

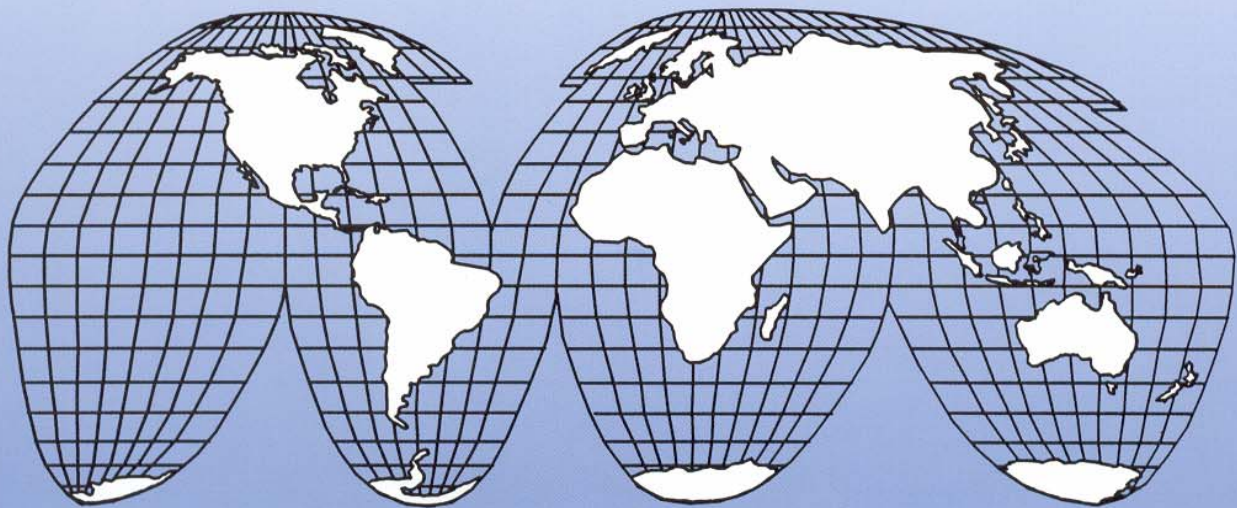
USAID

OFFICE OF INSPECTOR GENERAL

**Report on Audit of the Inter-American Foundation's
Consolidated Financial Statements, Internal Control,
and Compliance for the Fiscal Years Ended
September 30, 2003 and 2002**

Audit Report No. 0-IAF-04-003-C

November 14, 2003



Washington, D.C.



November 14, 2003

MEMORANDUM

FOR: Inter-American Foundation President,
David Valenzuela

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

SUBJECT: Audit of the Inter-American Foundation's Financial Statements,
Internal Control, and Compliance for the Fiscal Years Ended
September 30, 2003 and 2002 (Report No. 0-IAF-04-003-C).

Enclosed is the final report on the subject audit. We contracted with the independent certified public accounting firm of Gardiner, Kamy & Associates, P.C. (GKA) to audit the financial statements of the Inter-American Foundation as of September 30, 2003 and 2002 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; Office of Management and Budget's (OMB) Bulletin, Audit Requirements for Federal Financial Statements; and the General Accounting Office/President's Council on Integrity and Efficiency Financial Audit Manual.

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

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

In connection with the audit contract, we reviewed GKA's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on IAF's financial statements or internal control or on whether IAF's financial management systems substantially complied with FFMIA; or conclusions on compliance with laws and regulations. GKA is responsible for the attached auditor's report dated October 24, 2003 and the conclusions expressed in it. However, our review disclosed no instances where GKA did not comply, in all material respects, with applicable standards.

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

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

**Table of
Contents**

Independent Auditor's Report

5

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**INTER-AMERICAN FOUNDATION
(IAF)**

**FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 and 2002**

and

INDEPENDENT AUDITOR'S REPORT THEREON

INTER-AMERICAN FOUNDATION (IAF)

TABLE OF CONTENTS

	<u>Page No.</u>
Management’s Discussion and Analysis (Overview).....	7
Independent Auditor's Report on Financial Statements.....	15
Balance Sheets	16
Statements of Net Cost.....	17
Statements of Changes in Net Position.....	18
Statements of Budgetary Resources.....	19
Statements of Financing.....	20
Notes to Financial Statements.....	21
Independent Auditor's Report on Internal Control	31
Independent Auditor's Report on Compliance with Laws and Regulations	33



Message from the President

The IAF was founded upon the notion that citizens, governments, the private sector, and other societal institutions share responsibility for development problems and can contribute to solving them. IAF experience has validated that premise consistently over time. Indeed, the IAF has concluded that government action unaccompanied by the demonstrated participation, willingness, and commitment of others is unlikely to succeed.

