



*Office of Inspector General*

**MEMORANDUM**

**TO:** IAF President and CEO, Robert N. Kaplan

**FROM:** Acting AIG/A, Melinda Dempsey/s/

**SUBJECT:** Audit of the Inter-American Foundation's Financial Statements for Fiscal Years 2013 and 2012 (Audit Report No. 0-IAF-14-003-C)

With this memorandum, the Office of Inspector General (OIG) transmits the audit report prepared by the certified public accounting firm of Brown & Company, CPAs, PLLC, on the financial statements as of September 30, 2013 and 2012, of the Inter-American Foundation (IAF). OIG contracted with this independent auditor to audit the financial statements.

The independent auditor expressed an unmodified opinion on IAF's fiscal year 2013 audited financial statements and notes. The report states that the financial statements presented fairly, in all material respects, IAF's financial position, the net cost of operations, the changes in net position, and budgetary resources for the years ended September 30, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

The report contains no material weaknesses, one significant deficiency in IAF's internal control over financial reporting, and no instances of noncompliance with selected applicable provisions of laws, regulations, contract, and grant agreements.

We reviewed the audit report and found it to be in accordance with auditing standards generally accepted in the United States; generally accepted government auditing standards issued by the Comptroller General of the United States; and the Office of Management and Budget Bulletin 14-02, Audit Requirements for the Federal Financial Statements, as amended.

In connection with our contract, we reviewed the independent auditor's related audit documentation. Our review was different from an audit; in accordance with the auditing standards discussed above, our review was not intended to enable us to express, and we do not express, an opinion on IAF's financial statements. Also, we did not express conclusions on the effectiveness of IAF's internal control or on IAF's compliance with applicable provisions of laws, regulations, contract, and grant agreements.

The independent auditor was responsible for the attached auditor's report dated December 6, 2013 and the conclusions therein. Our review disclosed no instances where the independent auditor did not comply, in all material respects, with the auditing standards discussed above.

The Office of Inspector General appreciates the cooperation and the courtesies extended to our staff and the staff of Brown & Company, CPAs, PLLC, during the audit. If you have questions concerning this report, please contact Rohit Chowbay at (202) 712-1317.



## INTER-AMERICAN FOUNDATION



### FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Fiscal Years Ended September 30, 2013 And 2012



**INTER-AMERICAN FOUNDATION  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012**

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# Inter-American Foundation

An Independent Agency of the U.S. Government

## PERFORMANCE AND ACCOUNTABILITY REPORT (PAR)

### Message from the President

The Inter-American Foundation (IAF), an independent foreign assistance agency of the United States government, promotes and invests in citizen-led development in Latin America and the Caribbean to help communities thrive. Created in 1969, the IAF responds to innovative, participatory and sustainable self-help development projects proposed by grassroots groups and organizations that support them. 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 41 employees based in Washington, D.C. The IAF is organized into five offices: Executive, including the president and general counsel; Program; Operations; External and Governmental Affairs; and Evaluation.

Despite positive macroeconomic performance in some countries, 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 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 for the following reasons:

- 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.
- It is results-oriented, investing modest grants to support projects that yield high returns and help communities manage risk, and strengthening the capacity of local groups to continue working after the IAF's support ends.
- It 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 \$130,000 for every \$100,000 contributed by the IAF.
- It is efficient and operates with minimal bureaucracy.
- It has the flexibility to adjust quickly to changing conditions and continue engagement at the community level even when bilateral relations are strained.

In 2013 the IAF invested in 58 new grants and 35 supplemental grants to organizations in 18 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 2013 totaled \$16.6 million, more than matching the IAF's investment of \$12.6 million.

As a small agency with relatively limited resources, the IAF can only achieve impact at scale by working in partnership with and inspiring others who can invest in helping poor communities thrive. One example, created by the IAF ten years ago, is the RedEAmérica network of corporate foundations in the region. Today, that network has grown to over 70 dues-paying members supported by over 350 corporations in 11 countries. When the IAF invests in citizen-led development efforts with RedEAmérica members, they commit to providing more than double the IAF's contribution. More important is the fact that RedEAmérica members or their parent corporations continue to invest in grassroots development on their own, applying tools created with the IAF to select projects and track results. In 2013, the IAF and RedEAmérica established the first Latin American Grassroots Development Award, known by its Spanish name *Transformadores*. The time is ripe for the IAF to approach other private partners as well to increase the leverage of its appropriation and draw more resources into effective citizen-led community development investments.

The Presidential Directive on Global Development calls for coordination among U.S. agencies. The IAF has taken concrete steps in the last two years to do so and will continue to deepen and broaden efforts in FY14 and beyond. The IAF's specialized expertise and assistance complements the efforts of other agencies and increases the return on the total U.S. investment, ensuring that more poor and marginalized communities will benefit. The IAF collaborates with the U.S. Department of State and others to advance important foreign-policy priorities through the Partnership for Growth (PfG), and broader regional initiatives and projects such as the Inter-American Social Protection Network (IASPN), the Joint Action Plan to Eliminate Racial and Ethnic Discrimination and Promote Equity (JAPER) and the Americas Partnership on Social Inclusion and Equality (APSIE).

**Annual Performance Report (APR)**  
Accomplishments of the Annual Performance Measures for FY 2013

In FY 2013 the Inter-American Foundation received an appropriation of \$21,360,915 for program and program support activities, which was supplemented by \$4,207,978 from the Social Progress Trust Fund, by \$113,655 in carry-over funds and by \$151,355 in donations from external sources. The total budget authorized for FY 2013 was \$25,833,903.

<b>Strategic Goal One:</b> <i>Support the coordinated efforts of the poor to improve their material circumstances, strengthen their organizations, and enhance the social and economic environment for community-led development.</i>						
<b>Performance Measure 1.1:</b> Funding actions in the fiscal year that enhance communities' capacities to design and execute development projects and materially improve the quality of life of beneficiaries, as evidenced by measurable indicators.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of funding actions	126	75	93	Above target	88	101
<i>The IAF responds to an average of 600 proposals it receives each year. In FY 2013, the Foundation awarded 58 new grants to grassroots and nongovernmental organizations. The IAF also provided supplementary resources in FY 2013 to 35 organizations it had funded in prior years that showed great promise in reaching and expanding on their objectives.</i>						
<b>Performance Measure 1.2:</b> Percentage of projects ending in the prior fiscal year that met or exceeded outcome goals specified for each project.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Percentage of projects that met outcome goals	75%	80%	75%	Below target	80%	80%
<i>Of the 44 grantee partners whose funding ended in fiscal 2012, 75% (33 grantee partners) met or exceeded the goals specified for each project. Those who did not meet the planned goals listed reasons such as staff turnover and conflicts, insufficient training to fully meet project goals, and poor coordination and collaboration with local groups.</i>						
<b>Performance Measure 1.3:</b> Specific accomplishments reported by grantee partners active in the prior fiscal year, evidenced by measurable indicators, which improved the quality of beneficiaries' lives, changed the social and economic contexts in which they act, or enhanced their communities' capacity to take the lead in their own development.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of beneficiaries trained, jobs created/saved,	63,466	85,000	111,718	Above target	100,000	100,000

individuals with improved health, and partnerships developed						
<p><i>Of the 267 active grantee partners in fiscal 2012, 78% (208 grantee partners) reported specific accomplishments such as:</i></p> <ul style="list-style-type: none"> <li><i>74,850 new beneficiaries acquired knowledge and skills through IAF-funded training.</i></li> <li><i>7,175 created, saved or improved jobs.</i></li> <li><i>33,700 individuals improved health.</i></li> <li><i>9,269 partnerships and collaborations with development groups in their communities</i></li> </ul> <p><i>IAF grantee partners mobilized and brokered \$3.76 million to further project activities beyond their required counterpart commitment.</i></p>						

**Strategic Goal Two:** Promote the social inclusion and civic participation of traditionally marginalized groups.

**Performance Measure 2.1:** Funding actions in the fiscal year that enhance the opportunities for traditionally marginalized groups to become effective actors in the design and execution of projects that improve their quality of life and their participation in the development process.

	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of funding actions supporting traditionally marginalized groups	71	53	66	Above target	62	72

*The IAF has a rich history of supporting marginalized and disenfranchised groups. In FY 2013, 66 funding actions (71%) went to projects that directly focus on the inclusion of African descendants (15), Indigenous (21), People with disabilities (1), Women (15), and Youth (14).*

**Performance Measure 2.2:** Events, exchanges and other knowledge-generation efforts to enhance the participation of traditionally marginalized groups in the development process and contribute to what is known about how these groups can most effectively take action to improve their quality of life.

	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of events with traditionally marginalized groups	N/A	25	32	Above target	32	32

**Performance Measure 2.3:** Specific accomplishments, reported by project partners active in the prior fiscal year, evidenced by measurable indicators that improved the quality of life of traditionally marginalized groups and their opportunities to participate in the development process.

