



OFFICE OF INSPECTOR GENERAL

Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2016 and 2015

AUDIT REPORT NO. 0-IAF-17-003-C
NOVEMBER 15, 2016

WASHINGTON, DC



Office of Inspector General

November 15, 2016

Robert N. Kaplan
President and CEO
U.S. Inter-American Foundation
1331 Pennsylvania Avenue NW, Suite 1200 North
Washington, DC 20004

Dear Mr. Kaplan:

Enclosed is the final audit report prepared by the certified public accounting firm of Brown & Company CPAs, Management Consultants, PLLC (Brown & Company) on the financial statements as of September 30, 2016 and 2015, of the U.S. Inter-American Foundation (IAF) (Report No. 0-IAF-17-003-C). OIG contracted with this independent auditor to audit the statements.

The audit objective was to determine whether IAF's financial statements presented fairly, in all material respects, IAF's financial position as of September 30, 2016, and 2015 and its net costs, changes in net position, and budgetary resources for the fiscal years then ended, in accordance with U.S. generally accepted accounting principles.

The independent auditor expressed an unmodified opinion on IAF's fiscal years 2016 and 2015 financial statements and notes. Brown & Company concluded that IAF has no material weaknesses or significant deficiencies in internal control over financial reporting and no instances of noncompliance with applicable provisions of laws, regulations, contracts, and grant agreements.

For fiscal year 2016, IAF elected to prepare an annual management report, which contains financial statements that comprise statements of financial position, operations and changes in net position, and cash flows. Brown & Company discussed the issues in detail regarding the 2015 performance and accountability report and the 2016 annual management report in its audit report under other matters.

According to Brown & Company, this audit was conducted in accordance with generally accepted government auditing standards and the Office of Management and Budget Bulletin No. 15-02, "Audit Requirements for Federal Financial Statements."

In carrying out our oversight responsibilities, OIG reviewed the report and related audit documentation to determine whether Brown & Company complied with applicable standards. Our review was different from an audit in accordance with those standards and was not intended to enable us to express, and we do not express, an opinion on ADF's financial

statements, internal control, or compliance with laws, regulations, contracts, or grant requirements. Brown & Company is responsible for the enclosed auditor's report and the conclusions expressed in it. However, our review did not disclose any instances in which Brown & Company did not comply, in all material respects, with applicable standards.

We appreciate the cooperation and courtesies extended to our staff and Brown & Company's employees during the engagement.

Sincerely,

/s/

Alvin A. Brown
Deputy Assistant Inspector General for Audit
Office of Inspector General



INTER-AMERICAN FOUNDATION FY 2016
ANNUAL MANAGEMENT REPORT (AMR)

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Section I: Executive Overview

Created in 1969, the Inter-American Foundation (IAF) responds to innovative, participatory and sustainable self-help development projects proposed by grassroots groups and organizations in Latin America and the Caribbean. The IAF encourages partnerships among community organizations, businesses and local governments directed at improving the quality of life for poor people and strengthening their capacity to engage as citizens in their communities. To contribute to a better understanding of the development process, the IAF shares its experiences and the lessons it learns with its grantee partners.

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 about 42 employees based in Washington, D.C. The IAF is organized into six offices: (1) Office of the President and CEO; (2) Office of the General Council; (3) Office of Operations; (4) Office of External and Governmental Affairs; (5) Office of Networks and Strategic Initiatives; and, (6) Office of Grant-making and Portfolio Management as illustrated in the [Organizational Structure Section](#).

In Latin America and the Caribbean relatively positive macroeconomic performance of recent years has deteriorated and economic growth has stagnated in much of the region. Poverty, glaring inequality and social exclusion persist and, together with chronic violence and insecurity, are at the root of the most serious challenges the United States faces in our relations with the countries of the region. In this context, and consistent with the Presidential Directive on Global Development, the IAF contributes to U.S. foreign policy objectives by providing its specialized expertise, experience and programmatic focus on citizen-led community development so that poor and marginalized groups have an opportunity to contribute to and participate in local economic growth and engage in civic life. The IAF coordinates with and complements other U.S. government agencies and mobilizes local and international private contributions, including from local partners and community beneficiaries of the IAF's assistance.

The IAF is effective because it:

- Is responsive to the challenges, priorities and solutions emerging directly from organized poor communities, who demonstrate their ownership and responsibility towards improving their circumstances.

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- Is results-oriented, investing modest grants to support projects that yield high returns, help communities manage risk, and strengthen the capacity of local groups to continue working after the IAF's support ends.
- Offers unparalleled grassroots experience, know-how and opportunity for effective collaboration at low cost through its vast network of relationships with Latin American civil society organizations and social entrepreneurs.
- Insists that communities show leadership and that they commit their own resources to ensure that projects are effective and sustainable. On average, they provide about \$138,000 for every \$100,000 contributed by the IAF.
- Complements other U.S. Government development efforts by strengthening local capacity and preparing communities to capitalize on opportunities.
- Is cost-effective and operates with minimal bureaucracy.
- Has the flexibility to adjust quickly to changing conditions and continue engagement at the community level even when bilateral relations are strained.