The IAF thus came to believe that the best use of government funds was as a catalyst for action and mobilization of other resources. The IAF holds that development programs lacking community support do not merit U.S. taxpayer assistance. Applying this fiscal and programmatic discipline has helped the IAF remain true to its unique approach toward development theory and practice.

Having focused on increasing participation of the poor for more than three decades, the IAF wondered whether the same principles could be applied on the donor side of the development equation. In Fiscal Year 2003 the IAF—while maintaining its commitment to incorporating the marginalized into the development process—focused on expanding the participation of other donors. The kind of donor participation the IAF seeks to cultivate extend beyond simply writing a check; it involves knowing and understanding more about the communities being helped and learning about the contributions the communities are making. Several examples of that effort follow.

One element is a network of corporate foundations, which is contributing approximately \$1.6 million in joint funding with the IAF (which will be augmented by counterpart contributions at the subgrant level). This group of donors is of critical importance; its involvement in the development process represents a fundamental change in the region's economic and social status quo.

The IAF is now seeking a ruling from the IRS that grant funds channeled through the IAF meet, *per se*, the expenditure responsibility requirements for U.S. foundations. Such a ruling would enable the IAF to mobilize funds from the U.S. foundation community in a public-private partnership of possibly enormous significance—financially, programmatically and educationally.

The IAF's work in the area of transnationalism (explored below) also demonstrates the growing sphere of productive relationships the IAF has cultivated. In addition to helping families and communities use remittances more effectively, the IAF's role in raising awareness among policymakers has earned it a seat at a number of important conferences and high level meetings.

I am pleased to introduce the IAF's Fiscal Year 2003 financial statements, which reflect the IAF's quest to become increasingly innovative and independent while adhering to its core principles.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Mission and Organizational Requirements

Congress created the IAF in 1969 to carry out the following mission on behalf of the American people:

Strengthen the bonds of friendship and understanding among the peoples of this hemisphere;

Support self-help efforts designed to enlarge the opportunities for individual development;

Stimulate and assist effective and ever-wider participation of the people in the development process;

Encourage the establishment and growth of democratic institutions, private and governmental, appropriate to the requirements of the individual sovereign nations of this hemisphere.

The IAF strategic plan for 2003-2007 and the Fiscal Year 2004 presentation to the Office of Management and Budget were based on four main institutional goals derived from this statutory basis, 30 years of experience and the current context:

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

Foster communication, learning and reflective practice.

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

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

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

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

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

Performance Goals, Objectives, and Results

Grants promote the formation of partnerships among grassroots and private organizations, local governments and businesses to define and resolve issues of local concern that help reduce poverty and improve the quality of life of people. The IAF also helps to build the institutional capacity of grassroots organizations to address the social and economic needs of their members.

The IAF's Grassroots Development Framework provides each grantee with a means of setting goals to be achieved in the development project and provides a balanced mechanism for reporting results. This information is aggregated to permit broader analysis.

The networking of persons and the building of linkages help small producers gain access to markets and forge partnerships for mutual benefit. Both local and international businesses are critically important stakeholders in their respective communities and should play an active role for the betterment of the community. In this respect, the IAF continues to seek out a broad range of relationships with corporations and other businesses to bring their resources and ideas to bear on the solutions of local problems.

The strengthening of democracy, in addition to building strong national institutions that can guarantee the rule of law, also requires engaged and active citizens at the local level. The IAF is making a far-reaching contribution to forging more democratic, just, and less impoverished countries in Latin America and the Caribbean through its work at the grassroots level.

Illustrative Projects Funded in Fiscal Year 2003

Over the past 30 years, IAF-financed projects have benefited from contributions from immigrant groups in the United States. In Fiscal Year 2003, the IAF formally recognized this trend by making grants to two non-governmental organizations (NGOs) to support El Salvadoran communities with the help of their corresponding Home Town Associations (HTAs) in the United States. Community groups and HTAs aim to build cooperative relationships and establish economic development projects in El Salvador. These groups will promote valuable cross-border ties through which flow not only funds for development, but also knowledge, skills, ideas, products, opportunities, and access.

Fundación Centroamericana para el Desarrollo Humano Sostenible (FUCAD) will work closely with El Rescate, a multi-service organization whose clients are immigrants living in Los Angeles. El Rescate will help six HTAs of El Salvadorans in Los Angeles collaborate with organizations in their communities of origin to identify development projects and contribute toward their funding. FUCAD will provide training and technical assistance to the Salvadoran committees, strengthening their organizational capacity and their ability to negotiate with the U.S.-based associations. Several projects will target economic development, and the grant incorporates a fund for start-up capital. The Government of El Salvador's new HTA-partnership program will provide funds to support the projects through the Social Investment Fund for Local Development.

