	50	-
Other	-	3,564,918	3,564,918	-
<u>Other Financing Sources (Non-Exchange)</u>				
Imputed financing sources (Note 11)	-	323,077	323,077	281,703
Total financing sources	50	23,776,167	23,776,217	20,765,726
Net cost of operations	(3,438,916)	(23,781,622)	(27,220,538)	(24,665,565)
Net changes	(3,438,866)	(5,455)	(3,444,321)	(3,899,839)
Ending balance	16,328,662	(311,758)	16,016,904	19,461,225
Unexpended Appropriations				
Beginning balance	-	17,898,210	17,898,210	16,062,880
<u>Budgetary Financing Sources</u>				
Appropriations received	-	19,346,743	19,346,743	19,500,000
Other adjustments	-	(228,571)	(228,571)	(243,087)
Appropriations Used	-	(19,888,171)	(19,888,171)	(17,421,583)
Total Unexpected Appropriations	-	17,128,211	17,128,211	17,898,210
Net position	\$16,328,662	\$16,816,453	\$ 33,145,115	\$ 37,359,435

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

**INTER-AMERICAN FOUNDATION
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
Budgetary Resources:		
Unobligated balance brought forward, October 1:	\$ 10,304,165	\$ 10,731,352
Recoveries of prior year unpaid obligations	1,009,833	2,583,454
	<u>11,313,998</u>	<u>13,314,806</u>
Budget authority		
Appropriation	19,346,743	19,500,000
Spending authority from offsetting collections		
Earned		
Collected	3,564,968	3,062,440
	<u>22,911,711</u>	<u>22,562,440</u>
Permanently not available	<u>(228,571)</u>	<u>(243,087)</u>
Total Budgetary Resources	<u>\$ 33,997,138</u>	<u>\$ 35,634,159</u>
Status of Budgetary Resources:		
Obligations incurred		
Direct	\$ 26,408,290	\$ 25,329,994
Unobligated balance apportioned	1,882,079	9,638,846
Unobligated balances not available	<u>5,706,769</u>	<u>665,319</u>
Total status of budgetary resources	<u>\$ 33,997,138</u>	<u>\$ 35,634,159</u>
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$ 24,833,668	\$ 25,874,752
Obligations incurred net	<u>26,408,290</u>	<u>25,329,994</u>
Less: Gross outlays	(23,206,281)	(23,787,624)
Less: Recoveries of prior year unpaid obligations, actual	<u>(1,009,834)</u>	<u>(2,583,454)</u>
Obligated balance, net, end of year	<u>\$ 27,025,843</u>	<u>\$ 24,833,668</u>
Net Outlays:		
Gross outlays	\$ 23,206,281	\$ 23,787,624
Less: Offsetting collections	<u>(3,564,968)</u>	<u>(3,062,440)</u>
Net Outlays	<u>\$ 19,641,313</u>	<u>\$ 20,725,184</u>

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

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources 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 07-04, *Audit Requirements for Federal Financial Statements*. They have been prepared from, and are fully supported by, the books and records of the IAF in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), OMB Circular A-136, *Financial Reporting Requirements of Agency Financial Statements* and IAF accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the IAF's use of budgetary resources.

The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and the Statement of Budgetary Resources. 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 dollars.

B. Reporting Entity

The 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)). The 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 the 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 the IAF's president who acts as the chief executive officer.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Budgets and Budgetary Accounting

Congress enacts appropriations to permit the IAF to incur obligations for authorized purposes. In fiscal years 2007 and 2006, the IAF was accountable for the Social Progress Trust Fund (SPTF), Gift Fund, and General Fund appropriations. The IAF recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through the Department of Treasury General Fund warrants and transfers from the Inter-American Development Bank (IDB).

D. Basic 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

The IAF's grant program is funded by appropriation from the budget of the United States, agreement with the Inter-American Development Bank (IDB) 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.

The IAF has an agreement with the IDB to receive funds from the SPTF to finance part of the 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

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 1. Summary of Significant Accounting Policies (continued)

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 the IAF, subject to denomination availability and exchange controls. In 2002, the SPTF agreement was amended to make available all remaining funds until exhausted.

The 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

The 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. The 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 the IAF in U.S. dollar equivalents. See Note 2 for additional information.