	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of beneficiaries trained, jobs created/saved, individuals with improved health, and partnerships developed	N/A	60,000	56,282	Below target	60,000	60,000
<p><i>Of the 128 active grantee partners working with 58,282 marginalized individuals in fiscal 2012 reported specific accomplishments such as:</i></p> <ul style="list-style-type: none"> <li><i>51,631 new beneficiaries acquired knowledge and skills through IAF-funded training.</i></li> <li><i>4,225 created, saved or improved jobs.</i></li> <li><i>426 individuals received medical attention via three grantee partners.</i></li> <li><i>980 new partnerships and collaborations were formed with other community development groups.</i></li> </ul> <p><i>Grantee partners also applied their development methods and practices to other communities and contexts, resulting in broader participation and better treatment of marginalized groups.</i></p>						

**Strategic Goal Three:** *Make knowledge-generation and knowledge- management an integral part of our work, informing new approaches for smarter investments by IAF and others.*

**Performance Measure 3.1:** Funding actions, events, conferences, exchanges, and other efforts that directly enhance the opportunities for generating and disseminating new knowledge about development and for promoting interactive learning among IAF partners in the region and other development actors and thought leaders.

	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of grants, supplemental grants, and travel grants that supported events, conferences, exchanges, and other interactions among partners that generate or disseminate information	N/A	58	69	Above target	62	71
Number of supported participants in activities that directly enhance information dissemination	294	>200	221	Above target	>200	>200

*In FY 2013, the IAF supported 215 individuals as participants in at least 33 events, conferences and exchanges that enhanced their learning and sharing of knowledge among partners in the region, development actors and thought leaders. Many of those sponsored were members of marginalized groups, including African descendants, indigenous peoples, persons with disabilities, women and young people.*

**Performance Measure 3.2:** Publications and other media products, including ex-post assessments of IAF grants, that effectively distribute to strategically

targeted audiences new knowledge about citizen-led development.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of publications and other media products on citizen-led development	2	17	37	Above target	45	50
<p><i>The IAF invested in new publications in fiscal 2013. The IAF website has become the principal distribution mechanism for the information contained in IAF publications. Publications in print were distributed to select audiences, including private sector partners, universities, congressional audiences and active grantees. In addition staff distributed materials ad hoc to approximately 25 other individuals and/or organizations.</i></p> <p><i>The 2013 journal focuses on the IAF's 40-plus-years of investment in young people, highlighting with a few examples the grassroots organizations that have assured generations of disadvantaged children and adolescents the healthy start, effective education, connections with caring adults, development of talent and skills, grooming in citizenship and personal validation that lead to a meaningful place in society.</i></p> <p><i>IAF has translated into Spanish <u>Rethinking Corporate Social Engagement: Lessons from Latin America</u>, in which author Lester Salamon summarized his IAF-funded research on socially responsible businesses and their work at the grassroots</i></p> <p><i>The Office of Evaluation conducted five ex-post assessments of former IAF grantees whose funding had terminated five years prior. Summaries of these assessments were posted to the IAF website in English in fiscal 2013, along with summaries of eight assessments conducted in previous fiscal years.</i></p> <p><i>The IAF created a new "Stories from the Field" section of its website, which highlights the experiences and lessons of IAF-funded organizations.</i></p>						
<b>Performance Measure 3.3:</b> Funded research and knowledge-generation activities, including fellowships in support of doctoral research that adds to the body of knowledge related to citizen-led development.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of fellowships for research that support citizen-led development	16	15	16	Above target	15	15
Number of grants and supplemental grants that support research, study, analysis, or knowledge products related to citizen-led development	20	30	45	Above target	41	46
<p><i>In fiscal 2013, the Inter-American Foundation awarded Grassroots Development Fellowships to 16 Ph.D. candidates at 11 U.S. universities undertaking dissertation research in seven Latin American countries during the coming year. The Fellows were selected on the strength of their academic record, their proposals and their potential contribution to grassroots development. Eight of the Fellows are U.S. citizens, and eight are citizens from four Latin American countries.</i></p>						

Current and former Fellows total more than 1000. 22 recent Fellows reported on their IAF-funded research at the 2013 Congress of the Latin American Studies Association held in Washington, D.C. in May.

During fiscal 2013, the IAF advanced the Chronic Violence Learning Project, initiated at the end of fiscal 2012. With this participatory research the IAF will enhance understanding of how violence affects grantee partners and their community initiatives and what strategies they can take to prevent and minimize the negative consequences of violence. With this information, the IAF will examine its institutional processes for selecting and accompanying grantee partners that live and work in areas of chronic violence, develop strategies and partnerships to sustain this support and create resources to help inform broader U.S. government initiatives.

**Performance Measure 3.4:** Institutional knowledge-management plan implemented.

	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Implementation of grant management system	N/A	N/A	N/A	N/A	Yes	N/A

Plan and request for proposal for a new grants management system is complete and ready to implement for FY 2014.

**Strategic Goal Four:** Increase awareness, understanding and support for the IAF and its programs among key audiences in order to draw more resources into grassroots development.

**Performance Measure 4.1:** Metrics on visits to the IAF website and utilization of associated online information and resources.

	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of website visitors	N/A	50,000	67,945	Above target	75,000	100,000

The IAF has made significant strides in fiscal 2013 towards developing new communication channels and new media for sharing IAF's information and lessons. The IAF's new website ([www.iaf.gov](http://www.iaf.gov)) is designed to promote the electronic distribution, among our partners and far beyond, of new knowledge about what works best. It has generated 313,273 new page views from 57,004 new visitors since October 2012. 60.98% of visitors were new to the website. The IAF rolled out the website in three more languages in August and is generating more traffic.

In the IAF's first year of managing a Twitter account, the IAF has attracted more than 200 followers and sent more than 200 "tweets" (messages).

**Performance Measure 4.2:** External speaking engagements or participation of IAF staff in public forums.

	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of external speaking	N/A	5	8	Above	10	15

events with IAF participation				target		
<b>Performance Measure 4.3:</b> Media coverage, press releases and grantee project recognition.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of media events	>5	>5	>5	Met target	10	15
<p><i>The IAF regularly monitors both earned and social media coverage that involves the agency as well as grantee partners. Though more difficult to track, grantee press and media coverage is one of the optional indicators that IAF grantee partners can choose to monitor over the course of their grant. More than one-third of IAF grantees have opted for and report on this indicator at six-month intervals.</i></p> <p><i>The IAF utilizes its website to publicize major recognition that IAF grantee partners receive in the press and other media channels. During FY 2013, the IAF has highlighted more than 17 instances of significant coverage of the IAF, IAF grantees or former grantees.</i></p>						
<b>Performance Measure 4.4:</b> Total committed dollar amount of in-kind and cash resources contributed and mobilized by grantees.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Dollar value committed in counterpart from grantees	\$23.2 million	\$17.8 million	\$16.6 million	Below target	\$15.3 million	\$18.3 million
<p><i>Despite continuing economic difficulties in the region, IAF grantees were able to mobilize a higher portion of total project costs, meeting the goals.</i></p>						
<b>Performance Measure 4.5:</b> Funds secured as a result of private- sector, inter-governmental or individual donation, investment or other sponsorship of IAF activities.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Dollar value of outside funding sources	N/A	\$1 million	\$450K	Below target	\$1.1 million	\$2 million
<p><i>The FY 2013 Result includes negotiations concluded with the C.S.Mott Foundation (\$150,000 for investment in development of community foundations in Mexico) and Department of State (\$300,000 for the America's Partnership on Social Inclusion and Equity.</i></p> <p><i>IAF is actively engaged in partnership discussions with private sector firms.</i></p>						

**Strategic Goal Five:** Modernize and strengthen our operations.

**Performance Measure 5.1:** Metrics associated with elapsed time from receipt of

proposal to definitive decision on funding.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Number of days from proposal to President's approval or rejection notification	N/A	232	211	Above target	190	171
<b>Performance Measure 5.2:</b> Re-engineering system of grants approval, monitoring, and evaluation supported by versatile grants-management system in place.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Implementation plan developed	N/A	N/A	N/A	N/A	Yes	N/A
System in place	N/A	N/A	N/A	N/A	N/A	Yes
<b>Performance Measure 5.3:</b> New performance evaluation system in place.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
System in place	N/A	N/A	N/A	N/A	Yes	N/A
<b>Performance Measure 5.4:</b> Improved results on Grantee Perception Survey compared with previous survey.						
	FY 2012 Results	FY 2013 Goal	FY 2013 Results	FY 2013 Rating	FY 2014 Goal	FY 2015 Goal
Higher positive response versus 2011	N/A	N/A	N/A	N/A	N/A	Yes
<i>A Grantee Perception Survey was not conducted in FY 2013.</i>						

I am pleased to introduce the IAF's FY 2013 financial statements, which reflect the IAF's mission and core principles, including prudent stewardship of resources and transparency of our operations.