In 2016, the IAF invested in 96 funding actions to organizations in 17 countries. Many of these grants directly benefit African descendants, indigenous communities, persons with disabilities, and disadvantaged women and youth, providing opportunities for these historically excluded groups to participate more fully in economic and civic life. Application of the Grassroots Development Framework (GDF), the IAF's analytical tool for ensuring that investments contribute meaningfully to real community development results, allows the agency to choose higher-impact projects and assess how its investments yield long-term development benefits that extend far beyond the grantees' immediate objectives.

Effective community development requires citizens themselves to play a leading role. All IAF grantee partners are required to contribute to their projects in cash or in kind, as the IAF's experience shows that community groups are more likely to succeed if they have a stake in the outcome. The IAF also expects grantees to mobilize additional resources and collaborate with their local and central governments, local businesses and other organizations so that progress continues after IAF funding ceases. As a result of these efforts, counterpart resources committed in 2016 totaled \$22.8 million, more than matching the IAF's commitment of \$14.4 million.

MISSION

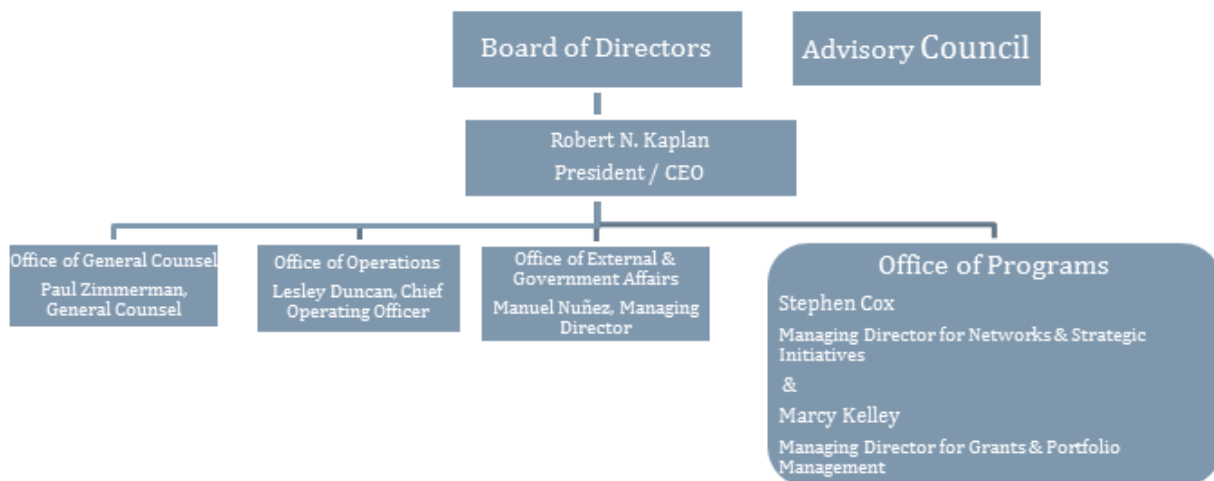
The Inter-American Foundation funds self-help and participatory development efforts in ways that support democracy and strengthen the bonds of friendship and understanding in the Western Hemisphere. The IAF supports initiatives proposed by the organized poor in Latin America and

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the Caribbean to improve their quality of life. IAF staff, representing the American government and people, maintain a supportive relationship with the IAF's grantee partners and the communities they serve 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 is a Latin America and Caribbean region of thriving communities where people, working together, direct their own lives as individuals and citizens. 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 effective 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. By disseminating the lessons of its investment to other donors, to policymakers and to American taxpayers, the IAF can continue to contribute to a better understanding of the importance and effectiveness of citizen-led community development in which the organized poor play a leading role.

ORGANIZATIONAL STRUCTURE



BENEFITS OF THE IAF APPROACH

IAF Serves U.S. Overseas Interests

Inter-American Foundation (IAF) investments in Latin America and the Caribbean serve U.S. interests by:

- **Creating economic opportunity.** IAF investments catalyze economic activity and create jobs for the poor. The local economic impact is multiplied when grant resources are spent in the communities themselves.
- **Fostering secure communities.** IAF investments strengthen the local social fabric of civil society organizations to create a safe environment that is intolerant of criminal activity.
- **Strengthening democratic practices.** IAF grantee partners are building a more democratic citizenry and a more inclusive civil society by exercising their civic responsibilities, respecting rights and holding officials accountable.
- **Addressing root causes of migration.** IAF is working to address the root causes of migration, particularly in Central America and Mexico as part of the Administration's Central America strategy. IAF has shifted its resources toward Central America and Mexico, which comprised 47 percent of funding commitments in FY 2016.
- **Providing a direct link to civil society.** Having worked with more than 5,000 grantee partners, IAF's credibility and contacts among civil society groups across the region are a valuable resource for the U.S. government and other development organizations.
- **Acting with flexibility and agility.** IAF funding can be rapidly adapted to address changing contexts on the ground or to take advantage of emerging opportunities.
- **Maintaining a U.S. presence.** IAF does not operate through foreign governments. Due to its direct funding to communities, it is often able to continue working in countries where diplomatic relations with the United States are strained.