CARECEN International – El Salvador (CARECEN) will help to form new HTAs in the United States, which will become a resource for El Salvadoran communities. CARECEN will identify potential partners among Salvadorans now living in the U.S., who can organize HTAs and help with “remittances” of funds, ideas, and skills that can improve conditions in the counterpart Salvadoran communities. CARECEN will also implement a number of small scale development projects selected from municipal development plans. This innovative project will be documented through two books on the intersecting themes of local development and migration. *Fundación Nacional para el Desarrollo* (FUNDE) a previous IAF grantee with extensive experience in local development and migration, will provide local development planning, documentation and evaluation, and will assist in building alliances at the local level.

Grants Funded in Fiscal Year 2003

In Fiscal Year 2003 the IAF funded \$7,027,000 in grants of appropriated funds and \$8,945,000 in grants of Social Progress Trust Funds, for a grand total of \$15,972,000. The grants (both new and supplemental) are divided among primary program areas as follows:

Business Development/Management	23 grants for a total of \$5,660,000
Food Production/Agriculture	25 grants for a total of \$3,023,000
Education/Training	18 grants for a total of \$2,798,000
Corporate Social Investment	16 grants for a total of \$2,000,000
Community Services	7 grants for a total of \$1,338,000
Ecodevelopment	4 grants for a total of \$ 657,000
Cultural Expression	3 grants for a total of \$ 440,000
Research & Dissemination	3 grants for a total of \$ 56,000

Grants were divided geographically among Argentina, Bolivia, Brazil, Caribbean (Regional), Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Latin America (Regional), Mexico, Nicaragua, Panama, Perú, Trinidad, Uruguay and Venezuela.

Evaluation and Dissemination

The IAF is committed to sharing the experiences and learning of grantees. By tracking results and studying organizations, the IAF is able to gain insight into what works in the development process. The Evaluation Unit is housed in the Office of Operations to provide independence from the Office of Programs and to allow for close interaction with the staff responsible for the IAF’s Grant Evaluation and Management System (GEMS) database. The Evaluation Unit continues to focus on perfecting the Grassroots Development Framework (GDF), incorporating grant results into GEMS, developing a new capacity to utilize GEMS for studies and comparative analysis, and implementing a steady schedule of grant evaluations. The Evaluation Unit also participates with other Foundation offices in special learning activities, conferences, and dissemination activities.

The IAF also supports training and other programs, such as exchanges among grantees, to increase their ability to learn from each other. The sharing of knowledge among those similarly situated is a powerful force in development. Moreover, many former IAF fellows and other trainees are now in positions of national and international authority.

Fiscal Year 2003

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

During Fiscal Year 2003, the shift IAF initiated during Fiscal Year 2000 toward a more externally oriented, programmatically focused organization was fully realized. Management's overarching concern for Fiscal Year 2003 was increasing the IAF's independence by expanding the function and range of partnerships with other organizations—both public and private.

Budgetary and Accounting Functions

The final steps of (a) franchising the budgetary operations to the same provider that performs accounting services and (b) consolidating internal operations in one office under executive supervision marked the final step in overhauling the way the IAF does business. The positive results are evidenced by the number of inquiries from other agencies seeking to emulate the IAF's approach.

Over the past several years, the Inspector General, independent auditors and senior IAF staff have often discussed how the IAF could maintain effective oversight over outsourced services. The Office of Operations, established at the close of Fiscal Year 2002, was designed with those discussions in mind. The Office's work encompasses budget, audit, human resources, procurement, general services, information technology, translations, archiving and evaluation.

Expanding Participation of Donors

As noted, the Foundation helped leading corporate foundations in Latin America and the Caribbean to form a network of private sector businesses committed to reducing poverty by working at the grass roots. Following just one year of operation, the network has established itself as an ideal vehicle for businesses to contribute to communities, a standard-bearer in operational capacity and a key source of information worldwide.

In fact, the network has been so popular among corporate Latin America that a group of CEOs from the region's most prominent companies have formed a committee to publicize the role corporations can play in reducing poverty and to engage in dialogue with governments and civil society.

The IAF is also poised to launch a guarantee fund that would provide desperately needed loan capital to organizations that provide credit to micro and small businesses. Partners in the fund may include the Multilateral Investment Fund of the Inter-American Development Bank, one or more private investors and an experienced Swiss organization affiliated with Union Bank of Switzerland that could perform as the operating partner.