H. Accounts Receivable

Accounts receivable consists of amounts owed to the 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.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 1. Summary of Significant Accounting Policies (continued)

I. General Property, Plant, and Equipment, Net

The IAF's property, plant and equipment are recorded at original acquisition cost and are depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The 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 (years)</u>
ADP equipment	3
Office furniture and equipment	10

J. 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.

K. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by the 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 Sheet are equivalent to amounts reported as components requiring or generating resources on the Reconciliation of Net Cost to Budget.

L. Accounts Payable

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

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 1. Summary of Significant Accounting Policies (continued)

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 the latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS) covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of Federal Employee's Retirement System (FERS) covered employees.

N. Retirement Plans

The 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.

The IAF recognizes the imputed cost of pension and other retirement benefits during the employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicates these factors to the IAF for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The 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 the IAF makes a mandatory 1 percent contribution to this account. In addition, the 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, the IAF remits the employer's share of the required contribution. The IAF's contribution to the employee pension plan was \$481,473 for fiscal year 2007 and \$440,474 for fiscal year 2006. In addition, the IAF costs for health and life insurance were \$412,238 for fiscal year 2007 and \$391,618 for fiscal year 2006.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 1. Summary of Significant Accounting Policies (continued)

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

P. Use of Estimates

Management has made certain estimates when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those 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. The IAF recognized imputed costs and financing sources in fiscal years 2007 and 2006 to the extent directed by OMB.

R. Non-Entity Assets and Liabilities

The IAF did not hold any Non-Entity assets or liabilities as of September 30, 2007 and 2006.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 1. Summary of Significant Accounting Policies (continued)

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. The IAF recognizes liabilities, in the accompanying balance sheet and statement of net cost, when it is both probable and can be reasonably estimated. The 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 the 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.

U. Reclassification

Certain fiscal year 2006 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation. Under SFFAS 7, OMB has reclassified the Statement of Financing to be presented in a note as Reconciliation of Net Cost of Operations to Budget.

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, 2007 and 2006

Note 2. Fund Balance with Treasury (continued)

	2007	2006
<u>Fund Balances</u>		
Appropriated fund	\$ 18,286,028	\$ 16,509,112
Gift fund	33,694	75,000
Social progress trust fund (SPTF)	16,294,968	18,553,720
	\$ 34,614,690	\$ 35,137,832
 <u>Status of Fund Balance with Treasury</u>		
Unobligated balance includes SPTF		
Available	\$ 1,882,079	\$ 9,638,846
Unavailable	5,706,769	665,318
Obligated balance not yet disbursed	27,025,842	24,833,668
	\$ 34,614,690	\$ 35,137,832

Note 3. Advances and Prepayments

Grant distributions are recognized as an expense at the time of payment. This is an accounting change that replaces the amortization of Grant payments over a 6 to 8 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:

	2007	2006
Prepayments other than grant advances	\$ 144,574	\$ 78,231
Grant advances	-	3,127,897
	\$ 144,574	\$ 3,206,128

Note 4. Accounts Receivable

Accounts receivable balances as of September 30, 2007 and 2006 were \$895 and \$427, respectively. Accounts receivable from the public are shown net of allowances for uncollectible amounts.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 5. Property, Plant and Equipment

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

	September 30, 2007		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
ADP equipment	\$ 27,000	\$ 27,000	\$ -
Office furniture	37,987	37,804	183
	\$ 64,987	\$ 64,804	\$ 183

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

Note 6. Liabilities

The accrued liabilities for the 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

	2007	2006
Liabilities covered by budgetary resources		
<i>Intragovernmental</i>		
Accounts payable	\$ 165,594	\$ 89,547
Payroll taxes payable	35,037	29,005
<i>Total intragovernmental</i>	200,631	118,552

**INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006**

Note 6. Liabilities (continued)

	2007	2006
<i>Program expenses</i>		
Rent	14,207	21,662
Staff travel, training, printing, equipment maintenance, supplies	10,967	14,190
Postage and freight	-	3,322
Maintenance of equipment	12,441	46,958
Communications and mail services	3,702	4,168
Supplies & non-capitalized equipment	6,706	47,964
Local advisory service contracts for grantees	377,347	39,747
Grant audits	145,624	109,752
Misc. services, program	6,623	15,571
Misc. services, program support	217,899	91,892
<i>Total program expenses</i>	795,516	395,226
Payroll accrual	303,244	164,932
Payroll taxes payable	3,000	4,852
Total liabilities covered by budgetary resources	1,302,391	683,562
Liabilities not covered by budgetary resources		
Unfunded leave	312,836	307,460
Total liabilities	\$ 1,615,227	\$ 991,022