IAF Complements Other U.S. Government (USG) Development Efforts

IAF's direct connection to civil society, broad networks, nuanced knowledge of local contexts and specialized expertise directly complement other U.S. development efforts by:

- **Strengthening local capacity to sustain development efforts.** IAF identifies and supports promising ideas introduced by grassroots groups. Investing in their knowledge, skills,

ingenuity, organizational strength and operational capacity improves their ability to sustain their own efforts.

- **Preparing communities to capitalize on opportunities.** IAF's investments help disadvantaged groups take part in economic opportunities created by large investments in infrastructure or other development programs.
- **Creating new USG partners.** Community-based groups and enterprises that improve their organization, management and operations with IAF's help are better prepared to become new partners in other U.S. government and business initiatives.
- **Providing direct access to civil society.** IAF's relationship with partner organizations is direct, fluid and dynamic throughout the period of the grant and beyond. This approach has earned IAF legitimacy and trust from civil society groups, increasing the chances of grantees' success and establishing relationships that can benefit other USG stakeholders.

IAF Provides a Cost-Effective Approach

IAF delivers development assistance that is smart and highly cost-effective by focusing on the following:

- **Value.** IAF selectively funds 10-15 percent of the proposals it receives, and 100 percent of its grant budget is invested in the field. IAF works to keep overhead low, including by outsourcing many administrative and technical functions.
- **Leverage.** IAF multiplies the impact of its grants and maximizes returns by requiring all of its grantee partners to invest their own resources. Over the last five years, each dollar invested by IAF leveraged \$1.38 from grantees or others.
- **Private-sector partnerships.** IAF actively collaborates with the private sector in joint funding initiatives, including with members of IAF-initiated Latin American business-sector alliance, RedEAmérica, helping parent corporations move beyond philanthropic giving toward a more commercially integrated and sustainable approach.
- **Accountability and results.** IAF holds all grantee partners accountable for the responsible use of U.S. public funds and successful implementation of their projects through regular financial audits and required progress reporting at six-month intervals. IAF's rigorous evaluation methodology includes independently verifying the data reported.

IAF Focuses on the Inclusion of Marginalized Groups

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IAF puts a priority on the inclusion of the region's most disadvantaged citizens—including African descendants, indigenous peoples, women, children and young people, and persons with disabilities—in the economic advances and civic life of their country. Specifically IAF:

- Helps build the capacity of **indigenous people** to take full advantage of economic opportunities while preserving social and cultural heritage.
- Supports **African descent communities** concentrated in the poorest areas in Latin American and the Caribbean with at least 20 percent of grants serving these communities.
- Invests in opportunities for **women** to acquire skills that can create income for their households and enable them to take part in the planning and leadership of development and business ventures alongside men.
- Creates opportunities to access training, education and job/business experience for **young people** of working age that better prepare them for the future as productive citizens.

COST EFFECTIVENESS AND LOOKING FORWARD

The relatively small dollar investments made by the IAF in Latin America and the Caribbean have deep and far-reaching ripples throughout the region. By thoughtfully deploying a small but effective staff of 42 FTEs, IAF provides an important specialized tool to advance key presidential initiatives and foreign policy goals in Latin America and the Caribbean.

The IAF's extensive network of grassroots partners throughout the region is a unique and important asset in the effort to broaden prosperity, social inclusion and community resilience in the hemisphere. The IAF is investing strategically in strengthening this network by developing cost-effective tools to foster and facilitate learning and collaboration among the diverse array of local organizations that are its members. Deepening and expanding this network is an agency priority, both for its direct contribution to achieving the IAF's mission and for the value proposition it offers to potential new partners and collaborators, including other U.S. government agencies.

Looking forward, IAF is committed to the task of broadening our resource base beyond the congressional appropriation and Social Progress Trust Fund (SPTF) disbursements, especially in light of declining SPTF collections. The IAF has been careful to keep our overhead rates stable, efficiently using our resources to ensure that a high and growing percentage of funds support program activities in the field. Moreover, the agency has taken steps to bolster agency efforts to engage the private business and philanthropic sectors by hiring a full-time donor engagement coordinator in FY 2016 and exploring ways to increase the flexibility of its current legislative authority in order to further facilitate receipt of gifts.