Looking Forward

The IAF will continue to play a catalytic role in grassroots and local development and the practice of democracy, seeking an ever widening range of participants and an ever growing audience. The IAF will test new ways of facilitating funding for grassroots and local organizations to carry out their ideas for improving their quality of life. In that regard, the IAF seeks to provide new services to new and small U.S. foundations that direct funding to IAF-funded projects, to cooperate with large and established U.S. foundations to enhance the comparative advantages of each institution, and to pursue the corporate foundation network already underway. The IAF continues to work within the Administration as it develops the Millennium Challenge Corporation and its policies. The IAF will expand its learning and dissemination activities to make available to the public, social investors, academics, government, business, practitioners and philanthropists information on the many opportunities that await them should they wish to participate.

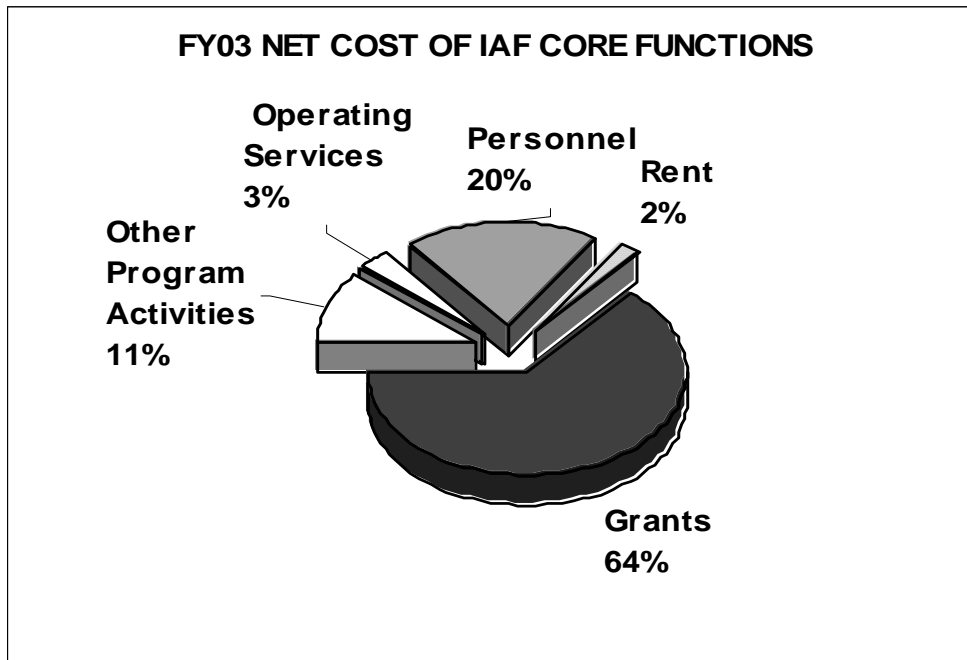
Net Cost of Core Functions

The activity reported in the Statement of Net Cost reflects the resources used by the IAF during the year. Program costs of \$22,218,502 reflected a decrease from the Fiscal Year 2002 amount of \$23,057,518, a reduction of \$839,016 in resources used.

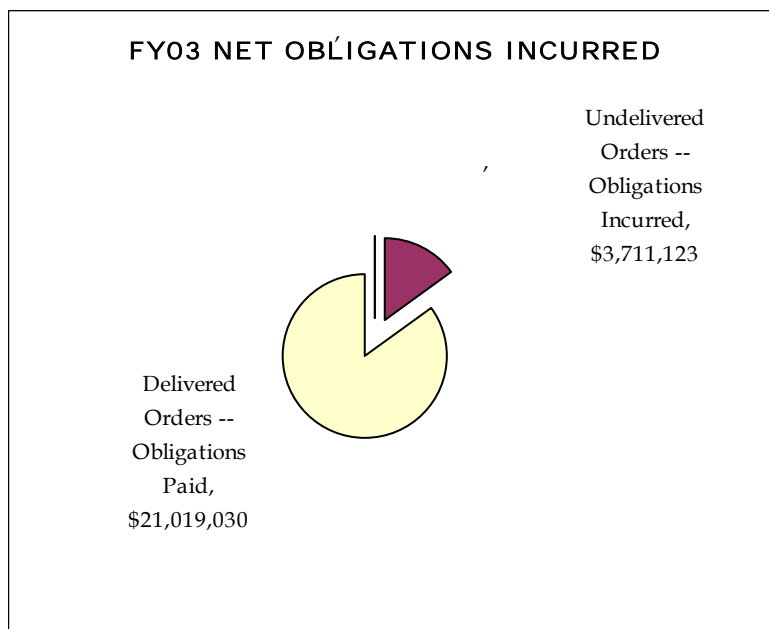
Personnel compensation and benefits increased from \$3,875,003 in Fiscal Year 2002 to \$4,547,047 in Fiscal Year 2003, reflecting the replacement of key personnel lost during previous fiscal years. This reflects an increase of approximately 17 percent, a difference of \$672,044.