Note 7. Commitments and Contingencies

In the course of its grant-making activities, the 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, 2007 and 2006 total approximately \$22,939,082 and \$21,768,267, respectively. As of September 30, 2007 and 2006, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

Note 8. Undelivered Orders at the End of the Period

Beginning with FY 2006 the format of the Statement of Budgetary Resources has changed and the amount of undelivered orders at the end of the period is no longer required to be reported on the face of the statement. Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, states that the amount of budgetary resources obligated

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 8. Undelivered Orders at the End of the Period (continued)

for undelivered orders at the end of the period should be disclosed. For the periods ended September 30, 2007 and 2006, undelivered orders amounted to \$25,723,450 and \$24,150,105, respectively.

Note 9. Program Costs

Costs by major budget object classification as of September 30, 2007 and 2006 are as follows:

<u>Budget Object Classifications</u>	<u>2007</u>	<u>2006</u>
Personnel compensation	\$ 3,691,203	\$ 3,598,757
Personnel benefits other than pension, health, and life insurance	387,098	350,295
Pension – CSRS	135,550	126,113
Pension – FERS	345,923	314,361
Health insurance	406,028	385,515
Life insurance	6,210	6,103
Travel and transportation of persons	450,053	463,358
Transportation of things	8,243	5,877
Rents, communication, utilities and misc. charges	699,340	652,313
Printing and reproduction	230,976	122,599
Other services	4,400,283	4,010,675
Supplies and materials	183,712	53,702
Equipment	20,905	105,012
Grants, subsidies, and contributions	<u>16,255,014</u>	<u>14,470,885</u>
Total	<u>\$ 27,220,538</u>	<u>\$ 24,665,565</u>

Note 10. Liabilities Not Covered By Budgetary Resources

The liabilities on the IAF's Balance Sheet as of September 30, 2007 and 2006, 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. Unfunded FECA liability is an intragovernmental liability not covered by budgetary resources. Other liabilities not covered by budgetary resources consist of unfunded leave. Unfunded leave balances are \$312,836 and \$307,460 as of September 30, 2007 and 2006, respectively.

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 11. Imputed Financing Sources

The 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, 2007 and 2006, imputed financing was \$323,077 and \$281,703, respectively.

Note 12. Financing Sources - SPTF

The Reconciliation of Net Cost of Operations to Budget Note reconciles the financial Net Cost of Operations with the Statement of Budgetary Resources. The IAF reports SPTF funds obtained from the IDB as offsetting collections earned. The IAF had no exchange revenue in fiscal year 2007 or 2006. For fiscal year 2007 and 2006, the IAF received \$3,564,919 and \$3,062,440, respectively, from the IDB, which was reported on its SF-133 as funds received from SPTF collections.

	2007	2006
<u>SPTF cumulative results</u>		
SPTF beginning balance	\$ 19,692,528	\$ 23,502,291
SPTF funds received	3,564,919	3,062,440
Less: SPTF funds expended	(6,962,479)	(6,872,203)
SPTF fund carry forward	\$ 16,294,968	\$ 19,692,528
<u>Donations cumulative results</u>		
Donations beginning balance	\$ 75,000	\$ 79,548
Donations received	50	-
Less: Donations expended	(41,356)	(4,548)
Donations carry forward	\$ 33,694	\$ 75,000
Less: Unfunded leave and accumulated depreciation from appropriated funds	(311,758)	(306,303)
Total cumulative results of operations for SPTF, Gift and Appropriated funds	\$ 16,016,904	\$ 19,461,225

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 13. Budgetary Resource Comparisons to the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary And Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the Presidents Budget that will include FY07 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2008 and can be found at the OMB Web site. <http://www.whitehouse.gov/omb> The 2008 Budget of the United States Government, with the actual column completed for 2006 has been reconciled to the Statement of Budgetary Resources, and there were no material differences.