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

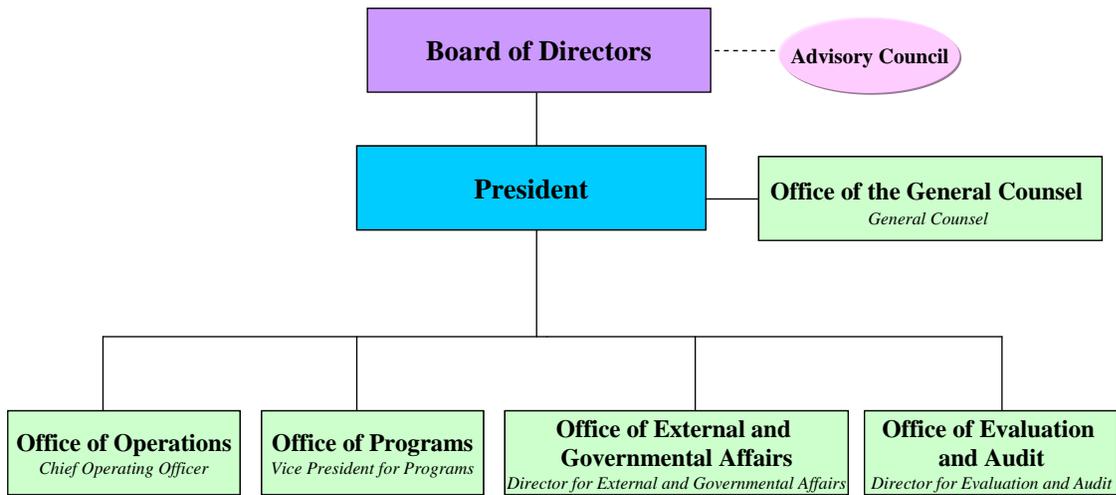
Signed:

/s/

Robert N. Kaplan  
President and CEO

# Inter-American Foundation

as of September 30, 2013



## MANAGEMENT DISCUSSION AND ANALYSIS

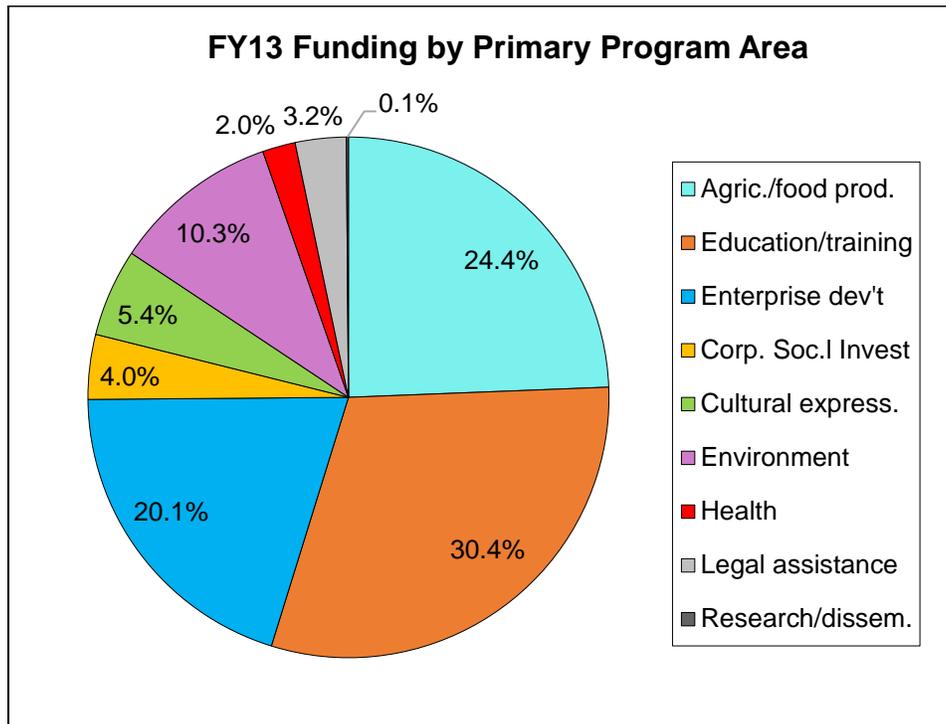
*The Inter-American Foundation (IAF) is a resourceful, agile, cost-effective agency efficient in its operations, innovative and effective in its grassroots development programs. The IAF learns from its experience, and uses the lessons learned to improve its own grant making decisions and to advance the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

### **Mission and Organizational Requirements**

The Inter-American Foundation funds self-help and participatory development efforts in ways that support democracy and strengthen the bonds of friendship and understanding in the Western Hemisphere. The IAF supports initiatives proposed by the organized poor in Latin America and the Caribbean to improve their quality of life. IAF staff, representing the American government and people, maintain a supportive relationship with the 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 the 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.

The FY 2013 funding actions are divided among primary program areas as follows:



Theme	FY13	
	Funds \$	Percentage of Funding
Agriculture./food production	\$3,063,508	24,4%
Education/training	\$3,821,318	30,4%
Enterprise development	\$2,524,816	20,1%
Corp. Social Investment	\$505,370	4,0%
Cultural expression	\$683,933	5,4%
Environment	\$1,299,179	10,3%
Health	\$256,085	2,0%
Legal assistance	\$396,835	3,2%
Research/dissemination	\$16,404	0,1%
<b>Total:</b>	<b>\$12,567,448</b>	<b>100,0%</b>

## FY 2014 PERFORMANCE MEASURES

**Mission:** *Promoting and investing in grassroots development to help communities thrive.*

**Vision:** *Thriving communities throughout Latin America and the Caribbean, where people direct their own lives as individuals and citizens.*

**Strategic Goal One:** *Support the coordinated efforts of the poor to improve their material circumstances, strengthen their organizations, and enhance the social and economic environment for community-led development.*

**Problem/need/challenge addressed:** Thriving communities depend on their citizens' capacity to engage each other in public and private association and to shape and respond to economic and social opportunities. IAF promotes grassroots development through initiatives conceived, led and implemented by community-based organizations of the poor and closely-linked support organizations, often nongovernmental organizations (NGOs). Communities that have the capacity to take the lead in thinking and working through their own development challenges form the democratic foundation that is the region's best hope for lasting peace, security, and economic progress.

By supporting these efforts of the organized poor, the IAF materially advances U.S. strategic interests in the region. By being careful to base our investments on evidence about what works in grassroots projects, we are adding to an empirically grounded body of knowledge about how to address these challenges more effectively.

**Contributing IAF programs:** Grants for projects, support for exchanges and interaction among partner communities and organizations, and investment in producing new knowledge about what works in community-led development — all closely linked to a sophisticated monitoring and evaluation system that measures results and helps partners adapt strategically to changing circumstances.

**Contributing external U.S. government programs:** The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF is also participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban Development, and the Environmental Protection Agency.

**Lead persons/positions:** The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants (enabling the IAF to perform its grant making and evaluation functions in the most cost-effective manner).

**Strategy and key measures:** The IAF identifies and supports the best ideas for improving standards of living and enhancing civic participation in democratic processes and institutions. Significantly, these ideas come from the communities themselves, and local civil society organizations supporting these communities. We also seek promising new ways to generate knowledge and transformative results for our partner organizations and their communities. We continually sharpen our funding criteria to implement this strategy and align our evaluation system with our evolving needs.

IAF helps improve the material conditions and associative capacity of communities by supporting projects in a diverse array of thematic areas: income generation; small business development; community-based natural resource management; water supply and sanitation; sustainable agricultural development; improved access to domestic and foreign markets; enhanced public security and community resilience in contexts of chronic violence; improved housing and nutrition; cultural expression and identity; collaborative linkages between rural and urban communities; and others.

Before funding begins, all IAF-supported organizations identify specific indicators that are measured periodically — usually twice a year — to provide empirical evidence of results generated. In addition, the IAF offers its partners support for mid-course learning activities to enable partners to reflect on the

progress of their initiatives and identify and respond to challenges and opportunities not evident before the projects began. The IAF conducts ex-post evaluations of a subset of its projects, revisiting the participating communities five years after project completion, to assess evidence of long-term impacts.

Finally, IAF is engaging with funding partners — public and private and in the United States and abroad — to channel greater and more sustainable flows of financial support to strong projects throughout the region.

**Performance Measure 1.1:** Funding actions in the fiscal year that enhance communities' capacities to design and execute development projects and materially improve the quality of life of beneficiaries, as evidenced by measurable indicators.

**Performance Measure 1.2:** Percentage of projects ending in FY 2013 that met or exceeded outcome goals specified for each project.

**Performance Measure 1.3:** Specific accomplishments reported by project partners active in FY 2013, evidenced by measurable indicators, that improved the quality of beneficiaries' lives, changed the social and economic contexts in which they act, or enhanced their communities' capacity to take the lead in their own development.

*Strategic Goal Two: Promote the social inclusion and civic participation of traditionally marginalized groups.*

**Problem/need/challenge addressed:** Members of traditionally marginalized groups — including women, African descendents, indigenous peoples and people with disabilities — are disproportionately represented among the poor in Latin America and the Caribbean. They, as well as people with LGBT identity, are also most likely to be excluded from the civic life of their communities.