In Fiscal Year 2003, Contractual Services reflected resources used of \$2,451,804. The difference of \$306,556 from Fiscal Year 2002, which reported \$2,145,248 in resources used, reflects an increase of approximately 14 percent. A factor contributing to this change is the obligation of a new contract to conduct independent evaluations of select program grants as well as cost increases in inter-agency agreements for franchise services.

Improved use of resources reflected improvements in costs of Printing and Reproduction (for the second subsequent year), Transportation of Things and Insurance Claims and Indemnities. Grants and Subsidies noted a decrease of \$1,707,961 in Fiscal Year 2003. This reflects the fact that IAF Grantees requested fewer disbursements in Fiscal Year 2003.



Fiscal Year 2003 noted \$24,730,253 in Obligations Incurred. As shown in the Pie Chart below, Delivered Orders was \$21,019,030, representing 85% of Net Obligations Incurred. Undelivered Orders was \$3,711,123, representing 15% of Net Obligations Incurred.



Fund Balance with U.S. Treasury

Total resources available from the U.S. Treasury for Fiscal Years 2003 and 2002 were \$38,451,341 and \$28,716,567, respectively. The difference of \$9,734,774 reflects an increase in the Social Progress Trust Fund (SPTF) collections in FY 2003 and a cancellation of \$597,762 in Fiscal Year 1997/1998 appropriated funds, which expired in FY 2003. The SPTF agreement was amended during Fiscal Year 2002 to provide all remaining funds to the IAF until they are

exhausted, in approximately 15 years. See Note One D in the Financial Statements for funding source and Note Nine for funds received from SPTF in FY2003.

Limitations on Financial Statements

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

Independent Auditor's Report on Financial Statements

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

We have audited the accompanying Balance Sheet of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of September 30, 2003 and 2002, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the years then ended. These financial statements are the responsibility of the management of the IAF. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IAF as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, and the reconciliation of budgetary obligations to net cost for the years then ended in conformity with generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued reports dated October 24, 2003 on our consideration of the IAF's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and, in considering the results of the audit, these reports should be read in conjunction with this report.

/s/

Gardiner, Kamyra & Associates, P.C.

October 24, 2003

Inter-American Foundation
BALANCE SHEET
As of September 30, 2003

	2003	2002
ASSETS:		
Intragovernmental:		
Fund Balance With Treasury	38,451,341	28,716,567
Total Intragovernmental	38,451,341	28,716,567
Accounts Receivable	0	1,084
General Property, Plant and Equipment	16,115	21,554
Other	3,615,630	4,809,249
Total Assets	42,083,086	33,548,454
LIABILITIES		
Intragovernmental		
Accounts Payable	127	127
Other	34,767	49,785
Total Intragovernmental	34,893	49,912
Accounts Payable	47,960	358,857
Other	635,861	770,451
Total Liabilities	718,714	1,179,220
NET POSITION		
Unexpended Appropriations	40,129,456	31,191,649
Cumulative Results of Operations	1,234,916	1,177,585
Total Net Position	41,364,372	32,369,234
Total Liabilities and Net Position	42,083,086	33,548,454

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

Inter-American Foundation
STATEMENT OF NET COST
For the year ended September 30, 2003

	<u>2003</u>	<u>2002</u>
Program Costs		
Intragovernmental Gross Costs	1,965,811	1,560,926
Gross Costs With the Public	20,252,691	<u>21,496,592</u>
Total Net Cost	22,218,502	23,057,518
Net Cost of Operations	<u><u>22,218,502</u></u>	<u><u>23,057,518</u></u>

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

Inter-American Foundation
STATEMENT OF CHANGES
IN NET POSITION
For the year ended September 30, 2003

	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	1,177,585	31,191,649	(109,288)	42,323,583
Budgetary Financing Sources:				
Appropriations Received	0	16,200,000	0	13,110,674
Other Adjustments (Recissions, etc.)	0	(703,062)	0	(1,469,112)
Appropriations Used	21,813,840	(21,813,840)	22,773,496	(22,773,496)
Other Budgetary Financing Sources	2,256	0	0	0
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	459,737	0	189,895	0
Other (Note 9)	0	15,254,710	1,381,000	0
Total Financing Sources	22,275,833	8,937,807	24,344,391	(11,131,934)
Net Cost of Operations	22,218,502	0	23,057,518	0
Ending Balances	1,234,916	40,129,456	1,177,585	31,191,649