The Agency has also recently focused greater effort on a handful of critical programmatic priorities closely aligned with Presidential Priorities, including the identification and launch of three new strategic thematic initiatives as follows:

- Sustainable Smallholder Agriculture: cultivating the grassroots production dimension of Feed the Future.
- Social and Economic Inclusion: focusing strategically on empowering organizations representing traditionally excluded populations (e.g., indigenous groups, women, Afro-descendants, people with disabilities, LGBTI groups).
- Community Asset Mobilization: working with community foundation, corporate foundations, special purpose funds, diaspora organizations, and projects designed to leverage public funding – all designed to enhance grassroots organizations’ access to funding sources within the region.

The agency also continues to participate in inter-agency initiatives and increase its investment in Central America¹ and a limited number of other to priority countries, while maintaining a strategic presence across the region.

¹ Of note, the IAF has submitted a proposal to the interagency panel for the US Strategy for Central America for using up to \$15.0 million in Development Assistance (DA) FY 2016 two-year 1617 funds for implementation of the United States’ Strategy in Central America in FY 2017.

Section II: Financial Section

ANNUAL ASSURANCE STATEMENT

The IAF management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the Federal Manager's Financial Integrity Act (FMFIA). IAF uses the Oracle Federal Financial System hosted by the Administrative Resource Center (ARC) within the Treasury's Fiscal Service. Therefore, our assertion of assurance is operating in accordance with the procedures and standards of the administrative controls within IAF as well as the Statement on Standards for Attestation Engagements (SSAE) 16 Report on ARC/FS Oracle Federal Financial System and related complementary controls in place at ARC.

The IAF management is additionally responsible for establishing and maintaining effective internal controls over financial reporting, which includes safeguarding of assets and compliance with all applicable laws and regulations. IAF assesses the effectiveness of its own internal controls and relies on the Treasury Fiscal Service's internal assessment of its internal controls at ARC. Based on the results of IAF's own internal assessments and our review of our service provider assessment results, IAF provides unmodified assurance that internal controls over financial reporting as of September 30, 2016 are operating effectively; no material weaknesses have been found in the design or operation of the internal controls over financial reporting.

/s/

Robert N. Kaplan
President and CEO
Inter-American Foundation
November 9, 2016

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FINANCIAL STATEMENTS

IAF STATEMENT OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2016 AND 2015 (In Dollars)

	2016	2015
Assets:		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 34,092,880	\$ 36,067,118
Other (Note 3)	-	31,018
Total Intragovernmental	34,092,880	36,098,136
Other (Note3)	1,488,740	1,595,962
Total Assets	\$ 35,581,620	\$ 37,694,098
Liabilities:		
Intragovernmental		
Accounts Payable	\$ 109,521	\$ 33,762
Other (Note 5)	124,857	114,904
Total Intragovernmental	234,378	148,666
Accounts Payable	434,047	318,123
Federal Employee and Veterans' Benefits (Note 4)	132,603	-
Other (Note 5)	566,973	872,964
Total Liabilities (Note 4)	\$ 1,368,001	\$ 1,339,753
Net Position:		
Unexpended Appropriations - Other Funds	\$ 21,057,648	\$ 21,166,221
Cumulative Results of Operations - Funds from Dedicated Collections (Note 13)	13,675,092	15,569,714
Cumulative Results of Operations - Other Funds	(519,121)	(381,590)
Total Net Position	\$ 34,213,619	\$ 36,354,345
Total Liabilities and Net Position	\$ 35,581,620	\$ 37,694,098

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IAF STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (In Dollars)

	2016	2015
Revenue		
Appropriations Received	\$ 22,247,156	\$ 22,050,625
Other Revenue	81,796	77,795
Imputed Financing (Note 9)	274,515	270,608
Revenue from Social Progress Trust Fund (Note 10)	3,562,470	4,598,448
Donations (Note 10)	79,151	25,350
Total Revenue	\$ 26,245,088	\$ 27,022,826
Expenses		
Grant Program (Note 8)	\$ 28,277,241	\$ 27,476,993
Total Expenses (Note 8)	\$ 28,277,241	\$ 27,476,993
Net Revenue Over Expenses	\$ (2,032,153)	\$ (454,167)
Net Position		
Net of Revenue Over Expenses	\$ (2,032,153)	\$ (454,167)
Increase/(Decrease) in Unexpended Appropriations, Net	(108,573)	17,655
Increase/(Decrease) in Net Position, Net	(2,140,726)	(436,512)
Net Position, Beginning Balance	36,354,345	36,790,857
Net Position, Ending Balance	\$ 34,213,619	\$ 36,354,345

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IAF STATEMENT OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (In Dollars)