**Contributing IAF programs:** Grants for projects, support for exchanges and interaction among partner communities and organizations, and investment in producing new knowledge about what works best in promoting greater and more effective participation of traditionally marginalized groups.

**Contributing external U.S. government programs:** The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF will undertake an initiative involving the Department of State (Americas Partnership on Social Inclusion and Equality), to promote social inclusion in six countries. This will result in an inter-agency transfer of \$400,000 to the IAF.

**Lead persons/positions:** The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants, enabling the IAF to perform its grant-making and evaluation functions in the most cost-effective manner.

**Strategy and key measures:** The IAF makes a deliberate effort to identify and work with communities of traditionally marginalized groups and with the associations and networks that represent their interests. Special outreach helps bring new ideas from these groups into our program pipeline. The IAF also supports conferences, exchanges, collaborative analytical efforts and other measures to help these communities network and learn from each other.

**Performance Measure 2.1:** Funding actions in the fiscal year that enhance the opportunities for traditionally marginalized groups to become effective actors in the design and execution of projects that improve their quality of life and their participation in the development process.

**Performance Measure 2.2:** Events, exchanges and other knowledge generation efforts to enhance the participation of traditionally marginalized groups in the development process and contribute to what is known about how these groups can most effectively take action to improve their quality of life.

**Performance Measure 2.3:** Specific accomplishments reported by project partners active in FY 2013, evidenced by measurable indicators, that improved the quality of life of traditionally marginalized groups and their opportunities to participate in the development process.

*Strategic Goal Three: Make knowledge-generation and knowledge- management an integral part of our work, informing new approaches for smarter investments by IAF and others.*

**Problem/need/challenge addressed:** The economic, social, political and technological contexts in which our community-based partners live and work are changing at unprecedented speed. Consequently, the need for careful, continuous attention to the generation, distribution and application of new knowledge about community-led development is more important now than ever before.

The IAF was created in 1969 to be agile and innovative, helping to identify, test, and reflect upon changing opportunities for community-led development. As part of every funding action, we will define *what* we hope to learn, *why* those lessons are important, and *what evidence* we will capture and use to produce new knowledge about the development process. In this more rigorously empirical approach to our grantmaking, every funding action will explore a hypothesis about what works, what doesn't work and why.

**Contributing IAF programs:** Grants for projects, IAF fellowships for field work by Ph.D candidates at U.S. universities, support for exchanges and interaction among partner communities and organizations, and investment in producing, sharing and using new knowledge about what works in citizen-led development.

**Contributing external U.S. government programs:** The IAF consults with the respective U.S. Embassy as part of the approval process for new grants each year. The IAF is also participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban Development, and the Environmental Protection Agency.

**Lead persons/positions:** The President takes a direct role in setting the knowledge agenda. The Vice President for Programs and the Director of Evaluation lead a Washington-based team and a network of skilled in-country consultants to identify and take action on knowledge generation opportunities. The Director of External and Government Affairs leads a team that manages the IAF's Ph.D fellowship program and interacts with other knowledge partners.

**Strategy and key measures:** The IAF's core strategy for knowledge- generation is to ensure that each funding action has a knowledge- generation strategy and component embedded in its design, to support real-time reflection during project implementation on what works and why. Additional support for what we are calling learning enhancement measures enables partners to reflect at mid-course about emerging dynamics and lessons not identified at the time of project design.

Our distinctive Grassroots Development Framework uses a well-established system of concrete indicators and frequent visits by contracted data verifiers to collect evidence throughout each project on progress toward results. This effort, managed by the IAF's Office of Evaluation, is supplemented by Project Histories compiled after funding ceases and by an ambitious program of ex-post evaluations of projects five or more years after completion to assess the long-term impact of our investment.

A complementary strategy relies on the extraordinary capacity of our partners to teach and learn from each other — the best teacher for a farmer is a similarly-situated farmer who has been successful. The IAF invests considerable resources in meetings, exchanges, workshops and other events that enable our partners to share what they are learning about citizen-led development. This is a particularly cost-effective method for rapidly spreading the word about new knowledge on Next/Best Practices. By supporting these efforts *to help good ideas go viral*, the IAF multiplies its development impact far beyond our limited capacity to intervene directly.

Another complementary strategy is the exploration of new uses of media to identify and distribute new knowledge. The IAF's new website ([www.iaf.gov](http://www.iaf.gov)) is designed to promote the electronic distribution, among our partners and far beyond, of new knowledge about what works best. Moreover, the IAF has initiated new partnerships with: a) a network of more than 3,000 ethnic media outlets in the US and abroad that is dedicated to bringing the voices of the marginalized ethnic minorities, immigrants, young people, the elderly — into the national discourse, and developing similar capacities on other countries; and b) another media partner committed to enabling participating communities to use *radionovelas* and other public-interest radio programming more effectively. The IAF is also putting low-cost video equipment in the hands of grantee partners, to enable them to document visually what they are accomplishing and is offering continued support for current and new partners in Latin America attempting to apply other new media tools in service of community-led development.

The IAF's Grassroots Development Fellowships support cutting-edge field research by Ph.D. candidates in U.S. universities, contributing to the cadre of specialists in development and increasing exposure to grassroots development as they become professionals and assume leadership roles throughout the region.

Finally, the IAF is engaged in an ongoing series of discussions with other thought-leaders in the areas of community-led development and the related field of asset-based community development (ABCD). In FY 2014, we will continue a series of focused interactions with the Kettering Foundation, the Coady International Institute, and the ABCD Institute at Northwestern University. This working collaboration focuses on rethinking the logic of how communities thrive. In FY 2014, we will expand engagement with corresponding Latin American thought-partners in this effort.

**Performance Measure 3.1:** Funding actions, events, conferences, exchanges and other efforts that directly enhance the opportunities for generating and disseminating new knowledge about development and for promoting interactive learning among IAF partners in the region and other development actors and thought leaders.

**Performance Measure 3.2:** Publications and other media products, including ex-post assessments of IAF grants, that effectively distribute to strategically targeted audiences new knowledge about citizen-led development.

**Performance Measure 3.3:** Funded research and knowledge-generation activities, including fellowships in support of doctoral research that adds to the body of knowledge on citizen-led development.

**Performance Measure 3.4:** Institutional knowledge-management plan implemented.

*Strategic Goal Four: Increase awareness, understanding and support for the IAF and its programs among key audiences in order to draw more resources into grassroots development.*

**Problem/need/challenge addressed:** A broader resource base is crucial to the IAF's vision of increased support for grassroots development. In order to attract additional resources in support of its mission and program, the IAF must increase the degree to which its work is recognized, understood and adequately resourced.

**Contributing IAF programs:** Grants for projects, IAF fellowships for field work by Ph.D. students at U.S. universities, evaluation and research initiatives, media initiatives, publications and diverse external engagement with partners, donors and other key constituencies.

**Contributing external U.S. government programs:** The IAF is participating in and developing inter-agency initiatives involving the Department of State, USAID, the Department of Housing and Urban

Development, and the Environmental Protection Agency. Expanded partnership efforts will be ongoing throughout the planning period.

**Lead persons/positions:** The Director of External and Government Affairs provides overall strategic guidance and leadership for this goal, coordinating the involvement of the IAF President, the Vice President of Programs, the Director of Evaluation and their respective teams.

**Strategy and key measures:** The IAF will take advantage of opportunities to increase its visibility and strengthen its position as an effective and experienced leader in grassroots development. It will pursue partnerships with key private foundations, private-sector firms and other U.S. government agencies interested in grassroots development. The IAF will offer its capabilities, expertise and operational efficiencies to allow partners to invest resources efficiently and effectively through the IAF, rather than bearing the cost of operational inefficiencies associated with unilateral investment. This increased awareness of the IAF, its demonstrated results, and its value proposition should increase the number of partners and volume of resources available. The IAF will also continue to expand opportunities in the Latin American business sector through RedEAmérica, the IAF-initiated network of corporate foundations that currently represents more than 360 Latin American companies committed to investing in grassroots development. Lastly, the IAF will continue to require grantee partners to contribute counterpart funding toward their projects and encourage them to obtain additional support for their efforts from local government, businesses and philanthropic institutions.

**Performance Measure 4.1:** Metrics on visits to the IAF website and utilization of associated online information and resources.

**Performance Measure 4.2:** External speaking engagements or participation of IAF staff in public forums.

**Performance Measure 4.3:** Media coverage, press releases and grantee project recognition.

**Performance Measure 4.4:** Total committed dollar amount of in-kind and cash resources contributed or mobilized by grantees.

**Performance Measure 4.5:** Funds secured as a result of private sector, inter-governmental or individual donation, investment, or other sponsorship of IAF activities.