Note 14. Operating Lease

The IAF occupies office space under a lease agreement, which is accounted for as an operating lease. The IAF entered into a lease agreement that will expire on April 30, 2012. Lease payments are increased annually based on the IAF's proportionate share of the building's operating expenses and real estate taxes. The new agreement allows the 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 2007 and 2006 were \$646,338 and \$615,000, respectively. Below is a schedule of future payments for the term of the lease:

<u>Fiscal Year</u>	<u>Amount</u>
FY2008	\$ 689,305
FY2009	704,413
FY2010	719,898
FY2011	735,770
FY2012	<u>440,095</u>
Total future payments	<u>\$ 3,289,481</u>

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 15. Earmarked Funds

Schedule of Earmarked Funds as of September 30, 2007

Balance Sheet

	2007	2006
Assets		
Fund balance with Treasury	\$ 16,328,662	\$ 18,628,720
Other assets	-	1,138,808
Total Assets	\$ 16,328,662	\$ 19,767,528
Liabilities	\$ -	\$ -
Net Position		
Cumulative results of operations - Earmarked funds	16,328,662	19,767,528
Total Liabilities and Net Position	\$ 16,328,662	\$ 19,767,528

Statement of Net Cost

Program Costs		
Gross costs	\$ 7,003,834	\$ 6,876,752
Less: Total non-exchange revenue	(3,564,968)	(3,062,440)
Net cost of operations	\$ 3,438,866	\$ 3,814,312

Statement of Changes in Net Position

Net position beginning of period	\$ 19,767,528	\$ 23,581,840
Net cost of operations	(3,438,866)	(3,814,312)
Net position end of period	\$ 16,328,662	\$ 19,767,528

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 16. Reconciliation of Net Cost of Operations to Budget

	2007	2006
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	\$ 26,408,290	\$ 25,329,994
Less: Spending authority from offsetting collections and recoveries	(4,574,801)	(5,645,894)
Obligations net of offsetting collections and recoveries	<u>\$ 21,833,489</u>	<u>\$ 19,684,100</u>
<i>Resources Used to Finance Activities</i>	21,833,489	19,684,100
Other resources		
Donations and forfeitures of property	50	-
Imputed financing from costs absorbed by others	323,077	281,703
Net other resources used to finance activities	323,127	281,703
Total resources used to finance activities	<u>\$22,156,616</u>	<u>\$19,965,803</u>
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	\$1,493,548	\$1,584,093
Resources that fund expenses recognized in prior periods	-	19,573
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Other	3,564,919	3,062,440
Total resources used to finance items not part of the net cost of operations	\$5,058,467	\$4,666,106
Total resources used to finance the net cost of operations	<u>\$27,215,083</u>	<u>\$24,631,909</u>
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components requiring or generating resources in future periods		
increase in annual leave liability	\$5,377	\$32,931

INTER-AMERICAN FOUNDATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007 and 2006

Note 16. Reconciliation of Net Cost of Operations to Budget (continued)

Total components of net cost of operations that will require or generate resources in future periods	5,377	32,931
Components not requiring or generating resources:		
Depreciation and amortization	546	725
Other	(468)	-
Total components of net cost of operations that will not require or generate resources	78	725
Total components of net cost of operations that will not require or generate resources in the current period	5,455	33,656
Net cost of operations	\$27,220,538	\$24,665,565

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

Independent Auditors' Report on Internal Control over Financial Reporting

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

We have audited the financial statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2007 and 2006, and have issued our report thereon dated November 1, 2007. 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. 07-04, *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. 07-04 and *Government Auditing Standards*. 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 deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement

of the Fund's financial statements that is more than inconsequential will not be prevented or detected by the Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

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. 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not provide an opinion on such controls.

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

/s/

GKA P.C.

November 1, 2007

1015 18th Street, NW
Suite 200
Washington, DC
20036

Phone: 202-857-1777
Fax: 202-857-1778
Website: www.gkacpa.com

Independent Auditors' Report on Compliance with Laws and Regulations

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

We have audited the financial statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as “financial statements”) of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2007 and 2006, and have issued our report thereon dated November 1, 2007. 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. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of 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 IAF’s compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the IAF.

The results of our tests of compliance with laws and regulations described in the preceding paragraph exclusive of FFMIA disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04.

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 in accordance with FFMIA section 803(a) requirements. The Administrative Resource Center, Bureau of Public Debt, performs the accounting and reporting functions for the IAF. We are not the 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 OMB Bulletin No. 07-04.

Those tests were performed by other auditors whose report has been furnished to us. Our report, insofar as it relates to FFMSR compliance, is based solely on the report of the other auditors.

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

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

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

/s/

GKA P.C.

November 1, 2007