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

Inter-American Foundation
STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 2003

	<u>2003</u>	<u>2002</u>
BUDGETARY RESOURCES:		
Budget Authority		
Appropriations Received	16,200,000	13,106,950
Unobligated Balance		
Beginning of Period	3,656,824	9,749,523
Spending Authority from Offsetting Collections		
Earned		
Collected	15,256,966	1,384,724
Subtotal	<u>35,113,791</u>	<u>24,241,197</u>
Recoveries of Prior-Year Obligations		
Actual	265,411	2,752,149
Permanently Not Available		
Cancellations of Expired and No-Year Accounts	(597,762)	(1,464,112)
Pursuant to Public Law	(105,300)	(5,000)
Total Budgetary Resources	<u><u>34,676,139</u></u>	<u><u>25,524,234</u></u>
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred		
Direct		
Category A	16,036,347	6,338,154
Category B	8,693,906	15,529,255
Subtotal	<u>24,730,253</u>	<u>21,867,409</u>
Unobligated Balance		
Apportioned		
Balance, Currently Available	733,522	2,090,491
Other	9,212,364	1,566,334
Total Status of Budgetary Resources	<u><u>34,676,139</u></u>	<u><u>25,524,234</u></u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Obligated Balance, Net, Beginning of Period	25,059,743	29,895,383
Obligated Balance, Net, End of Period		
Undelivered Orders	(28,036,196)	(24,106,399)
Accounts Payable	(469,259)	(953,344)
Outlays		
Disbursements	21,019,130	23,950,900
Collections	(15,256,966)	(1,384,724)
Subtotal	<u>5,762,164</u>	<u>22,566,176</u>
Net Outlays	<u><u>5,762,164</u></u>	<u><u>22,566,176</u></u>

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

Inter-American Foundation
STATEMENT OF FINANCING
For the year ended September 30, 2003

	2003	2002
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 24,730,253	\$ 21,867,409
Less: Spending Authority from Offsetting Collections and Recoveries	(265,411)	(4,136,873)
Obligations Net of Offsetting Collections and Recoveries	24,464,842	17,730,536
Other Resources		
Imputed Financing from Costs Absorbed by Others	459,737	189,895
Other Resources	0	1,381,000
Net Other Resources Used to Finance Activities	<u>459,737</u>	<u>1,570,895</u>
Total Resources Used to Finance Activities	24,924,579	19,301,431
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	(2,736,178)	3,662,136
Resources That Fund Expenses Recognized in Prior Periods	<u>1,084</u>	<u>0</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(2,735,094)	3,662,136
Total Resources Used to Finance the Net Cost of Operations	22,189,485	22,963,567
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	23,579	31,866
Components Not Requiring or Generating Resources		
Depreciation and Amortization	5,438	41,179
Other	0	20,906
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>5,438</u>	<u>62,085</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	29,018	93,951
Net Cost of Operations	<u><u>\$ 22,218,502</u></u>	<u><u>\$ 23,057,518</u></u>

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

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

The management of the Foundation is vested in a nine-person Board of Directors appointed by the President of the United States. Six Board members are drawn from the private sector and three from among officers or employees of agencies of the U.S. Government concerned with inter-American activities. As of December 16, 2002, three private sector positions on the Board were filled. The Board appoints the Foundation's president who acts as the chief executive officer.

B. Basis of Presentation

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

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

The Statement of Budgetary Resources for Fiscal Year 2002 have been restated to comply with OMB 01-09 disclosure requirements.

C. Basis of Accounting

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

To assist OMB in recommending and publishing comprehensive accounting standards and principles for agencies of the Federal Government, the Secretary of the Treasury, the Comptroller of the United States, the Director of OMB, and the Joint Financial Management Improvement Program (JFMIP) established the Federal Accounting Standards Advisory Board (FASAB) in 1990. The American Institute of Certified Public Accountants (AICPA) Council designated FASAB as the accounting standards authority for Federal government entities.

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 1. Summary of Significant Accounting Policies (continued)

D. Funding Sources

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

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

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

E. Fund Balance with Treasury

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

F. Accounts Receivable

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

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 1. Summary of Significant Accounting Policies (continued)

G. Advances and Prepayments

Payments in advance of receipt of goods and services are recorded as prepaid charges at the time of the prepayment and recognized as expenditures/expenses when the related goods or services are received. See Note 4 for additional information.