**Strategic Goal Five:** *Modernize and strengthen our operations.*

**Problem/need/challenge addressed:** Feedback from the Grantee Perception Report conducted at the end of 2011 suggests there may be opportunities to streamline our process for approving and monitoring grants and to reduce the administrative burden on our grantees while maintaining prudent controls and appropriate accountability. The IAF operates a grants-management system that has served the agency for many years but does not offer many of the integrative and analytic features available on the market today. Other IT capabilities also require significant upgrading to make the IAF more cost-effective. Meanwhile, as a small agency, we must continuously adjust to retirements and transitions of staff and loss of institutional knowledge.

**Contributing IAF programs:** Inter-agency agreements, formal training and cross-training of staff, IT development.

**Contributing external U.S. government programs:** Bureau of Public Debt (BPD), Department of Treasury (accounting, procurement and travel services); Internal Business Center (IBC), Department of the Interior (personnel services); General Services Administration.

**Lead persons/positions:** The Chief Operating Officer provides overall leadership and operational support, in close collaboration with the President and the Vice President for Programs.

**Strategy and key measures:** The IAF will conduct a thorough review of its process for approving, monitoring and evaluating grants to identify opportunities to improve effectiveness and reduce the administrative burden on our grantee partners, while maintaining prudent controls and appropriate accountability. The IAF will also assess its legacy grants- management system in order to determine the best course of action to increase functionality and user-friendliness, enhancing the facility to generate more useful analytical reports that can support evidence-based decision-making and operational transparency. We will continue outsourcing to specialized government agencies many support services, including procurement, accounting, travel, human resources, payroll, and equal employment opportunity. We will review these contracts in detail for more efficient and effective ways of conducting operations to assure the best value to the agency. Finally, we will revise our system of performance evaluations and augment our teamwork and backstopping arrangements.

**Performance Measure 5.1:** Metrics associated with time elapsed from receipt of proposal to definitive decision on funding.

**Performance Measure 5.2:** Re-engineered system of grants approval, monitoring and evaluation supported by versatile grants- management system in place.

**Performance Measure 5.3:** New performance-evaluation system in place.

**Performance Measure 5.4:** Improved results on Grantee Perception Survey compared with 2011.

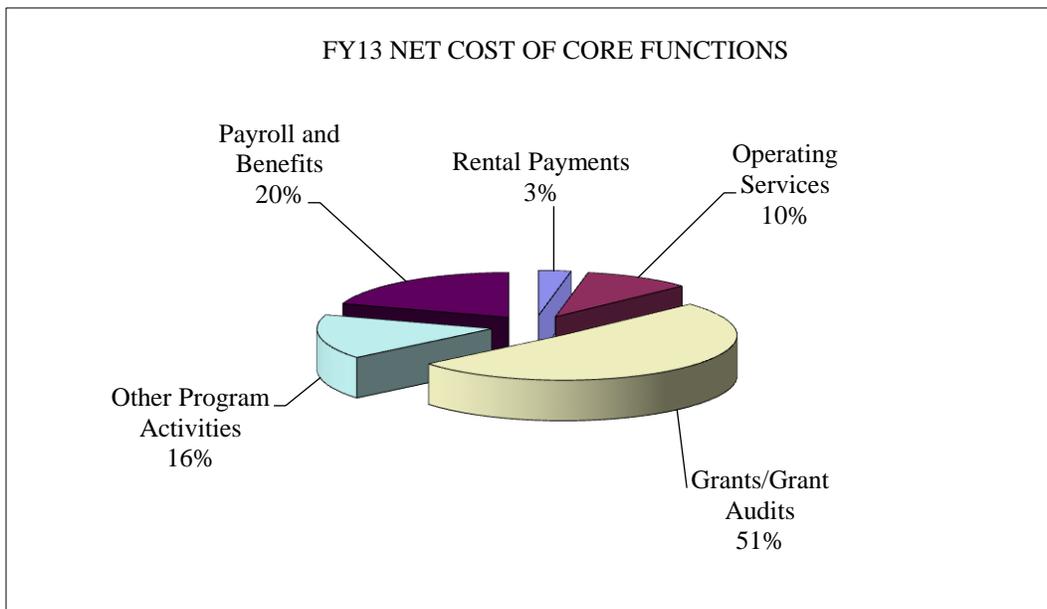
## Analysis of Financial Statements and Stewardship Information

### Systems, Controls, and Legal Compliance

#### Net Cost of Core Functions

The activity reported in the Statement of Net Cost reflects the resources used by the IAF during FY2013. Program costs of \$28,051,390 reflected a decrease of \$26,674 in FY2013 from the FY2012 amount of \$28,078,064.

Payroll and benefits in FY2013 decreased to \$5,307,363 from \$5,458,506 in FY2012, and program-related activities (not including grants/grant audits) in FY2013 decreased to \$4,254,316 from \$4,606,295 in FY2012.



#### Fund Balance with U.S. Treasury

Total resources available from the U.S. Treasury and other financing sources for FY2013 and FY 2012 were \$35,024,170 and \$34,748,673 respectively.

#### Limitations on Financial Statements

The principal 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. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for Federal entities and the formats prescribed by OMB, 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. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity.



## Inter-American Foundation

An Independent Agency of the U.S. Government

December 6, 2013

### Letter from the Chief Financial Officer

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

The IAF has significantly streamlined operations, and most administrative and technical functions continued to be outsourced in 2013 through longstanding inter-agency agreements with the Bureau of the Fiscal Service (BFS) of the U.S. Department of the Treasury and the Interior Business Center (IBC) of the Department of the Interior. Outsourcing has streamlined operations, lowered overhead and brought a depth of expertise to these functions that the IAF could not otherwise afford. BFS continued to provide services related to procurement, accounting, budget, and travel); IBC continued to provide payroll and human resource services, including timekeeping, processing and reporting personnel actions, and continued to manage online applications such as the Federal Personnel and Payroll System (FPPS) and Employee Express. Since FY 2009, the IAF has participated with IBC in E-Gov initiatives to improve personnel operations, and since FY 2010, employees have accessed their files through the eOPF project that converted all records in (OPF) to electronic format.

The IAF is supporting the Financial Management Line of Business (FMLOB) Initiative by using BFS's Oracle Federal Financials System and related accounting and procurement services and BFS has been reporting FMLOB metrics for IAF for the past four years. The Oracle platform provides real-time, user-friendly financial reports. The IAF audit reports continue to confirm the accuracy of our financial statements in accordance with accounting principles generally accepted in the United States.

*The IAF, in conjunction with BFS, analyzed and evaluated its systems of management control and financial management under the Federal Managers' Financial Integrity Act (FMFIA) for the year ended September 30, 2013, according to the procedures and standards prescribed by the Office of Management and Budget (OMB) and the Government Accountability Office.*

*Based on this evaluation we found that our systems of management controls provide reasonable assurance that: programs are free from waste, fraud and mismanagement; laws and regulations are followed; our continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and our performance information is reliable as defined in OMB Circular A-11, Section 232.10. We further found that the IAF's financial management systems, in conjunction with those of BPD, meet the Federal government's management system objectives of usefulness, timeliness, reliability and completeness, comparability and*

consistency, and efficiency and economy. As result, we conclude that there is reasonable assurance that the Inter-American Foundation complies with Sections 2 and 4 of the FMFIA.

We have no open or new material weakness or nonconformance to report; we have not discovered any material weakness or nonconformance during fiscal year 2013; and we do not have any open reportable conditions or second tier issues. For the year ended September 30, 2013, the Inter-American Foundation's administrative and fiscal accounting systems substantially comply with the requirements of the Federal Financial Management Improvement Act (FFMIA).

The financial statements and performance results data are complete, reliable and in accordance with OMB requirements and in conformity with generally accepted accounting principles. The IAF has appropriate management controls in place to ensure that all internal controls are operating in accordance with applicable policies and procedures and are effective in meeting the requirements imposed by the FMFIA and FFMIA.

Signed:

/s/

Lesley Duncan  
Chief Operating Officer



## INDEPENDENT AUDITOR'S REPORT

Inter-American Foundation  
Washington, D.C.

### Report on the Financial Statements

We have audited the accompanying balance sheets of the Inter-American Foundation (IAF) as of September 30, 2013 and 2012, and the related statements of net cost, changes in net position, and budgetary resources, for the years then ended (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 accounting principles generally accepted in the United States of America; 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 auditing standards generally accepted in the United States of America 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. 14-02, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 14-02, 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 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, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis (MD&A) and 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 auditing standards generally accepted in the United States of America, 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.

### **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 on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IAF's internal control. Accordingly, we do not express an opinion on the effectiveness of IAF's internal control.

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. We identified a significant deficiency in internal control over financial reporting, where IAF did not properly record advance funding as other liabilities for the interim period ended June 30, 2013. The significant deficiency is described in Section 1.

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. In our fiscal year 2013 audit, we did not identify any deficiencies in internal control that we consider 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 applicable 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, 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. 14-02.

## **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 controls 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 14-02 requires testing, and (3) applying certain limited procedures with respect to the MD&A and other RSI.