	2016	2015
Cash Flows From Operating Activities:		
Net Revenue Over Expenses	\$ (2,032,153)	\$ (454,167)
Adjustments Affecting Cash Flow:		
Decrease/(Increase) in Other Assets	\$ 138,240	\$ 171,283
Increase/(Decrease) in Accounts Payable and Other Liabilities	28,248	(83,191)
Total Adjustments	166,488	88,092
Net Cash Provided/(Used) by Operating Activities	\$ (1,865,665)	\$ (366,075)
Cash Flows From Financing Activities:		
Appropriations Received, Net	\$ 252,844	\$ 449,375
Rescissions and Cancellations	(361,417)	(431,720)
Net Cash Provided by Financing Activities	\$ (108,573)	\$ 17,655
Net Increase/(Decrease) in Fund Balance with Treasury	\$ (1,974,238)	\$ (348,420)
Fund Balance with Treasury, Beginning	\$ 36,067,118	\$ 36,415,538
Fund Balance with Treasury, Ending (Note 2)	\$ 34,092,880	\$ 36,067,118

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Inter-American Foundation (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 and other technical assistance 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.

Congress enacts appropriations to permit the IAF to incur obligations for authorized purposes. In fiscal years 2016 and 2015, the IAF was accountable for the 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).

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the IAF. The Statement of Financial Position presents the assets, liabilities, and net position of the agency. The Statement of Operations and Changes in Net Position presents the agency's operating results and displays the changes in the agency's equity accounts. The Statement of Cash Flows presents how changes in the agency's financial position and results affected its cash (Fund Balance with Treasury) and presents analysis of operating and financing activities. The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. 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 issued by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended, and the IAF accounting policies which are summarized in this note. These statements 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 financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

D. Revenues & Other Financing Sources

The IAF's development program is funded by appropriation from the budget of the United States, agreement with the 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 a financing source when expended. 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 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. Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital and grant expenditures. Additional amounts are obtained from service fees and reimbursements from other government entities and the public.

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).

E. Fund Balance with Treasury

Fund Balance with Treasury is the aggregate amount of the IAF's appropriated funds and SPTF collections that are available to pay agency liabilities and finance authorized purchases, commitments and SPTF grants.

The IAF does not maintain bank accounts of its own, has no disbursing authority, and does not maintain cash held outside of Treasury. Treasury disburses funds for IAF on demand. Foreign currency payments are made by Treasury and are reported by the IAF in the U.S. dollar equivalents.

F. Accounts Receivable

Accounts receivable may consist of amounts owed to the IAF by other Federal agencies and the general 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, 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.

G. Property, Equipment, and Software

Property, equipment and software represent furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost and are depreciated or amortized using the straight-line method over their estimated useful lives. Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred. The IAF's capitalization threshold is \$50,000 for individual purchases and \$500,000 for bulk purchases. Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Office Furniture	10
ADP Equipment	3
Office Equipment	10
IT Software	3

H. Advances and Prepaid Charges

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.

I. Liabilities

Liabilities represent the amount of funds likely to be paid by the IAF as a result of transactions or events that have already occurred. The IAF reports its liabilities under two categories, Intragovernmental and With the Public. Intragovernmental liabilities represent funds owed to another government agency. Liabilities with the Public represents funds owed to any entity or person that is not a federal agency, including private sector firms and federal employees. Each of these categories may include liabilities that are covered by budgetary resources and liabilities not covered by budgetary resources.

Liabilities covered by budgetary resources are liabilities funded by a current appropriation or other funding source. These consist of accounts payable and accrued payroll and benefits. Accounts payable represent amounts owed to another entity for goods ordered and received and for services rendered except for employees. Accrued payroll and benefits represent payroll costs earned by employees during the fiscal year which are not paid until the next fiscal year.

Liabilities not covered by budgetary resources are liabilities that are not funded by any current appropriation or other funding source. These liabilities consist of accrued annual leave and actuarial FECA.

J. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. The balance in the accrued leave account is adjusted to reflect current pay rates. Liabilities associated with other types of vested leave, including compensatory, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave.

Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used. Any liability for sick leave that is accrued but not taken by a Civil Service Retirement System (CSRS)-covered employee is transferred to OPM upon the retirement of that individual. Credit is given for sick leave balances in the computation of annuities upon the retirement of Federal Employees Retirement System (FERS)-covered employees at 100 percent.

K. Retirement Plans

The IAF employees participate in either the CSRS or the FERS. The employees who participate in CSRS are beneficiaries of the IAF matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

Prior to December 31, 1983, all employees were covered under the CSRS program. From January 1, 1984 through December 31, 1986, employees had the option of remaining under CSRS or joining FERS and Social Security. Employees hired as of January 1, 1987 are automatically covered by the FERS program. Both CSRS and FERS employees may participate in the federal Thrift Savings Plan (TSP). FERS employees receive an automatic agency contribution equal to one percent of pay and the IAF matches any employee contribution up to an additional four percent of pay. For FERS participants, the IAF also contributes the employer's matching share of Social Security.