H. General Property, Plant, and Equipment, Net

The Foundation's property, plant and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Foundation's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. Service lives are shown below. See Note 3 for additional information.

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

I. Liabilities

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

J. Accounts Payable

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

K. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 1. Summary of Significant Accounting Policies (continued)

L. Retirement Plans

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

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

Note 1. Summary of Significant Accounting Policies (continued)

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, The Foundation remits the employer's share of the required contribution. The Foundation's contribution to employee pension plan were \$631,571 for Fiscal Year 2003 and \$380,851 for Fiscal Year 2002. In addition, The Foundation costs for health and life insurance were \$301,688 for Fiscal Year 2003 and \$256,063 for Fiscal Year 2002.

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

M. Grant Disbursements and Administrative Expenses

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

N. Imputed Costs/Financing Sources

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

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 1. Summary of Significant Accounting Policies (continued)

The Foundation recognized imputed costs and financing sources in fiscal years 2003 and 2002 to the extent directed by the OMB.

O. Non-Entity Assets and Liabilities

The Foundation did not hold any Non-Entity assets or liabilities as of September 30, 2003 and 2002.

Note 2. Funds with U.S. Treasury

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

	<u>2003</u>	<u>2002</u>
Appropriated Fund	\$ 23,615,118	\$ 15,984,802
Gift Fund	124,384	173,503
Social Progress Trust Fund (SPTF)	<u>14,711,839</u>	<u>12,558,262</u>
Total Entity Funds	<u>\$ 38,451,341</u>	<u>\$ 28,716,567</u>

Status of Fund Balance with Treasury

	<u>FY 2003</u> <u>(In Dollars)</u>	<u>FY 2002</u> <u>(In Dollars)</u>
Unobligated Balance		
Available	\$ 733,522	\$ 2,090,491
Unavailable	9,212,364	1,566,333
Obligated Balance not yet Disbursed	<u>28,505,455</u>	<u>25,059,743</u>
Total	<u>\$ 38,451,341</u>	<u>\$ 28,716,567</u>

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 3. Advances and Prepayments

Grant payments are recorded as an advance and amortized over the estimated useful period covered by the agreement. First time grant payments are amortized over an eight-month period. Subsequent payments are amortized over a six-month period. Prepayments are also made to select government agencies and vendors in advance of receiving the goods or service. Advances are also permitted for employee travel, although none were outstanding at the end of either 2003 or 2002. Advances and prepayments are detailed on the following page:

	<u>2003</u>	<u>2002</u>
Prepayments other than Grant Advances	\$ 49,981	\$ 98,036
Grant Advances	<u>3,565,649</u>	<u>4,711,213</u>
Total Advances and Prepayments	<u>\$ 3,615, 630</u>	<u>\$ 4,809,249</u>

Note 4. Property, Plant and Equipment

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

September 30, 2003

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

September 30, 2002

<u>Description</u>	<u>Depreciation</u> <u>Method</u>	<u>Service</u> <u>Life</u>	<u>Acquisition</u> <u>Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Book</u> <u>Value</u>
ADP Equipment	Straight Line	3 years	\$ 127,893	\$ 127,893	\$ -
Office Furniture	Straight Line	10 years	<u>108,012</u>	<u>86,458</u>	<u>21,554</u>
Total			<u>\$ 235,905</u>	<u>\$ 214,351</u>	<u>\$ 21,554</u>

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 5. Liabilities

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

Liabilities Covered by Budgetary Reserves		2003	2002
Intragovernmental			
	Program expenses	\$ 12,797	\$ 2,016
	Payroll Taxes Payable	<u>22,096</u>	<u>47,896</u>
	Total Intragovernmental	34,893	49,912
	Program Expenses	316,419	705,268
	Payroll Accrual	116,593	197,986
	Payroll Taxes Payable	<u>1,354</u>	<u>177</u>
	Total Liabilities Covered by Budgetary Resources	469,259	953,343
Liabilities Not Covered by Budgetary Resources			
	Unfunded Leave	<u>249,456</u>	<u>225,877</u>
	Total Liabilities	<u>\$ 718,715</u>	<u>\$ 1,179,220</u>

Note 6. Commitments and Contingencies

In the course of its grant-making activities, The Foundation has unliquidated grant obligations which, in the absence of violations or cancellations of the grant agreements, will require disbursements. Unliquidated grant obligations at September 30, 2003 and 2002 total approximately \$23,700,000 and \$22,900,000, respectively.