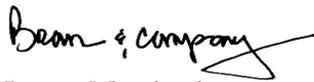
We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because 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 14-02 that we deemed applicable to IAF's financial statements for the fiscal year ended September 30, 2013. 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.

This report is intended solely for the information and use of the management of IAF, OMB, USAID OIG and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Largo, Maryland  
December 6, 2013

## **Section 1 Significant Deficiency**

### **1. General Ledger Account Balances Incorrect at Interim Reporting Period**

#### **Condition:**

IAF has two agreements, with another Federal agency, to provide services. IAF received funding in advance of providing the services. We noted the following related to the two agreements:

- Advance funding of \$672,450.48 was incorrectly recorded as accounts receivable and revenue. This should have been recorded as other liability. In FY 2012, the transaction was recorded properly as other liability, but was changed from other liability to accounts receivable during FY 2013.
- Advance funding of \$300,000 was incorrectly recorded as revenue. This should have been recorded as other liability. To correct this error, the transaction was reversed twice, which created another incorrect account balance.

#### **Criteria:**

Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, states that Federal entities may receive advances and prepayments from other entities for goods to be delivered or services to be performed. Before revenues are earned, the portion of the advances and prepayments should be recorded as other liabilities. After the revenue is earned (goods or services are delivered, or performance progress is made according to engineering evaluations), the entity should record the appropriate amount as a revenue or financing source and should reduce the liability accordingly.

#### **Cause:**

Transactions were incorrectly entered into the accounting system.

#### **Effect:**

At the interim reporting period (6/30/2013), accounts receivable was overstated by \$372,450.48; other liabilities were overstated by \$672,450.48 and revenue was understated by \$300,000. Adjustments were recorded in August 2013, to correct the incorrect balances.

#### **Recommendation:**

We recommend that IAF review its general ledger detail on a monthly basis and ensure that all accounting transactions are recorded properly. Any incorrect transactions should be corrected on a timely basis.

### **Management's Response:**

Management disagrees with the finding and the classification of the finding as a significant deficiency. In summary, management's responded that "In the process of upgrading the Oracle system, some of the transactions were entered into the system in an incorrect order, which caused certain statements of account balances to be inaccurate. Since the problem was not fixed, journal entries were not entered in Oracle, but instead topside adjustments were made for the FACTS II and Financial Statement submission as of June 30, 2013."

Management also provided the following comments: "Brown & Company auditors met with Department of the Treasury, Bureau of the Public Debt, Bureau of Fiscal Services (BFS) officials in July, 2013. At that meeting, BFS explained the situation, including that the matter was not yet fully resolved. As a result of that conversation, BFS agreed to take the additional step of going back to June 30, 2013 and inputting the journal entries into the system. As predicted, the problem was definitively solved by correcting the source documents in the Oracle system, which occurred in August, 2013. Thereafter, the journal entries that had been made as a result of the meeting with the auditors in July were reversed.

Respectfully, these facts do not constitute a Significant Deficiency in the manner in which IAF or BPD maintains or oversees its accounting system."

Management's full response is presented in Section II – Management's Response.

### **Auditor's Evaluation of Management's Response:**

Management's explanation of the facts and circumstances of why the interim financial statement Other Liability account balance was incorrect, and the agency's efforts to correct the misstatement, is accepted. However, it does not address the required internal control procedures for reviewing and correcting errors in the financial statement in a timely manner. Therefore, we continue to recommend that IAF review its general ledger detail on a monthly basis and ensure that all accounting transactions are recorded properly. Any incorrect transactions should be corrected on a timely basis.

We do not agree with management's response that the finding is not a significant deficiency, because the other liabilities account balance was misstated by an amount of \$972,450.48 (absolute total of \$672,450.48 plus \$300,000), which is above the 3% materiality threshold for material misstatements in the financial statements. Therefore, we continue to classify the finding as a significant deficiency for internal control over financial reporting.

### **Section 2 Management's Response**

#### **Below is the full management's response to the audit finding and recommendation:**

As noted correctly, the IAF has a long standing inter-agency agreement with the Department of the Treasury, Bureau of the Public Debt, Bureau of Fiscal Services (BFS), under which BFS is responsible for managing IAF's General Ledger. IAF and BFS have shared responsibility for reviewing the General Ledger for accuracy.

During the time period covered by this Audit, BFS upgraded its Oracle system to better track and account for its interagency agreements. In the process of doing so, BFS entered some of the transactions into the upgraded system in an incorrect order, which caused certain statements of account balances to be inaccurate. BFS detected the error and entered what it believed were correcting entries, but those did not

correct all balances that had been affected (and may have led to other misstatements being generated). BFS detected that its attempted fix had not solved the issue. After additional research, BFS contacted Oracle to request its assistance in resolving the issue. In anticipation of the correction, BFS did not enter journal entries in Oracle, but instead made topside adjustments for the FACTS II and Financial Statement submission as of June 30.

Brown & Co. auditors met with BFS officials in July, 2013. At that meeting, BFS explained the situation, including that the matter was not yet fully resolved. As a result of that conversation, BFS agreed to take the additional step of going back to June 30, 2013 and inputting the journal entries into the system. As predicted, the problem was definitively solved by correcting the source documents in the Oracle system, which occurred in August, 2013. Thereafter, the journal entries that had been made as a result of the meeting with the auditors in July were reversed.

While IAF certainly agrees with the Audit's recommendation that the General Ledger maintained by BFS should be reviewed by BFS and IAF on a timely basis, the facts here demonstrate that BFS encountered a computer-based glitch that produced erroneous data, that BFS detected the error in a timely basis, that it worked persistently until it was corrected, that it made topside adjustments to the FACTS II and Financial Statement submission of June 30, 2013, to ensure that IAF's financial statements were accurately reported to all external audiences at all times, and that it worked with the auditors to take additional steps so that journal entries were included in the June 30, 2013 statements.

Respectfully, these facts do not constitute a Significant Deficiency in the manner in which IAF or BPD maintains or oversees its accounting system.



Paul M. Zimmerman  
General Counsel

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**INTER-AMERICAN FOUNDATION  
BALANCE SHEET  
AS OF SEPTEMBER 30, 2013 AND 2012  
(In Dollars)**

	2013	2012
<b>Assets:</b>		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 35,024,170	\$ 34,748,673
Other (Note 3)	39,382	45,568
Total Intragovernmental	\$ 35,063,552	\$ 34,794,241
Other (Note 3)	1,737,137	2,280,568
<b>Total Assets</b>	<b>\$ 36,800,689</b>	<b>\$ 37,074,809</b>
<b>Liabilities:</b>		
Intragovernmental		
Accounts Payable	\$ 80,539	\$ 178,919
Other (Note 6)	1,033,038	734,984
Total Intragovernmental	\$ 1,113,577	\$ 913,903
Accounts Payable	156,969	360,374
Other (Note 6)	568,184	655,395
<b>Total Liabilities</b>	<b>\$ 1,838,730</b>	<b>\$ 1,929,672</b>
<b>Net Position:</b>		
Unexpended Appropriations - Other Funds	\$ 20,689,748	21,485,654
Cumulative Results of Operations - Funds from Dedicated Collections (Note 14)	14,592,460	14,036,102
Cumulative Results of Operations - Other Funds	(320,248)	(376,619)
Total Net Position	\$ 34,961,959	\$ 35,145,137
<b>Total Liabilities and Net Position</b>	<b>\$ 36,800,689</b>	<b>\$ 37,074,809</b>

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

**INTER-AMERICAN FOUNDATION**  
**STATEMENT OF NET COST**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012**  
(In Dollars)

	2013	2012
<b>Program Costs:</b>		
Foreign Grant Program (Note 9):		
Gross Costs	\$ 28,053,510	\$ 28,155,799
Less: Earned Revenue	(2,120)	(77,735)
<b>Net Cost of Operations</b>	<b>\$ 28,051,390</b>	<b>\$ 28,078,064</b>