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 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 communicate 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.

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, as the administrator.

L. Other Post-Employment Benefits

The IAF employees eligible to participate in the Federal Employees' Health Benefits Plan (FEHBP) and the Federal Employees' Group Life Insurance Program (FEGlIP) may continue to participate in these programs after their retirement. The OPM has provided the IAF with certain cost factors that estimate the true cost of providing the post-retirement benefit to current employees. The IAF recognizes a current cost for these and Other Retirement Benefits (ORB) at the time the employee's services are rendered. The ORB expense is financed by OPM, and offset by the IAF through the recognition of an imputed financing source.

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. IAF expenditures for grants over \$50,000 are independently verified using the IAF's audit guidelines. The IAF's administrative expenses are funded solely by appropriated funds.

The IAF estimates grant advances by multiplying the grants disbursed during the quarter by 50 percent. This estimate will be prepared each quarter to determine the amount of grant disbursements to be accounted for as grant advances in the Balance Sheet.

N. Use of Estimates

The preparation of the accompanying financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

O. 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. The IAF recognized imputed costs and financing sources in fiscal years 2016 and 2015 to the extent directed by accounting standards.

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P. Reclassification

Certain fiscal year 2015 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2016 and 2015 were as follows:

	2016	2015
Fund Balances:		
Trust Funds	\$ 55,479	\$ 268,715
Social Progress Trust Fund (SPTF)	12,961,629	14,992,004
Appropriated Funds	21,075,772	20,806,399
Total	\$ 34,092,880	\$ 36,067,118
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	\$ 392,427	\$ 1,590,800
Unavailable	5,789,603	6,643,297
Obligated Balance Not Yet Disbursed	27,910,850	27,833,021
Total	\$ 34,092,880	\$ 36,067,118

No discrepancies exist between the Fund Balance reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the current-period amount available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable 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.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand (See also Note 7).

IAF FY 2016 AMR

NOTE 3. OTHER ASSETS

Other assets account balances as of September 30, 2016 and 2015, were as follows:

	2016	2015
Intragovernmental		
Advances and Prepayments	\$ -	\$ 31,018
With the Public		
Grant Advances	1,488,740	1,595,962
Total Other Assets	\$ 1,488,740	\$ 1,626,980

NOTE 4. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The liabilities for the IAF as of September 30, 2016 and 2015 include liabilities not covered by budgetary resources. 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.

	2016	2015
Intragovernmental – FECA	\$ 82,149	\$ -
Unfunded Leave	304,370	381,590
Actuarial FECA	132,603	-
Total Liabilities Not Covered by Budgetary Resources	\$ 519,122	\$ 381,590
Total Liabilities Covered by Budgetary Resources	848,879	958,163
Total Liabilities	\$ 1,368,001	\$ 1,339,753

The FECA liability represents the unfunded liability for actual workers compensation claims and unemployment benefits paid on IAF's behalf and payable to the DOL. IAF also records an actuarial liability for future workers compensation claims based on the liability to benefits paid (LBP) ratio provided by DOL and multiplied by the average of benefits paid over three years.

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

IAF FY 2016 AMR

NOTE 5. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2016 were as follows:

	Current	Non Current	Total
Intragovernmental			
FECA Liability	\$ 82,149	\$ -	\$ 82,149
Payroll Taxes Payable	42,708	-	42,708
Total Intragovernmental Other Liabilities	\$ 124,857	\$ -	\$ 124,857
With the Public			
Payroll Taxes Payable	\$ 6,694	\$ -	\$ 6,694
Accrued Funded Payroll and Leave	148,126	-	148,126
Unfunded Leave	304,370	-	304,370
Grant Payments In Transit	107,783	-	107,783
Total Public Other Liabilities	\$ 566,973	\$ -	\$ 566,973

Other liabilities account balances as of September 30, 2015 were as follows:

	Current	Non Current	Total
Intragovernmental			
Liability for Advances and Prepayments	\$ 81,796	\$ -	\$ 81,796
Payroll Taxes Payable	33,108	-	33,108
Total Intragovernmental Other Liabilities	\$ 114,904	\$ -	\$ 114,904
With the Public			
Payroll Taxes Payable	\$ 7,700	\$ -	\$ 7,700
Accrued Funded Payroll and Leave	118,303	-	118,303
Unfunded Leave	381,590	-	381,590
Grant Payments in Transit	365,371	-	365,371
Total Public Other Liabilities	\$ 872,964	\$ -	\$ 872,964

NOTE 6. COMMITMENTS AND CONTINGENCIES

In the course of the agency's 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, 2016 and 2015 total approximately \$2,735,366 and \$1,073,006 respectively.