As of September 30, 2003 and 2002, there were no obligations due to canceled appropriations for which there is a contractual commitment for payment.

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 7. Net Position

The Inter-American Foundation's net position is composed of unexpended appropriations and the cumulative results of operations. Net position as of September 30, 2003 and 2002 consisted of the following:

	<u>2003</u>	<u>2002</u>
Unobligated		
Available	\$ 733,522	\$ 2,090,491
Unavailable	9,212,364	1,566,333
Undelivered Orders	28,036,196	28,915,648
Non-appropriated Funds	<u>2,147,374</u>	<u>(1,380,823)</u>
Total Unexpended Appropriations	40,129,456	31,191,649
Cumulative Results of Operations	<u>1,234,916</u>	<u>1,177,585</u>

The category Undelivered Orders consists of the following:

	<u>2003</u>	<u>2002</u>
Unexpended Obligations - Unpaid	\$ 24,420,566	\$ 24,106,399
Unexpended Obligations - Prepaid	3,615,630	4,809,249
Total Undelivered Orders	<u>\$ 28,036,196</u>	<u>\$ 28,915,648</u>

**Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002**

Note 8. Program Costs

	<u>FY 2003</u>	<u>FY 2002</u>
Personnel compensation	\$ 3,285,771	\$ 2,962,475
Personnel benefits other than pension, health, and life insurance	328,017	275,079
Pension – CSRS	96,614	152,119
Pension – FERS	534,957	228,731
Health insurance	295,444	250,617
Life insurance	6,244	5,446
Benefits to former employees	0	536
Travel and transportation of persons	409,370	313,067
Transportation of things	7,574	19,043
Rents, communication, utilities and misc. charges	408,324	560,958
Printing and reproduction	108,294	156,781
Other services	2,451,804	2,145,248
Supplies and materials	34,211	33,277
Equipment	100,136	63,438
Grants, subsidies, and contributions	14,151,742	15,859,703
Insurance claims and indemnities	<u>0</u>	<u>31,000</u>
Total	<u>\$22,218,502</u>	<u>\$ 23,057,518</u>

Note 9. Financing Sources - SPTF

The Statement of Financing reconciles the Financial Net Cost of Operations with obligation of budget authority. The Foundation's Statement of Budgetary Resources is based on its SF-133 in which the Foundation reports SPTF funds obtained from the IDB as offsetting collections earned. The Foundation had no exchange revenue in fiscal year 2002 or 2003. For fiscal year 2003, the foundation received \$15,256,966 from the IDB, which was report in its SF-133 as funds received from offsetting collections. For fiscal year 2002, the foundation received \$1,381,000 from the IDB, which was reported in its SF-133 as funds received from offsetting collections.

Note 10. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The 2005 Budget of the United States Government, with the Actual Column completed for fiscal year 2003, has not yet been published as of the date of these financial statements. The Budget is currently expected to be published and delivered to Congress in early February 2004. The 2004 Budget of the United States Government, with the Actual Column completed for fiscal year 2002, has been reconciled.

Inter-American Foundation
Notes to Financial Statements
For the years ended September 30, 2003 and 2002

Note 11. Operating Lease

The Foundation occupies office space under a lease agreement, which is accounted for as an operating lease. The former lease expired on March 31, 2002 and was renewed for 10 years, expiring March 31, 2012. Lease payments are increased annually based on the Foundation's proportionate share of the building's operating expenses and real estate taxes. The new agreement allows The Foundation an abatement credit in lieu of a build-out allowance that will be deducted from the monthly rent for the first 26 months of the lease. Total net rental expense was \$408,324 for fiscal year 2003 and \$431,893 for fiscal year 2002. Future minimum lease payments for office space as of September 30, 2003 are detailed below:

Schedule of Future Operating Lease Payments

	<u>Amount</u>
FY 2004	\$522,276
FY 2005	561,157
FY 2006	613,075
FY 2007	628,027
FY 2008	643,353
FY 2009	659,061
	<u>\$3,626,949</u>

Independent Auditor's Report on Internal Control

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

We have audited the financial statements of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2003 and 2002, and have issued our report thereon dated October 24, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

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

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

In addition, with respect to internal controls related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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

/s/

Gardiner, Kanya & Associates, P.C.

October 24, 2003

Independent Auditor's Report on Compliance with Laws and Regulations

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

We have audited the financial statements of the Inter-American Foundation (IAF), a U.S. Government Corporation, as of, and for the years ended September 30, 2003 and 2002, and have issued our report thereon dated October 24, 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

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

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

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

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

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

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

/s/

Gardiner, Kamyra & Associates, P.C.

October 24, 2003