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

**INTER-AMERICAN FOUNDATION**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012**  
(In Dollars)

	2013		2013		2012		2012	
	Funds from Dedicated Collections	All Other Funds	Consolidated Total	Funds from Dedicated Collections	All Other Funds	Consolidated Total	Funds from Dedicated Collections	All Other Funds
<b>Cumulative Results of Operations:</b>								
Beginning Balances	\$ 14,036,102	\$ (376,619)	\$ 13,659,483	\$ 14,616,774	\$ (405,050)	\$ 14,211,724		
<b>Budgetary Financing Sources:</b>								
Appropriations Used	\$ -	\$ 21,814,825	\$ 21,814,825	\$ -	\$ 23,020,799	\$ 23,020,799		
Nonexchange Revenue	6,031,271	-	6,031,271	4,207,978	-	4,207,978		
Donations and Forfeitures of Cash and Cash Equivalents	150,000	-	150,000	300	-	300		
<b>Other Financing Sources (Non-Exchange):</b>								
Imputed Financing Sources (Note 10)	-	668,023	668,023	-	296,746	296,746		
Total Financing Sources	\$ 6,181,271	\$ 22,482,848	\$ 28,664,119	\$ 4,208,278	\$ 23,317,545	\$ 27,525,823		
Net Cost of Operations	(5,624,913)	(22,426,477)	(28,051,390)	(4,788,950)	(23,289,114)	(28,078,064)		
Net Change	\$ 556,358	\$ 56,371	\$ 612,729	\$ (580,672)	\$ 28,431	\$ (552,241)		
Cumulative Results of Operations	\$ 14,592,460	\$ (320,248)	\$ 14,272,212	\$ 14,036,102	\$ (376,619)	\$ 13,659,483		
<b>Unexpended Appropriations:</b>								
Beginning Balances	\$ -	\$ 21,485,653	\$ 21,485,653	\$ -	\$ 22,258,454	\$ 22,258,454		
<b>Budgetary Financing Sources:</b>								
Appropriations Received	\$ -	\$ 22,500,000	\$ 22,500,000	\$ -	\$ 22,500,000	\$ 22,500,000		
Other Adjustments	-	(1,481,081)	(1,481,081)	-	(252,001)	(252,001)		
Appropriations Used	-	(21,814,825)	(21,814,825)	-	(23,020,799)	(23,020,799)		
Total Budgetary Financing Sources	\$ -	\$ (795,906)	\$ (795,906)	\$ -	\$ (772,800)	\$ (772,800)		
Total Unexpended Appropriations	\$ -	\$ 20,689,748	\$ 20,689,748	\$ -	\$ 21,485,654	\$ 21,485,654		
Net Position	\$ 14,592,460	\$ 20,369,499	\$ 34,961,959	\$ 14,036,102	\$ 21,109,035	\$ 35,145,137		

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

**INTER-AMERICAN FOUNDATION**  
**STATEMENT OF BUDGETARY RESOURCES**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2013 AND 2012**  
(In Dollars)

	2013	2012
<b>Budgetary Resources:</b>		
Unobligated Balance Brought Forward, October 1	\$ 5,380,781	\$ 8,783,013
Recoveries of Prior Year Unpaid Obligations	2,501,289	1,257,251
Other changes in unobligated balance	(341,996)	(252,001)
Unobligated balance from prior year budget authority, net	7,540,074	9,788,263
Appropriations	21,360,915	22,500,000
Spending authority from offsetting collections	6,481,271	4,208,279
<b>Total Budgetary Resources</b>	<b>\$ 35,382,260</b>	<b>\$ 36,496,542</b>
<b>Status of Budgetary Resources:</b>		
Obligations Incurred (Note 15)	\$ 26,396,607	\$ 31,115,761
Unobligated balance, end of year:		
Apportioned	6,805,965	175,586
Unapportioned	2,179,688	5,205,195
Total unobligated balance, end of year	8,985,653	5,380,781
<b>Total Budgetary Resources</b>	<b>\$ 35,382,260</b>	<b>\$ 36,496,542</b>
<b>Change in Obligated Balance</b>		
<b>Unpaid Obligations:</b>		
Unpaid Obligations, Brought Forward, October 1	\$ 29,367,892	\$ 28,475,500
Obligations Incurred	26,396,607	31,115,761
Outlays (gross)	(27,224,693)	(28,966,118)
Recoveries of Prior Year Unpaid Obligations	(2,501,289)	(1,257,251)
Unpaid Obligations, End of Year (Gross)	26,038,517	29,367,892
<b>Obligated Balance, End of Year</b>	<b>\$ 26,038,517</b>	<b>\$ 29,367,892</b>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross	\$ 27,842,186	\$ 26,708,279
Actual offsetting collections	(6,481,271)	(4,208,279)
<b>Budget Authority, net</b>	<b>\$ 21,360,915</b>	<b>\$ 22,500,000</b>
Outlays, gross	\$ 27,224,693	\$ 28,966,117
Actual offsetting collections	(6,481,271)	(4,208,279)
Outlays, net	\$ 20,743,422	\$ 24,757,839
<b>Agency outlays, net</b>	<b>\$ 20,743,422</b>	<b>\$ 24,757,839</b>

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



## INTER-AMERICAN FOUNDATION 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 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 2013 and 2012, the IAF was accountable for the Social Progress Trust Fund (SPTF), Gift Fund, and General Fund appropriations. The IAF recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through the Department of Treasury General Fund warrants and transfers from the Inter-American Development Bank (IDB).

#### B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of the IAF. The Balance Sheet presents the financial position of the agency.

The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government. The statements are a requirement of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. 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, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the IAF's use of budgetary resources. The 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 fund

#### **D. Revenues & Other Financing Sources**

The IAF's grant program is funded by appropriation from the budget of the United States, agreement with the Inter-American Development Bank (IDB) covering the SPTF, and donations from the private sector. No-year appropriations remain available until expended, while multi-year appropriations are available for the period prescribed by the applicable statute. Appropriations are used, within statutory limits, for programmatic, operating and capital expenditures for essential personal property. Appropriations are recognized as 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. Foreign currency payments are made either by Treasury or the Department of State and are reported by the IAF in the U.S. dollar equivalents.

#### **F. Accounts Receivable**

Accounts receivable consists 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:

<u>Description</u>	<u>Useful Life (years)</u>
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.

**J. Accounts Payable**

Accounts payable consists primarily of amounts owed to other Federal agencies and the public for contracts for goods or services, such as leases, utilities, telecommunications and consulting and support services.

**K. 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 effective at 50% beginning FY2010 and 100% in 2014.

#### **L. 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.

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

For three years prior to FY10, the IAF did not estimate grant advances. In FY09, the IAF began estimating grant advances by multiplying the grants disbursed during the quarter by 50%. This estimate will be done 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 2013 and 2012 to the extent directed by accounting standards.

### **P. Reclassification**

Certain fiscal year 2012 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, 2013 and 2012 were as follows:

	2013	2012
<b>Fund Balances:</b>		
Trust Funds	\$ 108,267	\$ 1,355
Social Progress Trust Funds (SPTF)	14,034,747	13,309,393
Appropriated Funds	20,881,156	21,437,925
<b>Total</b>	<b>\$ 35,024,170</b>	<b>\$ 34,748,673</b>
<b>Status of Fund Balance with Treasury:</b>		
Unobligated Balance		
Available	\$ 6,805,965	\$ 175,586
Unavailable	2,179,688	5,205,195
Obligated Balance Not Yet Disbursed	26,038,517	29,367,892
<b>Total</b>	<b>\$ 35,024,170</b>	<b>\$ 34,748,673</b>

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 8.)

### NOTE 3. OTHER ASSETS

Other assets account balances as of September 30, 2013 and 2012, were as follows:

	2013	2012
Intragovernmental		
Advances and Prepayments	\$ 39,382	\$ 45,568
<b>Total Intragovernmental Other Assets</b>	<b>\$ 39,382</b>	<b>\$ 45,568</b>
With the Public		
Grant Advances	\$ 1,737,137	\$ 2,280,568
<b>Total Public Other Assets</b>	<b>\$ 1,737,137</b>	<b>\$ 2,280,568</b>

### NOTE 4. PROPERTY, EQUIPMENT, AND SOFTWARE

Schedule of Property, Equipment, and Software as of September 30, 2013

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Furniture & Equipment	\$ 14,965	\$ 14,965	\$ -
<b>Total</b>	<b>\$ 14,965</b>	<b>\$ 14,965</b>	<b>\$ -</b>

Schedule of Property, Equipment, and Software as of September 30, 2012

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Furniture & Equipment	\$ 14,965	\$ 14,965	\$ -
<b>Total</b>	<b>\$ 14,965</b>	<b>\$ 14,965</b>	<b>\$ -</b>

**NOTE 5. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

The liabilities for the IAF as of September 30, 2013 and 2012 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.

	2013	2012
Unfunded Leave - Total Liabilities Not Covered by Budgetary Resources	\$ 322,367	\$ 376,619
Total Liabilities Covered by Budgetary Resources	1,516,363	1,553,053
<b>Total Liabilities</b>	<b>\$ 1,838,730</b>	<b>\$ 1,929,672</b>

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.

## NOTE 6. OTHER LIABILITIES

Other liabilities account balances as of September 30, 2013 were as follows:

Current Year:

	Current	Non Current	Total
Intragovernmental			
Liability for Advances and Prepayments	970,330	-	970,330
Payroll Taxes Payable	\$ 62,708	\$ -	\$ 62,708
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 1,033,038</b>	<b>\$ -</b>	<b>\$ 1,033,038</b>
With the Public			
Payroll Taxes Payable	\$ 10,213	\$ -	\$ 10,213
Accrued Funded Payroll and Leave	235,604	-	235,604
Unfunded Leave	322,367	-	322,367
<b>Total Public Other Liabilities</b>	<b>\$ 568,184</b>	<b>\$ -</b>	<b>\$ 568,184</b>

Prior Year:

	Current	Non Current	Total
Intragovernmental			
Liability for Advances and Prepayments	672,450	-	672,450
Payroll Taxes Payable	\$ 62,534	\$ -	\$ 62,534
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 734,984</b>	<b>\$ -</b>	<b>\$ 734,984</b>
With the Public			
Payroll Taxes Payable	\$ 16,718	\$ -	\$ 16,718
Accrued Funded Payroll and Leave	262,058	-	262,058
Unfunded Leave	376,619	-	376,619
<b>Total Public Other Liabilities</b>	<b>\$ 655,395</b>	<b>\$ -</b>	<b>\$ 655,395</b>

## NOTE 7. 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, 2013 and 2012 total approximately \$2,836,619 and \$22,892,066 respectively.