IAF FY 2016 AMR

NOTE 7. UNDELIVERED ORDERS AT THE END OF THE PERIOD

As of September 30, 2016 and 2015, undelivered orders amounted to \$28,550,710 and \$28,583,634 respectively.

NOTE 8. INTRA-GOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and revenue represent exchange transactions between the IAF and other federal government entities, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

	2016	2015
Foreign Grant Program		
Intragovernmental Costs	\$ 3,393,331	\$ 3,047,333
Public Costs	24,883,910	24,429,660
Total Program Costs	\$ 28,277,241	\$ 27,476,993
Intragovernmental Earned Revenue	(81,796)	(77,795)
Total Net Cost	\$ 28,195,445	\$ 27,399,198

NOTE 9. 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, OPM. For the years ended September 30, 2016 and 2015, imputed financing was \$274,515 and \$270,608 respectively.

IAF FY 2016 AMR

NOTE 10. FINANCING SOURCES – SPTF AND GIFT FUNDS

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.

	2016	2015
SPTF Cumulative Results:		
SPTF Beginning Balance	\$ 15,301,613	\$ 15,642,716
SPTF Funds Received	3,562,470	4,598,448
Less: SPTF Funds Expended	(5,271,118)	(4,939,551)
SPTF Fund Carry Forward	\$ 13,592,965	\$ 15,301,613
Donations Cumulative Results:		
Donations Beginning Balance	\$ 268,101	\$ 332,058
Donations Received	79,151	25,350
Less: Donations Expended	(265,125)	(89,307)
Donations Carry Forward	\$ 82,127	\$ 268,101
Total SPTF and Donations	\$ 13,675,092	\$ 15,569,714

NOTE 11. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The President's Budget that will include fiscal year 2016 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2017 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2017 Budget of the United States Government, with the "Actual" column completed for 2015, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

IAF FY 2016 AMR

NOTE 12. LEASES

Operating Leases

The IAF occupies office space under a lease agreement that is accounted for as an operating lease. The total operating lease expenses as of September 30, 2016 and 2015 were \$710,671 and \$708,909, respectively. The lease term began on April 23, 2012 and expires on April 22, 2017. A new lease agreement begins April 23, 2017 and expires on April 22, 2022, which will include deferred rent.

Below is a schedule of future payments for the term of the lease.

Fiscal Year	Office Space
2017	\$ 349,289
2018	694,501
2019	694,501
2020	694,501
2021	694,501
Thereafter	347,250
Total Future Payments	\$ 3,474,543

The operating lease amount does not include estimated payments for leases with annual renewal options.

NOTE 13. DEDICATED COLLECTIONS

The IAF has dedicated collections that fall into the following categories: SPTF and Gift Fund. Both funds are used to finance part of the IAF's grant program and remain available until funds are exhausted.

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 measures the appropriations and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over use of Federal funds.

IAF FY 2016 AMR

Schedule of Dedicated Collections as of September 30, 2016:

	Social Progress Trust Fund	Gift Fund	Total Dedicated Collections
Balance Sheet			
ASSETS			
Fund Balance with Treasury	\$ 12,961,629	\$ 55,479	\$ 13,017,108
Other Assets	631,336	27,460	658,796
Total Assets	\$ 13,592,965	\$ 82,939	\$ 13,675,904
LIABILITIES			
Accounts Payable	\$ -	\$ 812	\$ 812
Total Liabilities	\$ -	\$ 812	\$ 812
Cumulative Results of Operations	\$ 13,592,965	\$ 82,127	\$ 13,675,092
Total Liabilities and Net Position	\$ 13,592,965	\$ 82,939	\$ 13,675,904
Statement of Net Cost			
Program Costs	\$ 5,271,118	\$ 265,125	\$ 5,536,243
Net Cost of Operations	\$ 5,271,118	\$ 265,125	\$ 5,536,243
Statement of Changes in Net Position			
Net Position Beginning of Period	\$ 15,301,613	\$ 268,101	\$ 15,569,714
Financing Sources	3,562,470	79,151	3,641,621
Net Cost of Operations	(5,271,118)	(265,125)	(5,536,243)
Change in Net Position	(1,708,648)	(185,974)	(1,894,622)
Net Position End of Period	\$ 13,592,965	\$ 82,127	\$ 13,675,092

IAF FY 2016 AMR

Schedule of Dedicated Collections as of September 30, 2015:

	Social Progress Trust Fund	Gift Fund	Total Dedicated Collections
Balance Sheet			
ASSETS			
Fund Balance with Treasury	\$ 14,992,004	\$ 268,715	\$ 15,260,719
Other Assets	364,078	-	364,078
Total Assets	\$ 15,356,082	\$ 268,715	\$ 15,624,797
LIABILITIES			
Other Liabilities	\$ 54,469	\$ -	\$ 54,469
Accounts Payable	-	614	614
Total Liabilities	\$ 54,469	\$ 614	\$ 55,083
Cumulative Results of Operations	\$ 15,301,613	\$ 268,101	\$ 15,569,714
Total Liabilities and Net Position	\$ 15,356,082	\$ 268,715	\$ 15,624,797
Statement of Net Cost			
Program Costs	\$ 4,939,551	\$ 89,307	\$ 5,028,858
Net Cost of Operations	\$ 4,939,551	\$ 89,307	\$ 5,028,858
Statement of Changes in Net Position			
Net Position Beginning of Period	\$ 15,642,716	\$ 332,058	\$ 15,974,774
Financing Sources	4,598,448	25,350	4,623,798
Net Cost of Operations	(4,939,551)	(89,307)	(5,028,858)
Change in Net Position	(341,103)	(63,957)	(405,060)
Net Position End of Period	\$ 15,301,613	\$ 268,101	\$ 15,569,714

NOTE 14. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred and reported in the Statement of Budgetary Resources in 2016 and 2015 consisted of the following:

	2016	2015
Direct Obligations, Category A	\$ 7,231,976	\$ 5,377,614
Direct Obligations, Category B	16,330,050	18,173,625
Reimbursable Obligations, Category A	480	474
Reimbursable Obligations, Category B	5,618,099	6,246,986
Total Obligations Incurred	\$ 29,180,605	\$ 29,798,699

Category A apportionments distribute budgetary resources by fiscal quarters.

Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

NOTE 15. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

IAF has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations.

	2016	2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 29,180,605	\$ 29,798,699
Spending Authority From Offsetting Collections and Recoveries	(4,910,804)	(6,501,433)
Offsetting Receipts	(79,151)	(25,350)
Net Obligations	24,190,650	23,271,916
Other Resources		
Imputed Financing From Costs Absorbed By Others	274,515	270,608
Net Other Resources Used to Finance Activities	274,515	270,608
Total Resources Used to Finance Activities	24,465,165	23,542,524
Resources Used to Finance Items Not Part of the Net Cost of Operations	3,515,528	3,807,567
Total Resources Used to Finance the Net Cost of Operations	27,980,693	27,350,091
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	214,752	49,107
Net Cost of Operations	\$ 28,195,445	\$ 27,399,198



BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

INDEPENDENT AUDITOR'S REPORT

Inter-American Foundation
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying statements of financial position of the Inter-American Foundation (IAF) as of September 30, 2016 and 2015, and the related statement of operations and changes in net position, and statement of cash flows (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted government auditing standards and 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 (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes test of compliance with provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts and grant agreements and, therefore, we do not express such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IAF as of September 30, 2016 and 2015, and its statement of operations and changes in net position, and statement of cash flows, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Required Supplementary Information* (RSI) sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Financial Statements Presentation

IAF is a government corporation by founding statute 22 U.S.C. 290f^[1]. As a government corporation, IAF elected to prepare the Annual Management Report (AMR) for the fiscal year (FY) ending September 30, 2016. For the FY ending September 30, 2015, IAF prepared the Performance Accountability Report (PAR).

The FY 2016 AMR's financial statements consist of:

- Statement of Financial Position
- Statement of Operations And Changes In Net Position
- Statement of Cash Flows
- Notes to the Financial Statement

The FY 2015 PAR's financial statements consist of:

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources
- Notes to the Financial Statements

For comparative purposes, the FY 2016 AMR's financial statements include the account balances from the FY 2015 Balance Sheet, Statements of Net Cost, and Statement of Changes in Net Position. Also for

^[1] Title 22 - Foreign Relations and Intercourse Chapter 7 - International Bureaus, Congresses, Etc. Subchapter Xxi - Inter-American Foundation Sec. 290f - Inter-American Foundation, dated section 290f

comparative purposes, the FY 2016 AMR's financial statements include a Statement of Cash Flows for FY 2015.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered IAF's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion financial statements, but not for the purpose of providing an opinion on internal control. Accordingly, we do not express such an opinion.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. During the audit of the financial statements no deficiencies in internal control were identified that were considered to be a material weakness. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether IAF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to IAF. The objective was not to provide an opinion on compliance with those provisions of laws, regulations, contracts and grant agreements and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

Management's Responsibility for Internal Control and Compliance

IAF's management is responsible for (1) evaluating effectiveness of internal control over financial reporting based on criteria established under the Federal Managers Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct

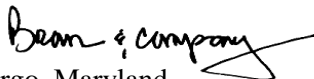
and material effect on the financial statements and applicable laws for which OMB Bulletin No. 15-02 requires testing, and (3) applying certain limited procedures with respect to the RSI.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing internal control over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to IAF. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 15-02 that we deemed applicable to IAF's financial statements for the fiscal year ended September 30, 2016. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of IAF's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering IAF's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.



Largo, Maryland
November 9, 2016

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