## NOTE 8. UNDELIVERED ORDERS AT THE END OF THE PERIOD

For the year ended September 30, 2013 and 2012, undelivered orders amounted to \$27,269,005 and \$30,813,425 respectively.

## NOTE 9. INTRA-GOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intra-governmental 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:

	2013	2012
Foreign Grant Program		
Intragovernmental Costs	\$ 3,481,720	\$ 3,192,371
Public Costs	24,571,790	24,963,428
Total Program Costs	\$ 28,053,510	\$ 28,155,799
Intragovernmental Earned Revenue	(2,120)	(77,735)
Total Net Cost	\$ 28,051,390	\$ 28,078,064

## NOTE 10. 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 year ended September 30, 2013 and 2012, imputed financing was \$668,023 and \$296,746 respectively.

**NOTE 11. FINANCING SOURCES - SPTF**

The Reconciliation of Net Cost of Operations to Budget Note reconciles the financial Net Cost of Operations with the Statement of Budgetary Resources. The IAF reports SPTF funds obtained from the IDB as offsetting collections earned. The IAF had no exchange revenue in fiscal year 2013 or 2012. For fiscal year 2012, the IAF received \$4,183,426 from the IDB, which was reported on its SF-133 as funds received from SPTF collections.

	2013	2012
SPTF Cumulative Results:		
SPTF Beginning Balance	\$ 14,034,747	\$ 14,615,719
SPTF Funds Received	6,031,271	4,207,978
Less: SPTF Funds Expended	(5,624,913)	(4,788,950)
SPTF Fund Carry Forward	\$ 14,441,105	\$ 14,034,747
Donations Cumulative Results:		
Donations Beginning Balance	1,355	1,055
Donations Received	150,000	300
Donations Carry Forward	151,355	1,355
Total SPTF and Donations	\$ 14,592,460	\$ 14,036,102
Less: Cumulative Results of Operations – All Other Funds	(320,248)	(376,619)
<b>Total Cumulative Results of Operations</b>	<b>\$ 14,272,212</b>	<b>\$ 13,659,483</b>

**NOTE 12. BUDGETARY RESOURCE COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT**

The President's Budget that will include fiscal year 2013 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2014 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2014 Budget of the United States Government, with the "Actual" column completed for 2012, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

## NOTE 13. LEASES

### Operating Leases

The IAF occupies office space under a lease agreement that is accounted for as an operating lease. The previous lease term began on May 1, 2002 and expired on April 30, 2012. Lease payments were increased annually based on the IAF's proportionate share of the building's operating expenses and real estate taxes. Operating expenses were increased based on an estimated CPI increase of 3% annually. The previous agreement allowed the IAF an abatement credit in lieu of a build-out allowance, deducted from the monthly rent for the first 26 months of the lease. The total operating lease expenses as of September 30, 2013 and 2012 were \$619,490 and \$377,315, respectively. With the end of the previous lease on 4/30/12, the IAF began a new lease agreement. The new lease term began on May 1, 2012 and expires on April 30, 2017. The new agreement will allow the IAF an abatement credit in lieu of a build-out allowance, deducted from the monthly rent for the first 7 months of the lease.

Below is a schedule of future payments for the term of both leases.

Fiscal Year	Office Space
2014	701,601
2015	706,501
2016	711,547
2017	417,002
<b>Total Future Payments</b>	<b>\$ 2,536,651</b>

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

**NOTE 14. DEDICATED COLLECTIONS**

The IAF has dedicated collections that fall into the following categories: Social Progress Trust Fund (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.

Schedule of Dedicated Collections as of September 30, 2013:

	Social Progress Trust Fund		Gift Fund		Total Dedicated Collections
<b>Balance Sheet</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$	14,034,747	\$	1,355	\$ 14,036,102
Other Assets		556,358		-	556,358
<b>Total Assets</b>	<b>\$</b>	<b>14,591,105</b>	<b>\$</b>	<b>1,355</b>	<b>\$ 14,592,460</b>
<b>LIABILITIES AND NET POSITION</b>					
Cumulative Results of Operations	\$	14,441,105	\$	151,355	\$ 14,592,460
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<b>14,441,105</b>	<b>\$</b>	<b>151,355</b>	<b>\$ 14,592,460</b>
<b>Statement of Net Cost</b>					
Program Costs	\$	5,624,913	\$	-	\$ 5,624,913
Less: Earned Revenues		(6,181,271)		-	(6,181,271)
<b>Net Cost of Operations</b>	<b>\$</b>	<b>(556,358)</b>	<b>\$</b>	<b>-</b>	<b>\$ (556,358)</b>
<b>Statement of Changes in Net Position</b>					
Net Position Beginning of Period	\$	14,034,747	\$	1,355	\$ 14,036,102
Net Cost of Operations		(556,358)		-	(556,358)
<b>Net Position End of Period</b>	<b>\$</b>	<b>14,591,105</b>	<b>\$</b>	<b>1,355</b>	<b>\$ 14,592,460</b>

Schedule of Dedicated Collections as of September 30, 2012:

	Social Progress Trust Fund		Gift Fund		Total Dedicated Collections
<b>Balance Sheet</b>					
<b>ASSETS</b>					
Fund Balance with Treasury	\$	13,309,392	\$	1,355	\$ 13,310,747
Other Assets		725,355		-	725,355
<b>Total Assets</b>	<b>\$</b>	<b>14,034,747</b>	<b>\$</b>	<b>1,355</b>	<b>\$ 14,036,102</b>
<b>LIABILITIES AND NET POSITION</b>					
Cumulative Results of Operations		14,034,747		1,355	14,036,102
<b>Total Liabilities and Net Position</b>	<b>\$</b>	<b>14,034,747</b>	<b>\$</b>	<b>1,355</b>	<b>\$ 14,036,102</b>
<b>Statement of Net Cost</b>					
Program Costs	\$	4,788,950	\$	-	\$ 4,788,950
Less: Earned Revenues		(4,207,978)		(300)	(4,208,278)
<b>Net Cost of Operations</b>	<b>\$</b>	<b>580,972</b>	<b>\$</b>	<b>(300)</b>	<b>\$ 580,672</b>
<b>Statement of Changes in Net Position</b>					
Net Position Beginning of Period	\$	14,615,719	\$	1,055	\$ 14,616,774
Net Cost of Operations		580,972		(300)	580,672
<b>Net Position End of Period</b>	<b>\$</b>	<b>14,034,747</b>	<b>\$</b>	<b>1,355</b>	<b>\$ 14,036,102</b>

**NOTE 15. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

Obligations incurred and reported in the Statement of Budgetary Resources in 2013 and 2012 consisted of the following:

	2013	2012
Direct Obligations, Category A	\$ 8,847,262	\$ 9,194,408
Direct Obligations, Category B	17,373,336	21,071,353
Reimbursable Obligations, Category A	144,246	-
Reimbursable Obligations, Category B	31,763	850,000
<b>Total Obligations Incurred</b>	<b>\$ 26,396,607</b>	<b>\$ 31,115,761</b>

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 16. CUSTODIAL ACTIVITY

IAF's custodial collection primarily consists of returned funds at IAF's request from a grantee due to funds mismanagement. The returned funds came from IAF's appropriated fund (113/43100) which is no longer available for use; therefore, the funds must be returned to Treasury. While these collections are considered custodial, they are neither primary to the mission of IAF nor material to the overall financial statements. IAF's total custodial collections are \$0 and \$418 for the year ended September 30, 2013, and 2012, respectively.

## NOTE 17. 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.

	2013	2012
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$26,396,607	\$31,115,761
Less: Spending Authority from Offsetting Collections and Recoveries	(8,982,560)	(5,465,530)
Obligations Net of Offsetting Collections and Recoveries	\$17,414,047	\$25,650,231
Other Resources		
Donations and Forfeitures of Property	150,000	300
Imputed Financing from Costs Absorbed by Others	668,023	296,746
Net Other Resources Used to Finance Activities	\$ 818,023	\$ 297,046
Total Resources Used to Finance Activities	\$18,232,070	\$25,947,277
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ 9,873,571	\$ 2,159,218
Total Resources Used to Finance the Net Cost of Operations	\$28,105,641	\$28,106,495
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>		
Total Components of Net Cost of Operations That will not Require Generate Resources in the Current Period	(54,251)	(28,431)
<b>Net Cost of Operations</b>	<b>\$28,051,390</b>	<b>\$28,078,064</b>